

Brookdale Enters into Agreements With HCP and Blackstone

11/1/2016

Transactions to Result in Restructurings or Lease Terminations for 97 HCP-Leased Communities

NASHVILLE, Tenn., Nov. 1, 2016 /PRNewswire/ -- Brookdale Senior Living Inc. (NYSE: BKD) today announced that it has entered into a definitive agreement with affiliates of Blackstone Real Estate Partners VIII L.P. (collectively "Blackstone") to acquire a 15% ownership interest in a joint venture that intends to acquire a portfolio of 64 communities currently leased to Brookdale by HCP, Inc. ("HCP"). Upon completion of the acquisition of the assets, Brookdale will manage the communities on behalf of the joint venture.

Additionally, the Company announced that it has entered into a definitive agreement with HCP for a multi-part transaction involving, among other things, the termination of leases for 29 communities, the contribution of four communities currently leased to Brookdale by HCP into an existing RIDEA joint venture with HCP, and the financing of certain communities owned by the entry fee CCRC Joint Venture between HCP and Brookdale.

Andy Smith, Brookdale's President and CEO, said, "These transactions are meaningful steps in our ongoing portfolio optimization initiative. Through these transactions, we expect that we will improve our return on invested capital, significantly improve our cash flow, reduce lease leverage, and improve the coverage of the remaining HCP leased portfolio. We appreciate the working relationship we have with HCP in bringing these transactions to fruition. We are also extremely pleased to create a relationship with Blackstone, one of the country's largest capital partners, in a structure that better aligns the interests of the owner and operator and provides us with the opportunity to share in value creation as we improve the performance of those communities. We are committed to continuing to pursue other opportunities to optimize our portfolio, simplify our business and create shareholder value."

Blackstone Joint Venture

Pursuant to an agreement between Blackstone and HCP, Blackstone has agreed to purchase the 64 community portfolio (5,967 units) for \$1.125 billion subject to the existing leases. Separately, Brookdale and Blackstone have agreed to form a joint venture into which Blackstone will contribute the portfolio at the closing of the purchase from HCP, and into which Brookdale expects to contribute a total of approximately \$170 million to purchase a 15% equity interest, terminate the existing lease, and fund its share of anticipated closing costs and working capital. Following closing of the transaction, expected in the first quarter of 2017, Brookdale will manage the communities on behalf of the joint venture.

HCP Lease Termination and Restructuring

Pursuant to the separate, multi-part transaction with HCP, the Company and HCP have agreed to terminate triple-net leases on 33 underperforming communities, including:

- the termination of leases on 25 communities (2,031 units), which is expected to occur in stages through the fourth quarter of 2017;
- HCP's contribution of four currently-leased communities (527 units) into one of Brookdale's existing RIDEA joint ventures with HCP, which is expected to close during the fourth quarter of 2016; and
- the termination of leases on four communities (340 units), which is expected during the fourth quarter of 2016.

In addition, HCP and Brookdale have agreed to place additional non-recourse mortgage financing on assets owned by the parties' existing non-consolidated CCRC joint venture. Upon completion of these financing transactions (which are expected to occur during the fourth quarter of 2016), Brookdale expects to receive distributions of more than \$200 million from the joint venture.

Benefits of Transactions

Completion of the transactions outlined above are expected to have several significant benefits for the Company:

- Blackstone joint venture increases cash flow – With the elimination of the above-market leases on the 64 community portfolio (which have a long-term remaining life) and the related joint venture and management arrangement, Brookdale's annual CFFO less Non-Development CapEx is expected to increase by approximately \$33 million in year one.
- Blackstone joint venture produces attractive return on investment – The combined impact of the elimination of significant rent expense, the new management fees Brookdale will receive, and Brookdale's equity interest

in the joint venture are expected to result in an attractive return on the approximately \$170 million investment.

- HCP transaction increases cash flow – With the termination of the leases on the 29 communities and the transition of the four communities into the RIDEA joint venture, Brookdale's CFFO less Non-Development CapEx is expected to increase by approximately \$7 million in year one.
- Both transactions reduce consolidated leverage – Upon completion of the transactions with HCP and Blackstone, Brookdale's leverage ratios are projected to improve by approximately 0.3x.
- Brookdale retains upside opportunity on 68 communities – Brookdale will retain the opportunity to participate in upside performance on the 64 community joint venture with Blackstone and the four HCP communities transitioned to the RIDEA joint venture, most of which have performed well in the past, and management believes the operating performance of the communities can recover to high operating levels.
- Improves coverage on remaining HCP triple-net leased portfolio – The lease coverage of the remaining HCP leased portfolio is expected to improve to more than 1.2x after both transactions are completed.

The closings of the various transactions referenced above are subject to the satisfaction of various closing conditions, including (where applicable) the receipt of regulatory approvals. There can be no assurance that the transactions will close or, if they do, when the closings will occur.

Note Regarding Non-GAAP Financial Measures: The Company strongly urges you to review the information under "Reconciliation of Non-GAAP Financial Measures" below for the Company's definition of CFFO less Non-Development CapEx and a reconciliation of such measure from the Company's net cash provided by (used in) operating activities. A reconciliation of the expected impact of the transactions to the most comparable GAAP financial measure is not available without unreasonable effort due to the inherent difficulty in forecasting the timing or amounts of items required to reconcile CFFO less Non-Development CapEx from the Company's net cash provided by (used in) operating activities. Variability in the timing or amounts of items required to reconcile each measure may have a significant impact on the Company's future GAAP results.

About Brookdale Senior Living

Brookdale Senior Living Inc. is the leading operator of senior living communities throughout the United States. The Company is committed to providing senior living solutions primarily within properties that are designed, purpose-built and operated to provide the highest-quality service, care and living accommodations for residents. As of September 30, 2016, the Company operates independent living, assisted living, and dementia-care communities and continuing care retirement centers, with 1,077 communities in 47 states and the ability to serve approximately 105,000 residents. Through its ancillary services program, the Company also offers a range of outpatient therapy, home health, personalized living and hospice services. Brookdale's stock is traded on the New York Stock Exchange under the ticker symbol BKD.

Safe Harbor

Certain statements in this press release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including all statements that are not historical statements of fact and those regarding the Company's intent or expectations relating to its transactions with HCP and Blackstone described herein, the expected timing of such transactions, and the impact of such transactions on the Company's operations, future financial results or financial condition, revenue, cash flow, operating income, expenses, capital expenditures, liquidity and leverage, and returns on investment. Actual results could differ materially from those projected. Factors which could cause results to differ include, but are not limited to, the Company's ability to complete the transactions with HCP and Blackstone on the currently agreed upon terms or at all, including in respect of the satisfaction of closing conditions, the risk that regulatory approvals are not obtained or are subject to unanticipated conditions, and uncertainties as to the timing of the closing; the Company's ability to achieve the expected benefits of such identified transactions within expected time-frames; the risk associated with the current global economic situation and its impact upon capital markets and liquidity; the effect of the Company's indebtedness and long-term operating leases on the Company's liquidity; the possibilities that changes in the capital markets, including changes in interest rates and/or credit spreads, or other factors could make financing more expensive or unavailable to us; senior housing supply and competition; early terminations or non-renewal of management agreements; as well as other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Readers are cautioned not to place undue reliance on any of these forward-looking statements. These forward-looking statements reflect management's views as of the date of these presentation materials, and the Company expressly disclaims any obligation to release publicly any updates or revisions to any of these forward-looking statements to reflect any change in the Company's expectations.

Reconciliation of Non-GAAP Financial Measures

This press release contains the financial measure Cash From Facility Operations ("CFFO") less Non-Development CapEx, which is a measure of liquidity used by management that is not calculated in accordance with GAAP. CFFO less Non-Development CapEx should not be considered in isolation from or as superior to or as a substitute for net cash provided by (used in) operating activities or other financial measures determined in accordance with GAAP. We use this non-GAAP financial measure to supplement our GAAP results in order to provide a more complete understanding of the factors and trends affecting our business. We strongly urge you to review the reconciliation set forth below of CFFO less Non-Development CapEx from our net cash provided by (used in) operating activities, along with our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 and our Quarterly Report on Form 10-Q for the three months ended June 30, 2016. We also

strongly urge you not to rely on any single financial measure to evaluate our business. We caution investors that amounts presented in accordance with our definition of CFFO less Non-Development CapEx may not be comparable to similar measures disclosed by other companies, because not all companies calculate non-GAAP measures in the same manner.

In connection with our reporting results for the three months ended September 30, 2016, we have changed our definition and calculation of CFFO. Under this new definition of CFFO, we no longer will include our proportionate share of CFFO of unconsolidated ventures. To conform to this new definition, prior period amounts of CFFO less Non-Development CapEx have been recast to reflect our CFFO less Non-Development CapEx exclusive of our proportionate share of CFFO of unconsolidated ventures. Previously, in connection with our reporting results for the three months ended June 30, 2016, we began reporting CFFO as a measure of liquidity, and as such we changed the definition of CFFO to reflect the reconciliation of such measure from net cash provided by (used in) operating activities. This previous change had no effect on the amounts of CFFO presented herein for this period or prior periods.

We define CFFO as net cash provided by (used in) operating activities before changes in operating assets and liabilities, gain (loss) on facility lease termination, and distributions from unconsolidated ventures from cumulative share of net earnings; and adjusted for recurring capital expenditures, net, lease financing debt amortization with fair market value or no purchase options, proceeds from refundable entrance fees, refunds of entrance fees, and other.

Recurring capital expenditures include routine expenditures capitalized in accordance with GAAP that are funded from current operations. Amounts excluded from recurring capital expenditures consist primarily of capital expenditures related to community expansions, renovations and major projects (including major community redevelopment and repositioning projects), the development of new communities and corporate capital expenditures (including systems projects and integration capital expenditures) that are funded using lease or financing proceeds, available cash and/or proceeds from the sale of communities.

CFFO less Non-Development CapEx represents CFFO less corporate capital expenditures and capital expenditures related to maintenance, renovations and upgrades to our communities that are not Development CapEx. Development CapEx means capital expenditures related to community expansions and major community redevelopment and repositioning projects, including our Program Max initiative, and the development of new communities. Non-Development CapEx and Development CapEx are presented net of third-party reimbursements received or anticipated to be received.

The table below reconciles CFFO less Non-Development CapEx from our net cash provided by (used in) operating activities for the trailing twelve month period ended September 30, 2016 (dollars in thousands):

	Twelve Months Ended September 30, 2016	
Net cash provided by operating activities	\$	367,462
Net cash used in investing activities		(125,049)
Net cash used in financing activities		(238,620)
Net increase in cash and cash equivalents	\$	<u>3,793</u>
Net cash provided by operating activities	\$	367,462
Changes in operating assets and liabilities		63,191
Refundable entrance fee received		2,415
Entrance fee refunds disbursed		(4,053)
Recurring capital expenditures, net		(57,817)
Lease financing debt amortization with fair market value or no purchase options		(55,774)
Distributions from unconsolidated ventures from cumulative share of net earnings		(6,400)
FFO	\$	<u>309,024</u>
FFO	\$	309,024
Plus: Recurring capital expenditures, net		57,817
Less: Non-development CapEx		(280,242)
FFO less Non-Development CapEx	\$	<u>86,599</u>

To view the original version on PR Newswire, visit: <http://www.prnewswire.com/news-releases/brookdale-enters-into-agreements-with-hcp-and-blackstone-300354604.html>

SOURCE Brookdale Senior Living Inc.

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