

Investment Memorandum



Development and financing of accommodation in Germany

Confidential, November 2020



*The formula vision binds
the locations together: to
offer a warm and loving
home to guests, with care
borne out of love and
personal attention.*



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SUMMARY

De Herbergier is a franchise of small-scale homes for people with memory problems (such as dementia, for example), run by a resident couple who provide care. These care entrepreneurs are the franchisees and form the engine of the franchise formula. They put their own stamp on the location and create their own individual Herbergier as a representation of their personalities, insight and expertise.

De Herbergier distinguishes itself from other private providers by always placing the care provided at the heart of our company. The care entrepreneurs originate from the care sector and are mentored and facilitated in their enterprise by franchisor De Drie Notenboomen. De Herbergier has 44 locations in the Netherlands. The ambition is to achieve growth for De Herbergier over the next four years; from 44 locations to 100 locations in the Netherlands and abroad. The first country for De Herbergier to spread its wings is Germany, where the local partners are already in place so that the organisation can start to take shape.

To ensure the successful roll-out of De Herbergier in Germany, De Drie Notenboomen is looking for a partner who can acquire and develop the properties for the first locations. De Drie Notenboomen will become the main tenant. The entrepreneurial couple will become subtenants of De Drie Notenboomen. We are explicitly looking for investors whose intrinsic motivation is social enterprise.

The first chapter is a description of De Herbergier, followed by a chapter on the national and international market and its trends. The third chapter explains the new DDN DE GmbH, and the last chapter outlines our expectations of the potential investment/development partner. No rights can be derived from this memorandum. It is intended to attract potential partners to act as investment/development partner for DDN DE GmbH.



A Herbergier can accommodate

up to 18 residents

who can no longer manage independent living and require 24 hour care.



It is predicted that by 2050 the number of dementia sufferers will double to

19 million in the EU



The care entrepreneurs put their own stamp on the location and create their own individual Herbergier as a representation of their personalities, insight and expertise.

DE HERBERGIER

The Concept

A Herbergier is a small-scale residential concept for adults with memory problems, such as dementia¹. De Herbergier is a franchise concept and is part of franchise organisation De Drie Notenboomen. A Herbergier accommodates up to 18 residents who can no longer manage independent living and require 24 hour care.

44 Herbergiers have been established since its foundation in 2007 in the Netherlands and the ambition is to further expand in the Netherlands and abroad. A Herbergier is managed as an independent enterprise – following the principles of the ‘Herbergier’ concept – by a couple who are care entrepreneurs and are themselves resident at the Herbergier (with their children, if applicable).

One of them must be BIG-registered (Dutch Individual Health Care Professions Act) and has at least 5 years’ experience of working with the target group. The partner should show great affinity with the target group. The resident care entrepreneurs create a special dynamic, characterised by short lines of communication with residents, relatives and employees. The advantage of the flat organisational structure is that no money is spent on unnecessary layers of management, creating more space for care and attention for the residents. The result is the national objective for elderly care, a ratio of two professionals per group of eight residents, has already been the standard of care at every Herbergier for many years.

The care entrepreneurs are franchisees, and their contract with De Drie Notenboomen (franchisor) is agreed for a maximum of 5 years, with an extension rate of 80% for a subsequent term. Not including the resident entrepreneurs, a Herbergier employs on average 25 team members (staff – care entrepreneurs = 15.3 fte) for different roles.

THE CONCEPT

Residents and their loved ones will find that the Herbergier is a home filled with love where life carries on as usual. A nap on the sofa, cooking together or a little outing: anything is possible. At the Herbergier, we work around what someone can still do, with a **focus on the person, not the illness.**

Medication to manage behaviour is kept to a minimum, there is a homely ambiance and doors are not locked. All rooms are spacious and furnished by guests to their own taste.

“...a home filled with love where life carries on as usual.”



¹ Dementia generally caused by Alzheimer’s, Vascular, Frontotemporal, or Parkinson’s.





THE FORMULA VISION BINDS
THE LOCATIONS TOGETHER:

*...to offer a warm
and loving home
to guests, where
life is as normal
as possible, with
care borne out of
love and personal
attention.*

THE ENTREPRENEURS

The care entrepreneurs are the franchisees and form the engine of the franchise formula. They put their own stamp on the location and create their own individual Herbergier as a representation of their personalities, insight and expertise. The formula vision binds the locations together: to offer a warm and loving home to guests, where life is as normal as possible, with care borne out of love and personal attention.

The average age of the franchisees is over 50 years of age, although many new entrepreneurs are younger than that.

The franchisees run the location at their own cost and risk. The main risks for the franchisees are the risk of vacancy and the availability of suitable staff. None of the locations have suffered from vacancy issues as yet, barring normal changeovers. The total demand for private residential care locations is estimated to be around 10,800 beds, and the current capacity (including locations under development) stands at 6,500 beds⁵.

Each Herbergier can offer accommodation to 18 clients. The average yield of a Herbergier can be considered healthy and looks as follows⁶:

Revenue	Per year	Per month	Per client
Supply	€786,993	€65,583	€4,009
Residence	€188,853	€15,783	€984
Service	€160,160	€13,347	€834
TOTAL	€1,136,006	€94,667	€5,917

Costs	Per year	Per month	Per client
Staff	€625,282	€52,107	€3,257
Housing	€232,508	€19,376	€1,211
Other costs	€151,581	€12,632	€789
Business result	€126,635	€10,553	€660
TOTAL	€1,136,006	€94,667	€5,917

The staffing costs do not include the cost of (the work carried out by) the entrepreneurial couple. Their remuneration is taken from the operating profit. The accommodation costs do not include the cost of accommodation for the entrepreneurial couple.

Quality of care provided is a top priority. De Drie Notenboomen collaborates with ARGO (an independent research firm associated with the University of Groningen) to assess the quality of the care provided in Herbergiers in the Netherlands. Overall, Herbergiers are given a customer satisfaction rating of 8.7/10.

⁵ Source: Cushman & Wakefield, private residential care market, 2017

⁶ Source: average of all locations according to internal benchmark as applied by De Drie Notenboomen

CURRENT FRANCHISE LOCATIONS IN THE NETHERLANDS

The 44 Herbergiers are spread throughout the Netherlands.

Impression of locations:



Almost all De Herbergier properties in the Netherlands are owned by housing corporations. Several properties are in the hands of private investors. As a franchisor, De Drie Notenboomen has agreed long-term leases with the housing corporations. The franchisees are subtenants in principle and pay a fixed rent to De Drie Notenboomen, depending on the rent charged by the housing corporation. Although various contract types have evolved over the years, all contracts state that De Drie Notenboomen has an obligation to the housing corporations to ensure that each rented location is occupied by a franchisee and all contracts also place the risk of individual room vacancies with the franchisees.



The ambition
is to achieve growth for
De Herbergier over
the next four years
from
44 to 100
locations
in the Netherlands



The DDN is
the largest
franchise
organisation
in healthcare in the
Netherlands.

Opportunities FOR DE HERBERGIER IN THE NETHERLANDS AND ABROAD

CURRENT POSITION IN THE NETHERLANDS

MARKET SCOPE AND DEMAND

Most Herbergier clients suffer from dementia. Based on an international study (in 2016) by the National Institute for Public Health and the Environment (RIVM), it is estimated that there are 254,000 people with dementia in the Netherlands⁷.

All in all, we estimate that the total number of people with dementia who are on the care system radar in the Netherlands is 155,000⁸. This includes 85,000 people who live independently (55%) and an estimated 70,000 (45%) people with a dementia diagnosis who are staying in a care home or other care institution. Of these 70,000 people, it is estimated that 4,500⁹ are residents in private residential care locations.

As dementia is an illness that mainly occurs in the elderly, the rise in the ageing population will lead to an increase in the number of people suffering from dementia. Based on demographic developments alone, the absolute number of people with dementia (annual prevalence) over the 2015-2040 period is expected to rise by 115%. The total demand for private residential care locations in 2040 is estimated¹⁰ to be 1100 locations (22,000 beds).

PRIVATE RESIDENTIAL CARE FACILITIES ON OFFER

The Netherlands has an estimated 300¹¹ private residential care locations, with an estimated 250 locations for people with dementia¹². The 16 current chains (with 4 or more locations, including the actual locations under development) provide care in 204 facilities. What's more, there are 17 'oneman-bands' that joined forces in NEVEP¹³. There are now 10 chains with more than 10 locations, of which De Herbergier and Dagelijks Leven are the largest.

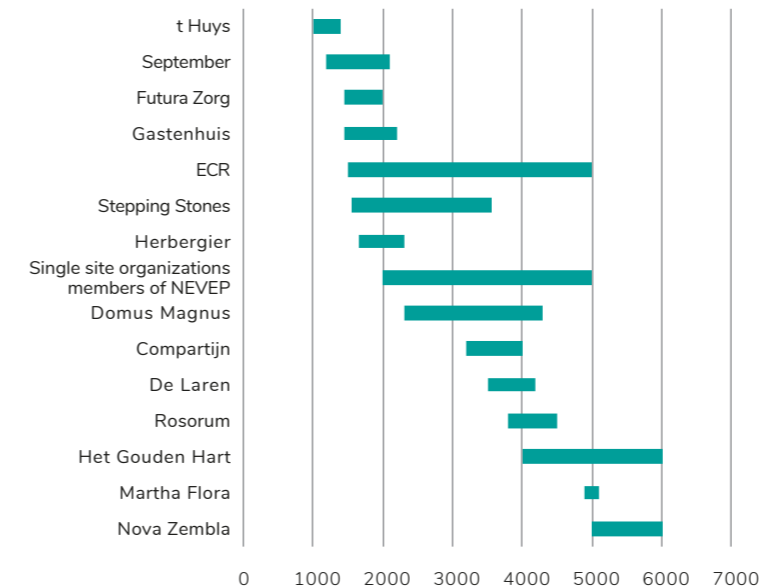
Most chain property is in the hands of property investors. The private residential care facilities are considered an attractive investment¹⁴. Aedifica and Amvest have the highest number of locations. The operators are partly in the hands of investment companies. The French operator Orpea¹⁵ has taken over the share of operator Dagelijks Leven and of September (incl. Allerzorg). However, there is strong growth in the number of private residential care locations. There were 130 private residential care facilities in 2012; 150¹⁶ in 2014 and 250-300 in 2019. The cost of most small-scale residential concepts are between €2,000 and €5,000 per month. Prices for De Herbergier are in the 'lower' segment and vary from €1,675 to €2300 per month.

The lower personal contribution for people with a medium/high income or capital means that the prices at De Herbergier are competitive in relation to public care institutions.



Concept	Number of locations	Financed	Owner	
			Real estate	Operator
Dagelijks leven	49	VPT	Amvest Living & Care Fund	Orpea
Herbergier	43	PGB	Housing Corporations	De Drie Notenboomen
Domus Magnus	17	VPT/PBG	Navitas, Aedifica	Navitas and Director major shareholder
Single site organizations members of NEVEP	17	PGB	Various	Various
September	17	PGB	Aedifica (new locations)	Orpea
Gastenhuis	17	PGB	Amvest Living & Care Fund	NPM Capital
Stepping Stones	14	VPT	Gilde	Gilde and 50% Director major shareholder
Compartijn	11	PGB	Aedifica and others	Incluzio part of Facilicom
ECR	11	VPT/PBG	Director major shareholder	Director major shareholder
Martha Flora	10	PGB	Aedifica	Director major shareholder
De Laren	7	PGB	Amvest Living & Care Fund	Amvest and Director major shareholder
Futura Zorg	6	PGB	Amvest Living & Care Fund	Amvest and Director major shareholder
Rosorum	5	VPT	Vesteda, AIG care concepts	Director major shareholder
Nova Zembla	4	VPT	Various investors	Director major shareholder
Het Gouden Hart	4	VPT	Aedifica	Director major shareholder
t Huys	4	VPT/PBG	...	Blueprint group

COST OF LIVING PRIVATE RESIDENTIAL CARE FACILITIES



46.3 million
people worldwide
are living with
dementia.

This will almost
double every 20 years

7 Source: Prince et al., 2015 and Alzheimer Nederland, 2017. Of these 254,000 people, 69,000 are men and 185,000 are women
8 Monitor langdurige zorg (long-term care Monitor), 2014
9 Cushman & Wakefield, private residential care market, 2017
10 Cushman & Wakefield, private residential care market, 2017
11 For an overview, visit Zorgvillaexpert.nl
12 Cushman & Wakefield, private residential care market, 2017
13 Dutch Association of Private Care Providers
14 CBRE
15 Orpea provides care to 70,000 residents in 818 residential facilities in 12 countries.
16 Source TUIM, op weg naar het nieuwe zorgen (the path to new care), 2015

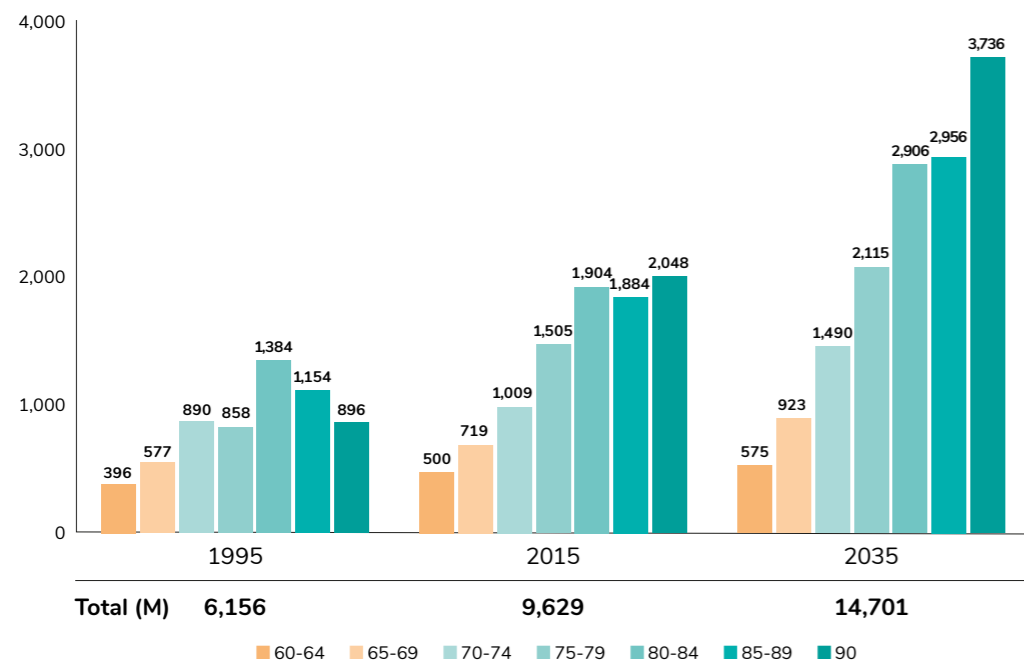
IMPETUS FOR EXPLORATION ABROAD

44 Herbergiers have been established since its foundation in 2007. The ambition is to grow to 100 locations in the Netherlands with further international growth.

De Drie Notenboomen has made an inventory of international opportunities. The demand for residential concepts for people with dementia is growing abroad just as it is in the Netherlands¹⁷. It is predicted that there will be 14.7 million dementia patients in the European Union by 2035, a significant number compared to the 9.6 million dementia patients in 2015.

De Drie Notenboomen is experiencing increased interest from various developed and developing countries. Over the last few years, Herbergiers have hosted delegations from Germany, Norway, Finland, China, South Korea, Australia, Canada and New Zealand. This signalled an impetus for De Drie Notenboomen to explore whether the successes of the Herbergier in the Netherlands could possibly be shared abroad. In addition, various Dutch experts¹⁸ in the field of dementia are internationally active in the development of facilities for dementia in line with the Dutch principles.

DEMENTIA PREVALENCE IN EU COUNTRIES (million people by age group)



¹⁷ According to the OECD, the prevalence in the Netherlands will rise from 1.57% to 2.63% ('15-'35)

¹⁸ Dutch experts & Be (part of Vivium Zorggroep)



WHAT MAKES A COUNTRY INTERESTING

Across the world, many people with dementia still live with family, within a diaconate (Christian social work) or in a traditional and large-scale care home.

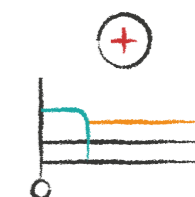
De Drie Notenboomen considers three factors for the selection of prospective countries:

- Current treatment options: The country currently treats elderly people with dementia mostly in a **traditional care home setting** (these patients predominantly no longer live with family). ¹⁷ According to the OECD, the prevalence in the Netherlands will rise from 1.57% to 2.63% ('15-'35) ¹⁸ Dutch experts & Be (part of Vivium Zorggroep) Confidential, Memorandum on Accommodation for Herbergiers Germany, November 2019 ¹¹
- Size and economic development of a country: the country has a **large population**, meaning there is a high demand for homes for people with dementia and the country is **economically developed**, so that small-scale dementia care can be funded at national level.
- The funding method for dementia care: the country offers a type of **personal funding**, so that there is the option to choose a private initiative such as Herbergier.



If global dementia were a **country**, it would be the

18th
largest economy
in the world



Germany is Europe's biggest economy and country with **> 80 million** inhabitants,

with a demand for 300,000 extra beds

for people with dementia by 2030.

WHICH COUNTRIES ARE OF INTEREST

A first scan explored North-Western European countries for their level of appeal and opportunity. These countries have a culture that is somewhat similar to the Netherlands, so that the Herbergier concept might be feasible.

Travelling distance for operations should also be considered. The country that emerges as most appealing is Germany, but Finland, Sweden and France are also possibly receptive to the Herbergier concept.

	Economy (2016)		Prevalence		Private paid nursing homes	Personal budget	Private care companies allowed	Active international organizations
	Inhabitants	[BBP per capita]	2016	2035				
Norway	5,4 million	€59,771	1.6%	2.2%	9,5% private nursing homes, no special dementia homes (2019)	Yes, responsibility municipality	Yes, focus on profit maximization	"Aleris/Stendi, Norlandia"
Germany	82,7 million	€35,647	2.03%	3.09%	50% private nursing homes, including not for profit (2007)	Yes, Pflegegrade based on personal care indication	Yes	"Confinimmo, Aedifica, Deutsche Wohnen"
Sweden	9,9 million	€43,463	1.85%	2.49%	14% dementia specialised private homes	Yes, responsibility municipality	Yes, focus on profit maximization	Attendo, Ambea and Nordlandia
France	66,9 million	€35,697	2.70%	2.70%	45% private nursing homes, including not for profit (2008)	Yes, personal budget financed by state or health insurance	Yes	Orpea and Korian
Netherlands	17,0 million	€42,384	1.57%	2.63%	8% private nursing homes, all others public	Yes, personal budget financed by state or health insurance	Yes, focus on profit maximization	Orpea, Aedifica and Confinimmo

Source: OECD and Dementia Europe, inter alia

Germany is a large country with a demand for 300,000 extra beds for people with dementia by 2030.

Germany is culturally similar to the Netherlands. Germany also works with personal funding, through the Pflegegrade based on indication. The provision of accommodation & care by private parties is permitted, and several international players are active in Germany, including Stella Vitalis with property partner Cofinimmo, Katharinenhof with property partner Deutsche Wohnen and the smaller players Alloheim and Specht Gruppe with property partner Aedifica, who is also active in the Netherlands.

In **Finland**, approximately 5.1% of the population is aged 80+, and it is expected that 2.8% of the population will be suffering from dementia by 2035. The responsibility for dementia care is currently in the process of being moved from municipality to region, and these regions are also responsible for the allocation of care. There is space for private care in Finland, and Mainio, Mikeva, Esperi Care, Carema, Attero are active care providers in Finland.

Sweden also has a high incidence of dementia, with 2.5% of the population expected to be dementia patients by 2035. Municipalities are responsible for dementia care funding. Care provision by private parties is permitted in Sweden and the 5 biggest players (including Attendo, Ambea and Nordlandia) together hold 72% of the private segment. There is, however, an ongoing discussion about profitability in care, with the possible outcome being that profit earned by providers from publicly funded care could be capped at 7%.

France has an expected dementia prevalence of 2.7% in 2035. Citizens with dementia are supported by the French state and the healthcare insurer, and this support can be used for purchasing residential care. France has a large private sector with – for example – its large private players Orpea and Korian.

17 According to the OECD, the prevalence in the Netherlands will rise from 1.57% to 2.63% ('15-'35)

18 Dutch experts & Be (part of Vivium Zorggroep)



De Herbergier concept proved itself in the Dutch market, but is **constantly improving and adapting** to the changing political environment.

"...a home filled with love where life carries on as usual."



DE DRIE NOTENBOOMEN DUITSLAND GMBH

NEW FINANCING SOUGHT TO FACILITATE GROWTH

De Drie Notenboomen has the ambition to achieve growth in Germany over the next few years, and to this end it has established DDN DE GmbH¹⁹ in Germany.

DEVELOPMENT PHASE STRUCTURE

The process used by De Drie Notenboomen for new location development will follow the same structure as in the Netherlands. One aspect for DDN DE GmbH (referred to hereinafter as DDN Germany) will be to look for a suitable entrepreneurial couple to run the location. The team will use its expertise to find the right candidates and the Dutch organisation can offer support with selection, mentoring and training the new franchisees. DDN Germany will also support the entrepreneurs with the possible handover of the care facility in the event an existing location is acquired.

Parallel to the search for an entrepreneurial couple, DDN Germany will also look for a suitable location/premises, possibly together with the property partner. The investor sets up a development contract with DDN Germany and DDN Germany will draw up a statement of requirements so that the location can be used as a Herbergier. The investor acts as the actual developer, owner and – finally – the landlord of the property.

RENTAL PHASE STRUCTURE

During the rental phase, DDN Germany rents the premises from the investor (the owner at that point) for a period of 20 years, and DDN Germany sublets the premises in 5-year terms to the franchisee. If there are entrepreneur continuity issues, DDN Germany is responsible for resolving these issues. DDN Germany also serves as an intermediary between the tenant and the landlord in case of special wishes or operational issues between tenant and owner.

SOCIAL IMPACT

The objective of a Herbergier is to structure care in a way that puts people at the heart of operations. Passionate care entrepreneurs make sure that they and their teams adopt a respectful approach every day, and a focus on what is still possible (not the things that are no longer possible).

This pared down way of working also means De Herbergier can have a broader perspective. Topics such as 'quality of care', wellbeing and affordability are a great fit with this respectful approach and are crucial in the discussion about the future of (elderly) care. What a Herbergier achieves on a small scale has a big impact on society. The pursuit of impact for people and society should be tangible in every aspect of the Herbergier concept. This pursuit is shared with collaboration partners who work with De Drie Notenboomen every day to build care for the future. By extension, this should be unmistakably present in the model above and in the ambitions of the participating partners. The investors' pursuit of impact on people and society should be distinctive through 2 aspects that are inextricably linked:

- The investment entity should continuously strive for a normal positive result in order to maintain healthy business operations.
- If a property is no longer suitable for the operation of business as per the standard at that time, a solution will be sought between De Drie Notenboomen and the investor.
- The investor has the ambition to remain affiliated with De Drie Notenboomen and the Herbergiers in the long term.

As such, it is expected that prospective partners clearly express their intrinsic motivation for investment. Purely profit-driven financial gain does not befit the social impact we aspire to. However, creativity when it comes to possible purposes is highly appreciated.

"...a home filled with love where life carries on as usual."



The Herbergier properties are **rented from DDN for a period of 20 years** and are owned by housing corporations or property investors with **a strong social purpose.**



Anyone can live at a Herbergier, including those from a **low income household.**

Several rooms are designated for people on a low income



¹⁹ Established 27/09/2019

LONG-TERM PARTNERSHIP

Care is at the heart of everything at De Herbergier, provided by people with a care background who identify with the core values as expressed by De Drie Notenboomen (Small Scale, Entrepreneurship and Freedom of Choice) and the essence of the Herbergier concept. De Herbergier's primary focus will always be aimed at providing good care for people with memory problems.

We would like our financial partner to offer us the following:

- **Support the message** and moral compass as propagated by De Herbergiers through demonstrable long-term engagement.
- **Faster growth of number of Herbergiers – partly due to short lines in decision-making.**
- Good **local network** for new locations. We would prefer to come to agreements on exclusivity for certain regions or market segments.
- **Flexibility for De Drie Notenboomen** with regard to properties – if it becomes apparent that a Herbergier location is no longer fit for purpose, a solution should be sought together, within the framework of the agreements and with respect for each other's interests.
- Willingness to provide **pre-commitment** for the development of and investment in a minimum of 3 properties for Herbergiers.
- The ability to efficiently manage the initially small portfolio. The **management** of properties for the Herbergiers may possibly require different prioritisation for maintenance than homes, for instance.



De Herbergier is

an accessible home

The doors are open to whoever wants to go outside.

Residents are part of society, not shielded from it.

They are part of the community and the community is part of the Herbergier.

“...a home filled with love where life carries on as usual.”





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