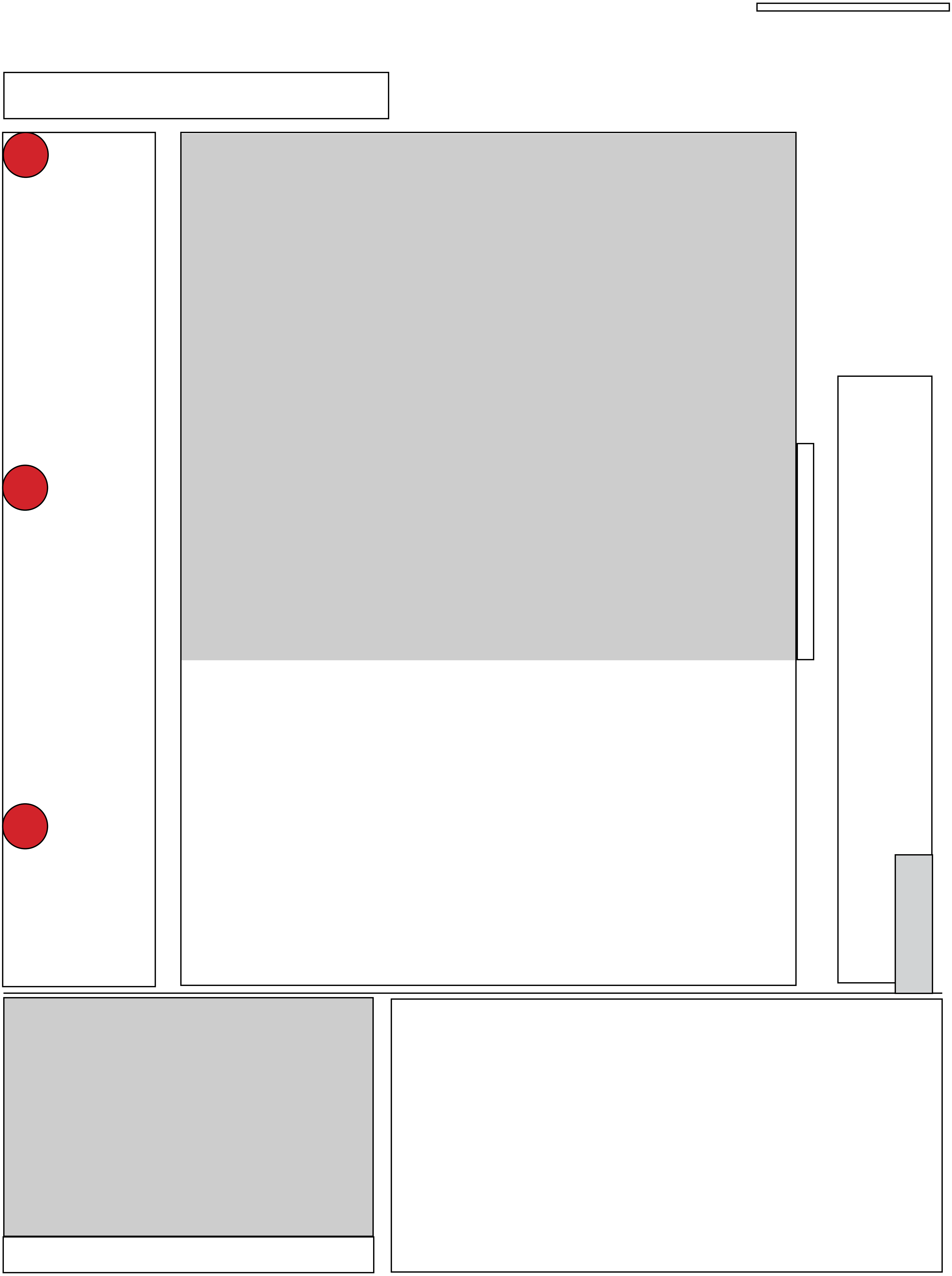
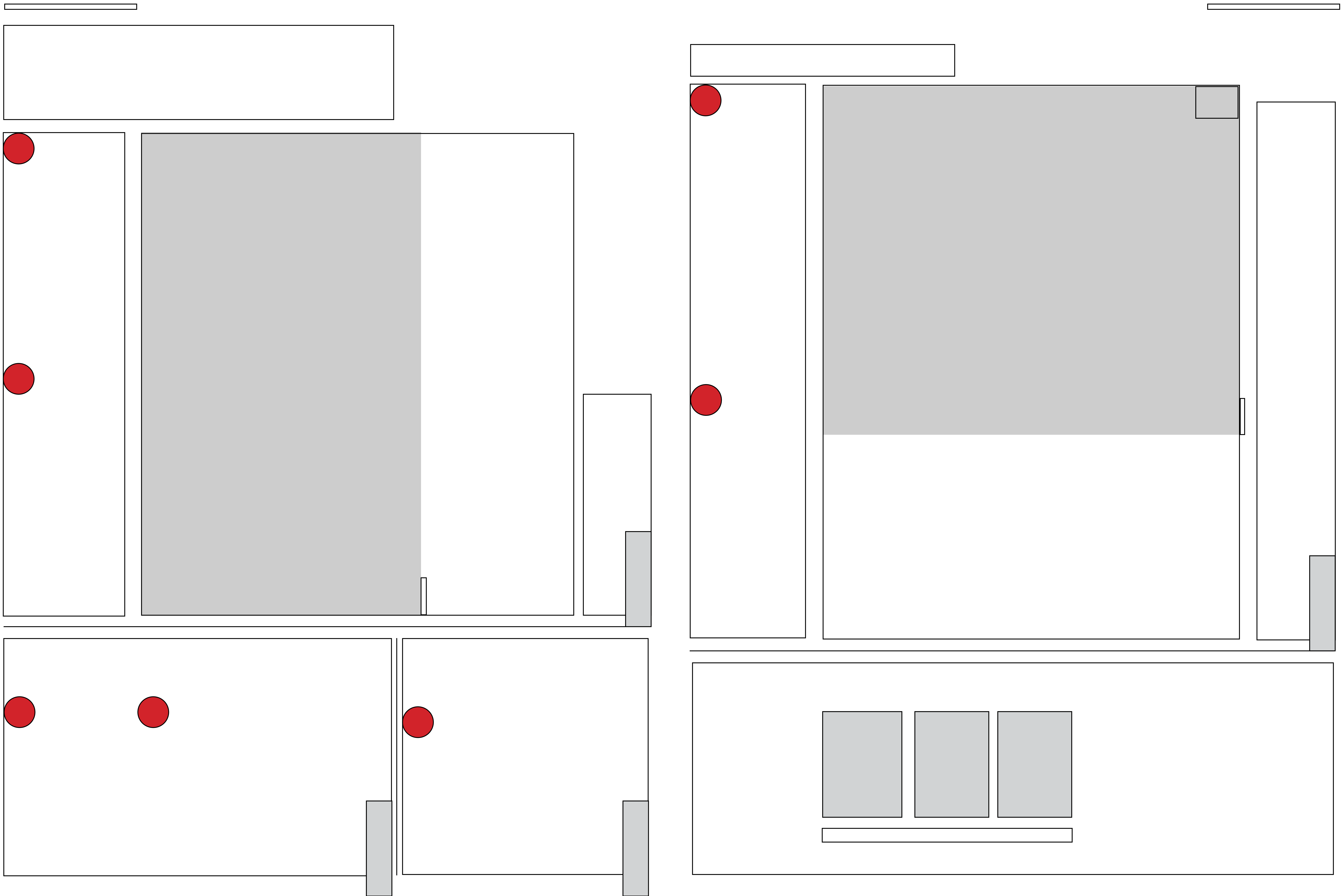




MARCUS LEMONIS

IS TAKING IT OUTSIDE

The star of 'The Profit' is betting outdoor recreation retailers are a perfect fit for his Camping World RV dealerships and RV travel club Good Sam

BY BRIGID SWEENEY

Struggling brick-and-mortar chains have few options these days—unless they happen to sell hunting, fishing or other outdoor goods. In that case, Marcus Lemonis may just come calling.

Lemonis, CEO of Camping World, a national chain of RV dealerships headquartered in Lincolnshire, and Good Sam, an RV travel club under the same holding company, has been snapping up outdoor recreation retailers at a rapid clip. This month, he purchased Erehwon Mountain Outfitters, an Arlington Heights-based chain of four outdoor gear stores; in October, he bought Uncle Dan's, a Chicago outdoor gear company that also has four locations. These local acquisitions come shortly after he forked over $37 million for some assets of Lemonis bets big on Americans' willingness to spend on experiences, hobbies

Hospital tax causes chest pain

It's outdated and needs reform. But for some CEOs, the funding is a lifeline.

By Kristen Schorsch

For years, nearly every Illinois hospital has paid into a pot of money that helps the state bring in more federal dollars. But the program, effectively a tax on hospitals, is dated and doesn't reflect how much the health care industry has changed.

Now state lawmakers, the Rauner administration and lobbyists want to modernize the hospital assessment program, shaking up how it doles out money to medical centers across the state. Currently, it redistributes funds based on claims data for Medicaid services provided in the hospital in 2005 and on an outpatient basis in 2009.

The potential overhaul is causing major anxiety among hospital executives. A public hearing about the potential changes is scheduled in the Loop on Jan. 18. "The hospital tax assessment is our lifeblood," says Tim Egan, CEO of Roseland Community Hospital on the Far South Side. "Without it, you're going to see a massive string of hospitals shut down in Illinois."

An old dog learns some new tricks

After almost 90 years in business, hospital bed supplier Hill-Rom diversifies—and grows

BY H. LEE MURPHY

Since the Great Depression, Hill-Rom Holdings has ranked as one of the top suppliers of hospital beds around the country. Today, CEO John Greisch is betting there's more money to be made in blood pressure monitors and retina scanning devices than adjustable mattresses.

Under Greisch, a Baxter International executive before he landed at Hill-Rom in 2010, the company has completed seven acquisitions in the past five years to expand sales into physicians offices, urgent care clinics and home health programs. The dealmaking has left the company with a load of debt, about $2.1 billion, but yielded impressive top-line gains.

While the overall hospital bed market is estimated to grow at just 1 percent a year, Greisch has doubled Hill-Rom's revenue since 2010 to $2.74 billion in the fiscal year ended Sept. 30. Over that same time, operating margins have expanded three full points to 15.4 percent, while its share price has tripled in value to a recent multiyear peak of $88. Most analysts rate the stock a "buy" because it still is priced at a price-earnings discount to other medical technology peers.

John Greisch

"We're less tied to both hospitals and hospital beds today," says Greisch, 62. "As time goes on, more and more care is occurring outside hospitals, and so we've had to be prepared to diversify."

The company has changed in other ways. In 1929 it was founded by William Hillenbrand as a maker of hospital furniture and, later on, was added to a casket business he also owned, operating from Batesville, Ind., about 55 miles northwest of Cincinnati. The two halves were split apart in 2008. In 2015, Greisch moved the headquarters to Chicago, where talent recruitment is easier, though Batesville remains a primary manufacturing base.

Twenty years ago, Hill-Rom reaped almost two-thirds of sales from hospital beds; today they account for less than 20 percent. Foreign sales have climbed steadily, too, to more than 30 percent of total revenue. The company has more than 10,000 employees spread among plants from Beaverton, Ore., to Cary, N.C., with foreign facilities in Mexico, Singapore and Germany, among other places. Its East Loop head office employs 120.

Hill-Rom might be growing faster if health care weren't under such cost-containment pressures. Within the nation's 5,700 hospitals, the bed count has fallen 3 percent since 2014 to about 900,000. The American Hospital Association estimates that a quarter of its members operate at a deficit. On the premise that bigger is better and cheaper, more hospital chains are merging. Recent deals include Advocate Health Care of Downers Grove and Milwaukee-based Aurora Health Care, and Catholic Health Initiatives and Dignity Health, which, post-merger, will be based in Chicago.

"The number of people going into hospitals and staying overnight is down," says Ashley Thompson, senior vice president of policy at the AHA. "But activity is up on the outpatient side. They are still getting services performed."

To get into the middle of those outpatient services, Hill-Rom's biggest move was its $2.05 billion acquisition of Welch Allyn in Skaneateles Falls, N.Y., in 2015. More recently, it spent $330 million last February for Milwaukee-based Mortara Instrument. These companies have given Hill-Rom an impressive pipeline of new products, including the Retinavue from Welch Allyn, which allows family doctors, not just ophthalmic specialists, to screen patients for diabetic retinopathy, a leading cause of blindness. Hill-Rom also recently launched a wearable airway clearance device that allows patients with cystic fibrosis to breathe better when they are away from hospitals and electrical outlets. "It's totally mobile, giving people a more free lifestyle," Greisch says.

There is still new technology being added to hospital beds—most beds sell for $5,000 to $30,000 each—much of it involving wireless hookups that can sense when a patient has gotten out or even shifted position. Hill-Rom has come up with an operating table tied to robotic surgery that can "tilt" a patient into a new position rather than move her to keep the robot operating seamlessly with no interruption.

Jack Stephens, senior vice president of product strategy at hospital supplies distributor McKesson Medical-Surgical in Richmond, Va., says that Hill-Rom and such brands as Welch Allyn "are at the top of the list of preferred products that we're selling to doctors. Hill-Rom has been smart in engaging patients in physicians offices for treatment before they ever get to a hospital."

Even so, practitioners everywhere are holding back on investment where they can. "Some health systems tell us they have to strip out 35 percent of their cost structure if they want to operate profitably," Stephens says. That has led to a pruning of capital spending budgets.

Because its debt load is so heavy, Hill-Rom probably will have to pause its dealmaking, says analyst Mike Matson of Needham in Boston, but not for too long. "The company generates a lot of cash and it will pay down its debt rapidly," he says. "Maybe in a year or so you could see them ready to do another deal of $300 million or so in size."

The debt has been worth it, Matson adds. "Without Welch Allyn and the others, this company would be still selling beds and growing at more like a 1 percent pace each year, and nobody would be paying attention to it," he says. Instead, Greisch forecasts that Hill-Rom's revenue can grow at a 5 percent "core" pace before accounting for more acquisitions.

Thrift's abrupt closure shrouded by mystery loans, huge loss and CEO's suicide

WASHINGTON FEDERAL Page 1

The CEO of the parent of Chicago's Royal Savings Bank, which acquired most of Washington Federal's deposits and $23 million in assets, says in an interview that the FDIC didn't allow him to see even half of Washington Federal's loans to determine whether he wanted to bid.

Of the loans Royal did review, the bank decided to accept exactly two: They were personal loans, backed by deposits, with a collective value of a little more than $400, says Leonard Szwajkowski, Royal's CEO. The rest of the $23 million in assets Royal assumed were cash and cash equivalents, he says. Royal wasn't permitted to do on-site due diligence, Szwajkowski says. As to the loans, he says, "Royal is as perplexed as you are. It's very, very perplexing."

It wasn't that Royal wasn't interested in acquiring loans at a decent price, the CEO says. "We were looking to salvage what loan assets we could, but that didn't appear to be a good option," he says. He declines to discuss the nature of the loans Royal did review and turned down.

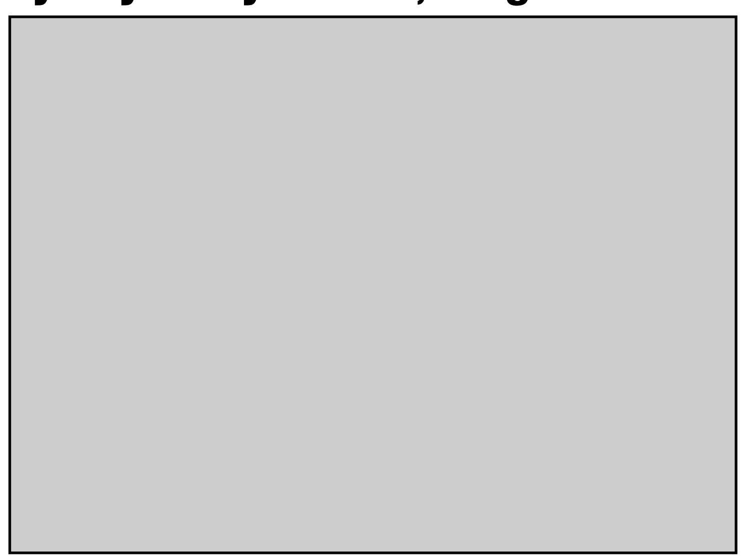
For a bank that on paper held mainly mortgages secured by real estate, it's bizarre that an acquiring lender in a failed-bank situation wouldn't want those loans, since they're collateralized and hold some value.

FDIC spokesman David Barr acknowledges that it's highly unusual for a bank acquiring the assets of a failed lender to take only personal loans backed by deposits. He declines further comment on what regulators found at Washington Federal, deferring to the OCC, which was that bank's primary regulator.

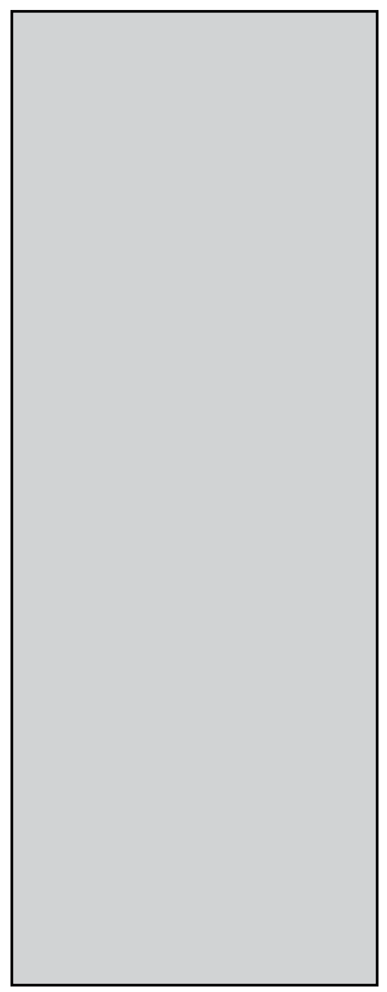
Attempts to reach board members of Washington Federal's parent, Washington Bancshares, were unsuccessful. Among those board members was William Mahon, a 28-year veteran of Chicago's Department of Streets & Sanitation. He oversees the department's Office of Management & Accountability, according to his LinkedIn profile. Mahon didn't return calls requesting a comment.

In addition, given that Washington Federal's results reported to regulators weren't real, there are serious questions for the bank's auditor. For years, that's been Chicago-based Bansley & Kiener, according to Washington Bancshares filings with the Federal Reserve. Managing Partner Robert Hannigan didn't respond to requests for comment.

Gembara and family members owned at least 47 percent of Washington Bancshares stock, according to a Federal Reserve filing. An employee stock ownership plan held a little more than 15 percent, according to the filing. Just 16 people worked at



Royal Savings Bank acquired most of Washington Federal's deposits and $23 million in assets. Of the
loans that Royal was allowed by the FDIC to review, it accepted only two.



the bank as of its most recent FDIC filing. Gembara hanged himself on Dec. 3 in northwest suburban Park Ridge. Janice Weston, his sister, an executive at the bank and a fellow board member, didn't respond to a request for comment.

Less than two weeks before the closure of the bank, the FDIC collected bids from three banks other than Royal: First Savings Bank of Hegewisch in Chicago, Oak Brook-based Republic Bank of Chicago and Raleigh, N.C.-based First Citizens Bank & Trust, a frequent bidder on failed banks.

Whatever happened at Washington Federal, the clear losers, other than Gembara's family and the bank's workers, are depositors who stashed more than the federally insured limit of $250,000 in the bank. Royal opted not to take on some of the deposits. Of those, more than $11 million are above federal insurance thresholds, and those depositors could simply lose their money. The FDIC can sell assets, whose proceeds can help defray some of those costs, but all signs point to not a lot of worth being left.

The last time depositors lost money in a local failed-bank deal was 2002, according to the FDIC.

As for deposits, for a bank based in Bridgeport—home of the Daleys and one of Chicago's most tightknit neighborhoods—for more than 100 years, Washington Federal held very little from the community. Of the bank's $144 million in deposits, just $1.5 million—1 percent—were in noninterest-bearing accounts such as checking accounts.

Most of the deposits, Royal's

Another Medicaid shake-up causing major anxiety among hospital executives

MEDICAID from Page 3

Roseland, for example, contributes $3.8 million to the hospital assessment program each year, yet gets back nearly $17 million. Add in an extra $6 million in payments from the state, and the total additional funding represents almost half of the hospital's budget.

The program, which is set to expire July 1, works this way. Each year, medical centers give a fixed amount of money to the state based on a formula that accounts for how many beds were full in 2005 and how much outpatient revenue was grossed in 2009. Illinois then sends it off to the federal Centers for Medicare & Medicaid Services for a match to generate a total of $3.5 billion for the state. Most of the money flows back to hospitals, but some goes to other services, including long-term care. The $3.5 billion pot represents about 16 percent of the budget for the Illinois Department of Healthcare & Family Services, which runs Medicaid.

The reality is that a lot has changed. Low-income Chicago neighborhoods that surround safety-net hospitals have emptied out, dwindling their patient base. The push toward outpatient care means fewer people need to be hospitalized. At the same time, the state expanded Medicaid under the Affordable Care Act, leading to crops of new patients who sought care elsewhere. The bottom line: The current assessment program doesn't reflect where Medicaid patients seek treatment.

"It's a tough process to renegotiate," says Rep. Greg Harris, a Chicago Democrat who is among the state lawmakers working to redesign the program. "Every hospital in the state is affected. There will be winners and there will be losers."

"IT'S A TOUGH PROCESS TO RENEGOTIATE ...THERE WILL BE WINNERS AND THERE WILL BE LOSERS."

A DRAMATIC SHIFT IN THE LANDSCAPE

The revamp could drastically alter the hospital landscape in Illinois. In the new hospital assessment program, more money would follow the patient and hospitals would be paid based on Medicaid services they provided in 2015. At the same time, a special fund would help hospitals saddled with lots of vacant beds to close or convert to facilities that might be needed more, such as an urgent care center or a behavioral health hospital.

Hospitals that largely depend on Medicaid dollars would be prioritized. But as in Roseland's case, some might still lose money going forward. Under the latest proposal, Roseland would receive about $7 million less. This comes as CEO Egan's salary is frozen for at least 60 days (he makes $350,000 a year). Under orders from the board to keep the hospital afloat, he recently laid off workers and cut some senior executives' pay by 25 percent. Like hospitals around the state, Roseland isn't getting paid on time by private insurers that cover Medicaid patients, and it has seen an uptick in the number of claims insurers deny.

These hospitals also have a lot to lose: Presence Sts. Mary & Elizabeth Medical Center in Wicker Park receives $78 million back—$53.2 million more than it contributes to the assessment program. That's the widest gap in Illinois between how much a hospital contributes and receives, state records show. Meanwhile, Northwestern Memorial Hospital in Streeterville gets the most money back of any hospital, totaling $102.6 million. That's $46.3 million more than the hospital puts in the pool.

Advocate Health Care underscores how, within one system, hospitals in the current tax program are paid very differently. Advocate Illinois Masonic Medical Center in Lakeview gets $67.9 million—$47.9 million more than it contributes. Yet Advocate Lutheran General in Park Ridge pays $28 million into the pool but receives $16.1 million back ($11.9 million less).

A.J. Wilhelmi, CEO of the Illinois Health & Hospital Association, a leading lobbying group that's negotiating the redesign on behalf of its members, acknowledged the tough path ahead for his industry. He represents safety-nets and affluent health systems alike. "It's a challenging environment in health care," he says, ticking off a host of financial pressures that hospitals face. "We are working diligently to collect the input from our diverse membership and to move this program forward with significant reforms."

So far, a sticking point among lawmakers, lobbyists and the Rauner administration is how much additional money Illinois can spend on Medicaid, and therefore ask federal CMS to match. An analysis by Matt Werner Consulting found that Illinois could spend at least $500 million more, including the match from D.C.

In the meantime, hospital CEOs await their fate.

LEMONIS from Page 3

Gander Mountain, a hunting, fishing and camping retailer based in St. Paul, Minn., that filed for bankruptcy in March, and Overton's, a Gander subsidiary that sold boating and marine goods. Lemonis, who also is host of reality TV show "The Profit," also grabbed TheHouse.com, an online purveyor of bikes, skateboards and snowboards.

Lemonis, whose spokeswoman did not reply to interview requests, has made clear he views these outdoor retailers as a natural outlet through which to hawk Camping World's highly profitable RVs and related services. Though he doesn't intend to reopen all the 160 Gander stores that shuttered last spring, Lemonis has said he will bring back 55 to 65 physical locations. Some 15 of those will have Camping World dealerships co-located on the premises.

Lemonis certainly didn't buy Gander for its hunting and fishing expertise. "It wasn't the best retailer in the segment," lagging behind Cabela's and Bass Pro Shops, says Brad Koszuta, a senior associate at Chicago retail consultancy McMillanDoolittle. "And hunting and fishing rates have been decreasing in the single digits (annually) for years." Rather, by ignoring the large Gander stores—which ran as big as 100,000 square feet—and choosing to resurrect low-rent, smaller-footprint locations, Lemonis can keep costs down while gaining access to outdoorsy consumers who are more likely than average to buy an RV.

Through these stores, "we believe there is a significant opportunity to leverage our array of products and services across a broader and more diverse customer base," he told analysts on a third-quarter earnings call in November. "The reason we did the Gander acquisition, the reason we did Overton's . . . was to touch more customers, to put them in our database, to sell more (Good Sam) club memberships and credit cards."

REVVED-UP RVS

Lemonis is tossing additional fuel on his already red-hot company. Camping World, by far the largest player in the fragmented recreational vehicle industry, booked $203.2 million in profit on revenue of $3.5 billion in 2016. In the quarter that ended Sept. 30, total revenue increased 25 percent to $1.4 billion. The company raised its 2017 revenue outlook to $4.2 billion and adjusted its expectation for earnings before interest, taxes, depreciation and amortization to $384 million.

Camping World has taken advantage of the RV industry's fast growth over the past five years, as millennials—the industry's fastest-growing segment—have incorporated recreational vehicles into more activities, from tailgating events to weekend soccer tournaments. RVs have also received a boost from Americans' increasing desire to spend their discretionary income on experiences and travel, says Wendy Liebmann, CEO of WSL Strategic Retail in New York.

That's a boon to Lemonis for two reasons: Not only are people more willing to shell out for an experience or a hobby, but they're also more willing to shop for it in physical stores—which makes Camping World at least somewhat insulated from the specter of Amazon. "There's quite a lot of differentiation between items where people say, 'I want to buy it and get it off my list,' and items where they say, 'This is important, I want to touch and feel it, I want to immerse myself in it and I want to be around like-minded people,' " Liebmann says. "I wonder if anything is truly Amazon-resistant, but the outdoor recreation and RV market is as close as it comes right now."

Walmart certainly thinks so. Last February, the discount retail giant paid $51 million for Moosejaw, a leading online active outdoor retailer with a large web presence as well as 10 physical stores, including one in Chicago's Clybourn Corridor.

Indeed, in an industry where even a smaller towable camper can run $20,000, people aren't buying wildly online, McMillanDoolittle's Koszuta says. And because Amazon doesn't sell guns or ammunition, Camping World can potentially win a large swath of new customers through its hunting-focused retail acquisitions.

Continuing to recruit new RV buyers while staving off Amazon will be critical to offset an expected slowdown in sales as oil prices and interest rates increase. Though the industry grew at a robust 5.2 percent annually from 2012 to 2017, to $20.3 billion, according to IBISWorld, the researcher now expects yearly growth to cool considerably to 1.6 percent through 2022.

Speaking to analysts in November, Lemonis didn't seem concerned about losing momentum—especially because Camping World has recently focused on driving down its average RV cost to lure 20- and 30-somethings. "As millennials have become a bigger part of our universe because of their affinity to the outdoor lifestyle, we don't see anything in the near future that gives us any reason to believe that we're in the middle of the end of the game," he said. "I don't feel one bit of head wind."

Marcus Lemonis' Camping World is the largest player in the RV industry by far.

crain's illustration/thinkstock, Bloomberg images
JOHN R. BOEHM

Crate & Barrel moving Chicago office to Logan Square

BY DANNY ECKER

The group that turned a massive former Marshall Field's warehouse in Logan Square into a mixed-use complex has landed its first office tenant, and it's coming from a spot near the hottest office corridor in the city.

In an expansion of its office space in the city, retailer Crate & Barrel leased 117,000 square feet at 4000 W. Diversey Ave., according to a statement from Chicago-based Merit Partners, which owns the 1.5 million-square-foot building.

The Northbrook-based housewares seller will move its photo and video production unit this summer from its current office near the Fulton Market District at 240 N. Ashland Ave., according to the statement. That unit has shared 64,000 square feet with the company's CB2 division headquarters for nearly a decade.

It's unclear how many employees will move; a Crate & Barrel spokeswoman could not be reached. When the company committed to its lease on Ashland in 2008, it moved 17 full-time employees and 15 part-time employees from its previous office in the West Loop, which housed its photo and video production team.

The deal helps validate the office portion of Merit Partners' redevelopment—dubbed "The Fields" as a nod to the 90-year-old building's history—as it looks to fill the remainder of the 300,000 square feet of office space it built on the site.

The lease "represents a transformative milestone for all stakeholders," Merit Partner Paul Fishbein says in the statement. "With Crate & Barrel anchoring the office portion of the building, we look forward to securing other companies looking for creative tech space at cost-effective rents."

Snagging a major office deal for the area—particularly a tenant currently so close to the red-hot Fulton Market District—is a rare occurrence for Logan Square. The longtime arts and music hub has seen hints of gentrification in recent years with the debut of new restaurants and bars, but not many large office tenants.

One of the highest-profile office developments in the neighborhood over the past decade was another redeveloped industrial building: the Green Exchange along the Kennedy Expressway at 2545 W. Diversey, best known as the headquarters of Coyote Logistics.

"The growth of this area has been remarkable over the past two years," 31st Ward Ald. Milly Santiago says in the statement. "This neighborhood is a true live/work/play community. The Fields has brought over 500 jobs to the area and is still growing."

While it's the first office tenant, Crate & Barrel joins a list of companies that have set up shop in other sections of the renovated building since Fishbein and partners Louis Silver and Aaron Paris bought the then-vacant building from Macy's for $8 million in January 2014.

After renovations, Merit sold off portions of the property: Grocery chain Cermak Fresh Market bought 66,000 of the 100,000 square feet of retail space in the building, while a Northfield-based venture bought 125,000 square feet of self-storage space that's occupied by Malvern, Pa.-based CubeSmart.

The building touts 400,000 square feet of warehouse space that is fully leased and anchored by home design showroom Studio41, a venture owned by Silver. The building is also slated to have 123 rental loft apartments on the site by September.

Crate & Barrel's move also means its space will be back on the market at 240 N. Ashland. Building owner Peppercorn Capital, a venture of developer Phil Denny, says Denny expects CB2 to depart its share of the Crate & Barrel space. The company's lease there runs through June 2019.

Other small leases in the 84,000-square-foot vintage building are due to expire around the same time, "and we're going to be marketing it as an opportunity for someone to have a headquarters at the end of Fulton Market," Denny says.

A rendering of an apartment tower proposed for 1050 W Van Buren

Tandem Partners proposes 343 apartments in West Loop

BY Alby Gallun

It may not be as trendy as the booming Fulton Market District, but the south end of the West Loop is attracting plenty of attention from apartment developers.

In the latest proposal for the area, Chicago developer Tandem Partners wants to build two towers with 343 apartments on the north side of the Eisenhower Expressway. One, at 1050 W. Van Buren St., would rise 21 stories, while the other, at 1125 W. Van Buren, would top out at 15, according to documents Tandem provided to Neighbors of West Loop, a community group.

With good transportation links and proximity to the University of Illinois at Chicago and Rush University Medical Center across the highway—not to mention downtown and Fulton Market's restaurants and bars—the neighborhood offers a strong base of demand for housing.

Last year, Related Midwest completed Landmark West Loop, a 300-unit apartment tower at 1035 W. Van Buren, and Pizzuti plans a 357-unit high-rise next door, at 1061 W. Van Buren. A couple blocks away, LG Development has proposed a 166-unit project at 1220 W. Jackson Blvd.

Still, while demand for apartments is especially strong, supply has ballooned, with developers completing an estimated 4,500 units downtown last year, a record. That's put pressure on landlords to offer deals on rent and will likely make it harder for developers to score construction financing for new projects.

But it's not stopping developers from proposing them. Tandem has presented its plans for the Van Buren buildings to neighborhood groups including Neighbors of West Loop, an early step in the process of obtaining city approval. Tandem needs a zoning change from the city to develop the buildings, and community groups have a big say in that process.

Matt Letourneau, chairman of Neighbors of West Loop's development committee, declines to discuss the group's position on the Tandem projects before giving its feedback to the developer. The group will hold public neighborhood meetings on the proposals in the next several weeks, he says.

A Tandem executive did not return calls. In October, the firm filed plans with the city for a 23-story, 226-unit building on the 700 block of Milwaukee Avenue in River West.

broader plan

Designed by Antunovich Associates, the proposed West Loop buildings fit in with a broader plan by the city to concentrate taller towers in the neighborhood along the Eisenhower to the south, Halsted Street to the east and the CTA's Green Line tracks to the north, says Moshe Tamssot, a West Loop resident and founder of True West Loop, a development-focused Facebook page. That allows the city to keep building heights down in the interior of the West Loop, he says.

Tandem's tower at 1050 W. Van Buren would cost about $68 million and include 133 studio apartments, 67 one-bedroom units and 22 two-bedroom units, according to a questionnaire completed by the developer for the Neighbors of West Loop.

At 1125 W. Van Buren, which would cost $30 million, Tandem plans 73 studios, 36 one-bedrooms and 12 two-bedrooms.