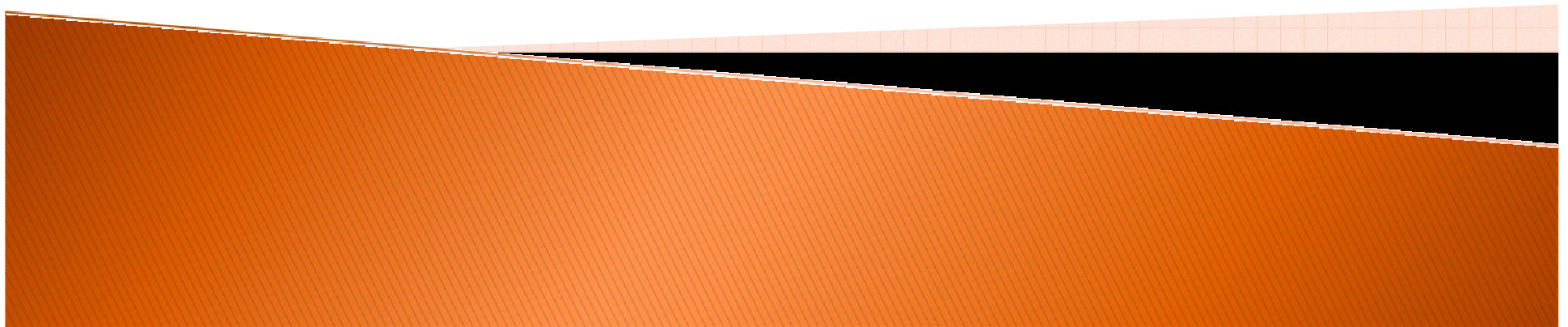


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# THE WORLD TAKAFUL CONFERENCE

14 & 15 APRIL 2009, DUBAI

**Session 10: Re-Assessing Investment  
Strategies and Asset Management  
Approaches for Takaful Operators -**

*Mezzanine finance for Care Homes:  
an effective alternative asset class*

Alberto G. Brugnoni



# Takaful and conventional insurance share the investment profile

- sharing the same goals
- sharing fiduciary responsibilities
- the product mix of the takaful company
- the investment objective

# Yet takaful lag conventional insurance in market penetration

- limited penetration even within core customer segments
- a wider variety of products to effective asset allocation is needed
- the imperative to develop 'value added' in investment management
- outsourcing of the asset management: 'liability driven investment benchmarking'

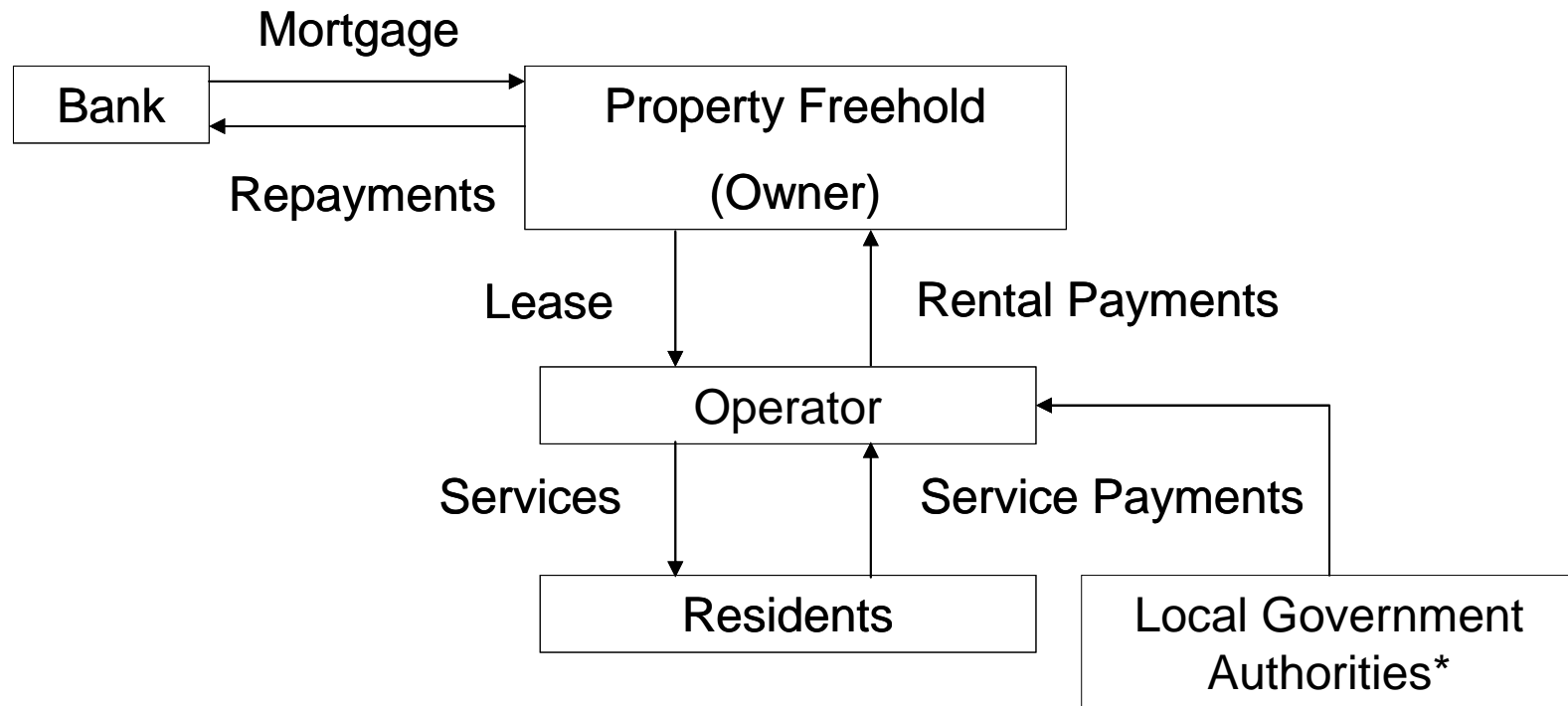
# The case for Alternatives

- the need to broaden exposure and capabilities to multiple assets classes
- a closer look to alternatives is needed
- the modern portfolio theory supports the use of alternatives: the Efficient Frontier
- The E&Y 2009 Takaful report

# ***A tangible Alternative: combining bricks with Care Homes in the EU***

- the rationale of the investment
- demographic trends
- supportive public social policies
- fragmented market
- moving from *halal* to *tayyeb*

# The Acquisition Structure



\* Principal but not exclusive payment provider

# The Acquisition Example

- Owner purchases a portfolio of care homes for £100 million
- Bank provides senior debt of £75 million at 7% p.a.
- Operator leases the care homes for 35 years for £ 9million p.a. providing a rental yield of 9% to Owner
- The rent is subject to increase by RPI each year, with a minimum increase of 2.5% and a maximum increase of 5%

# Operator cash flow

▶ Turnover	£40million	100%
▶ Wages	(£22.8million)	57%
▶ Controllable Costs	(£2million)	5%
▶ <u>Fixed Costs</u>	<u>(£3.6million)</u>	<u>9%</u>
▶ EBITDAR	£11.6million	29%
▶ <u>Rent</u>	<u>(£9million)</u>	<u>23%</u>
▶ EBITDA	£2.6million	6%

EBITDAR – Earnings before interest, tax, depreciation, amortization and rent

EBITDA – Earnings before interest, tax, depreciation and amortization

The acquisition price is based on a 7.5 – 10 times multiple of EBITDAR.

In this example, the EBITDAR multiple is 8.6

# Owner Cashflow

- ▶ Purchase price £100million
- ▶ Senior bank debt £75million at 7%
- ▶ Equity required £25million
- ▶ Rental income of £9million
- ▶ Debt servicing of £5.25million
- ▶ Profit of £3.75million
- ▶ Return on Equity of 15%

# Mezzanine Financing

- ▶ provide the Owner with new sources of funding for the 25% of equity that it provides for each purchase in the form of Mezzanine Debt
- ▶ Owner offers investors a 9% annual cash coupon as part of a 20% bond equivalent yield

# Mezzanine Finance

▶ Acquisition Price	£100million
▶ Senior Debt (7%)	£75million
▶ Mezzanine	£25million
▶ Rental income	£9million
▶ Senior Debt servicing	(£5.25million)
▶ <u>Mezzanine (9%)</u>	<u>(£2.25million)</u>
▶ Profit	£1.5million

# Mezzanine Finance

- ▶ The remainder of the 20% bond equivalent yield are funded in one of three ways:
  1. Uplift in property valuation leading to an increase in the senior debt
  2. IPO of Owner
  3. Refinancing

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