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Quality Care Seeks Funding to Buy No. 2 U.S. Nursing Home Chain
Reuters, June 8, 2017

Quality Care Properties Inc (QCP.N), one of the largest U.S. healthcare landlords, said on Thursday it is meeting with lenders to discuss up to $500 million in funding to acquire its main tenant, No. 2 U.S. nursing home chain HCR ManorCare.

HCR, which accounts for nearly all of Quality Care's revenues, failed to make a full rent payment in June. It owes about $300 million in past rent, the landlord said in a regulatory filing.

Quality Care said it is asking lenders for a term loan of up to $400 million and a $100 million letter of credit to refinance current debt and provide working capital. The company said it hoped to have a commitment by June 15.

Moody's downgraded Quality Care on Tuesday and put the rating on review given uncertainty surrounding its ability to reach an out-of-court restructuring deal with HCR.

HCR ManorCare could not be reached for comment. On Wednesday, the company said in a statement on its website that it has been renegotiating its master lease agreement for several months and remains committed to high-quality patient care.

"HCR's leadership team continues to vigorously work to get this issue resolved to the benefit of our company and those we serve," the company said.

Quality Care Properties was spun off of HCP Inc (HCP.N), a large healthcare real estate investment trust or REIT, in 2016 as HCR ManorCare was in decline.

Private equity firm Carlyle Group bought HCR ManorCare in a 2007 leveraged buyout for $6.3 billion and sold the properties to HCP for $6.1 billion in 2010.

U.S. nursing homes have struggled to reconcile declining reimbursements with increasing costs for medical supplies, insurance, aging buildings and litigation.

"Most of the challenges of HCR have been similar to those facing their peers, but HCR's ability to address them has been hampered by the amount of leverage from the LBO," said Fitch analyst Britton Costa.

Quality Care would have to give up its REIT status, which provides favorable tax treatment, but buying HCR would give it a better chance for expanding in the healthcare industry.

"Given Quality Care's restricted cash flow, a deal to become an owner and operator with HCR makes sense to enable strategic growth," said Matthew Caine, managing director of SOLIC Capital Advisors.

In addition to operating low-margin skilled nursing and assisted living facilities, HCR also runs memory care communities, outpatient rehabilitation clinics and home health care agencies, which are considered areas for growth.

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