Green Street Advisors

— ADVISORY & CONSULTING GROUP —

Brookdale Senior Living

July 2019

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Executive Summary

Key Objective

- Green Street evaluated a number of Brookdale PropCo/OpCo split scenarios considering long-term viability and transaction feasibility to determine if there may be a meaningful value-creation opportunity for Brookdale
- A potentially attractive approach to value creation may be to structure a PropCo/OpCo split where the PropCo owns 100% of the real estate and the OpCo is a debt-free, asset-lite, pure-play operator

Significant Value Creation

- The proposed PropCo/OpCo split has the potential to create two viable and healthy entities
- Based on initial findings, there may be meaningful upside relative to Brookdale's recent trading levels

5-Day Trailing Stock Price**		PropCo OpCo
$8.00	*PropCo / OpCo Combined Value**	$13.60
	*Value Creation / Share**	+$5.60

~70% Share Increase

- Employing a RIDEA structure for PropCo, and giving the OpCo the ability to focus on being a pure operator without a rent burden or corporate debt, may significantly enhance shareholder value today and over the longer-term

PropCo Value

- Green Street ascribed a 6.9% cap rate by primarily examining REIT valuations and portfolio transactions
- Deducting marked-to-market liabilities from the total asset value resulted in a PropCo NAV of ~$9.00/sh
- PropCo will have a single operator, but there is past evidence to suggest that this may not be a detriment to pricing
- Market timing is favorable; senior housing-focused Health Care REITs currently trade at a 23% avg. NAV premium (or a GAV premium of 14%), as operating fundamentals are expected to accelerate over the intermediate term
- Due to marginally higher leverage, partially outsized G&A, and lower perceived franchise value compared to peers, Green Street estimates that PropCo would trade at an NAV premium of ~15%, resulting in a fair price of ~$13.60/sh

OpCo Value

- Green Street reviewed asset-lite companies in the health care and hotel sectors to arrive at a 12x EBITDA multiple for OpCo resulting in a ~$3.30/sh price
- The post-spin OpCo would have no lease obligations under the RIDEA structure and would have zero corporate debt

Next Steps

- Assumed no NOI growth & "as-is" asset value; further analysis may find that the current value estimate is conservative
- Given the potential to create significant sustainable value, a deeper dive to further refine the analysis with the benefit of management insights and full access to Company records is an appropriate next step

This is Not a Green Street Research Report

This analysis was prepared independently by Green Street's Advisory & Consulting Group. Advisory is separated from Green Street's REIT research team by a compliance wall. The research team did not contribute to this analysis nor opine on its conclusions.

*Values are rounded
**Average of closing price starting 7/17/19 and five trading days prior

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Valuation Approach & Results

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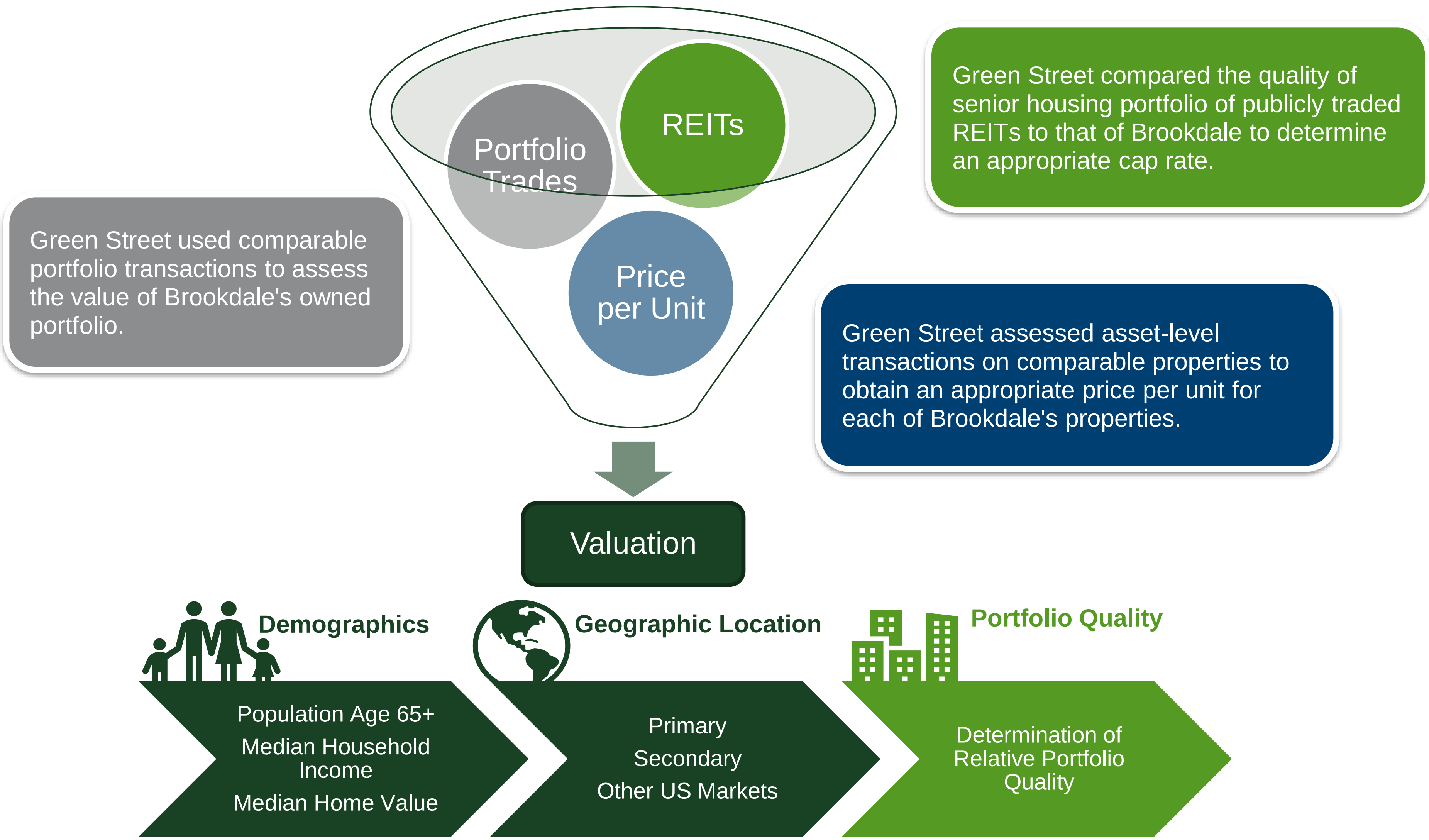
Valuation Approach

- **Three-Pronged Approach:** Green Street evaluated over 4,000 senior housing transactions, nine portfolio trades involving an additional 46,000 units, and incorporated cap rates used to value REITs in its research coverage universe to triangulate an appropriate and thoughtful PropCo value. Green Street also evaluated Brookdale's portfolio on an asset-by-asset basis, considering geography, comparable transactions, demographics, and other relevant valuation metrics.



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Valuation Approach (Cont.)

- **Consolidating Values:** After calculating the fair asset value range using each of the three methodologies, the portfolio trades and public REIT methodologies were most heavily weighted in ascribing value. Before ascribing an average cap rate of 6.9% to PropCo's owned $5.6B real estate portfolio (inclusive of JV), Green Street made adjustments to account for operator concentration and potential for short-term operational disruption resulting from a PropCo/OpCo split.

Portfolio Trades

Comp adjusted blended cap rate:
6.8% - 7.0%

Total Value:
$5.3B-$5.5B

Public REITs

REIT adjusted blended cap rate:
6.5%-6.9%

Total Value:
$5.4B-$5.7B

Price Per Unit

Price Per Unit:
$129,000 - $157,000

Total Value:
$4.0B-$4.9B

Operator Concentration & Potential for Operational Disruption

Operational Upside:
This value range assumes zero NOI growth and values the assets on an "as-is" basis. Given the near term capex investment in the properties and the operational changes being made, there may be upside to the estimated range.

Final Value

Blended cap rate:
6.7%-7.1%

Total Value:
$5.2B-$5.5B

Note: For the Price Per Unit method, Green Street was unable to attain certainty around crucial valuation metrics, such as unit count and type, for a meaningful number of the company's properties. Combining this method with publicly available information would have implied an 8.3% cap rate, suggesting that the Brookdale portfolio is the worst senior housing portfolio of size in the country, by a wide margin. Green Street does not believe this to be accurate. <u>Without greater property-level information, the Price Per Unit method was deemed to be an inappropriate valuation approach</u>.

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PropCo Valuation Assumptions and Results

- **Part Art, Part Science:** Upon assessing the feasibility of splitting Brookdale into two companies, the owned real estate portfolio value is estimated at $5.6B. Adjusting for balance sheet assets/liabilities, and an assumed $1.5B equity issuance, the NAV is estimated at $9.00/sh. Given the meaningful premium at which the Health Care REITs trade, a significant near-term value creation opportunity may exist.

Real Estate

Annual NOI: $371

1-yr NOI Growth Rate: 0%

Nominal Cap Rate: 6.9%

Real Estate Ownership: 100%

PropCo Capitalization

Equity Issuance: $1.5B

Outsized Issuance Discount: 5%

Transaction Costs

Equity Issuance Related: $60M

Transaction Related: $54M

Results	
Real Estate Assets	*$5,374*
Joint Venture	*$248*
Leased Portfolio	*($146)*
Balance Sheet Assets	*$149*
Total Assets	*$5,625*
Total Liabilities	*($2,571)*
Net Leverage	*44%*
Net Asset Value	***$3,054***
Number of Shares	*340k*
Rounded NAV / Share	***$9.00****

**PropCo NAV does not include an ascribed premium*

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OpCo Valuation Assumptions and Results

- **A Bigger Pie:** Green Street utilized a sum-of-the-parts, multiples-based approach to estimate OpCo's value. Keeping in mind the pure operator model, Green Street made various balance sheet asset and liability allocations to reflect an asset-lite business with no debt burden. The total estimated value per share of ~$3.30 appears reasonable for an operator under a RIDEA structure. This value does not reflect the potential benefit from favorable anticipated market conditions and potential operational upside which could result in meaningful additional value.

EBITDA & Multiple Calculation

	Health Care Services	Management Services
Revenue	*$111,532*	*$50,269*
Expenses	*($103,359)*	*-*
*Net G&A**	*($3,538)*	*($42,417)*
Quarterly EBITDA	*$4,635*	*$7,852*
Annual EBITDA	***$18,540***	***$31,408***
EV/EBITDA Multiple	*6.0 x*	*12.0 x*
Weighted Multiple	***9.8 x***	

Enterprise Value & Price Calculation

Enterprise Value	*$488,124*
Cash	*$128,251*
Debt	*$0*
Equity Market Cap	*$616,375*
Total Shares	*186,190*
Price / Share	***~$3.30***

*The G&A Allocation was cut by 50% by GSA for health care services. After review of market comparables and discussion with market participants, the G&A allocation seemed unusually high for this business line.

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Warranted Share Price

- **Real Estate Plus:** Prospective future total returns for any REIT are a function of how its real estate portfolio is likely to perform, as well as the value that its management team is likely to add or detract. Green Street's REIT Pricing Model provides a systematic assessment of the four key variables - franchise value, corporate governance, balance sheet risk, and overhead - that typically distinguish REITs that deliver "real estate plus" returns from those in the "real estate minus" camp.

Average NAV Premium for the Property Sector

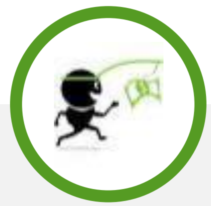
+

Franchise Value

A gauge of management's propensity to add or detract value

Balance Sheet Risk

Capital Structure plays a big role in how REITs are valued



Capitalized Value of G&A

Efficient companies trade at higher valuations vs. less-efficient peers

Corporate Governance

Shareholder friendly companies trade at valuation premiums

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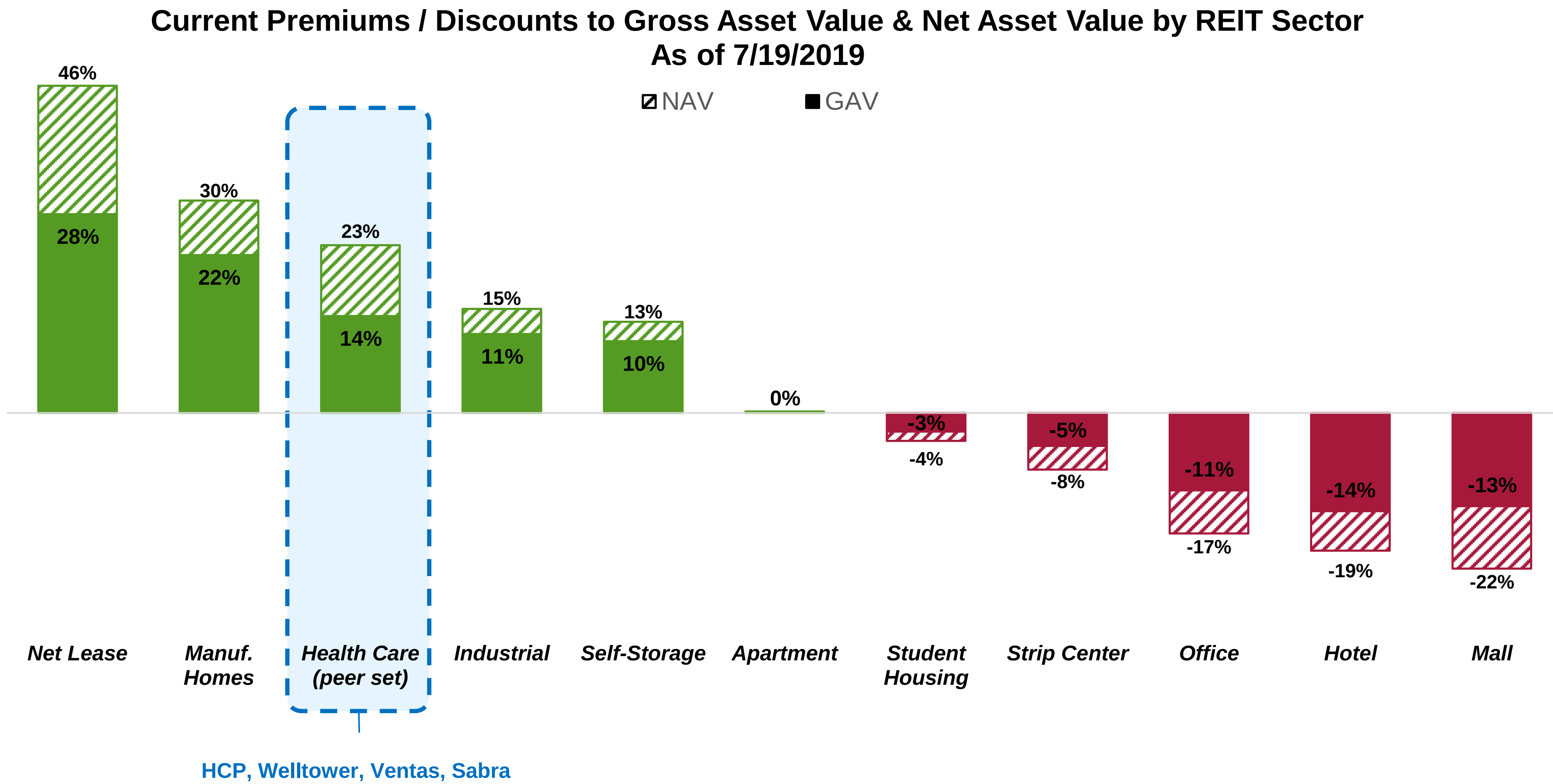
Sector Premium/Discount to GAV and NAV

- **Timing Matters:** The starting point for REIT investors working to determine a REIT's fair market value is the NAV premiums/discounts being ascribed by the market to other companies within the sector. Most Health Care REITs currently trade at NAV premiums. Current market conditions provide an attractive backdrop for how PropCo may be valued in the public market.



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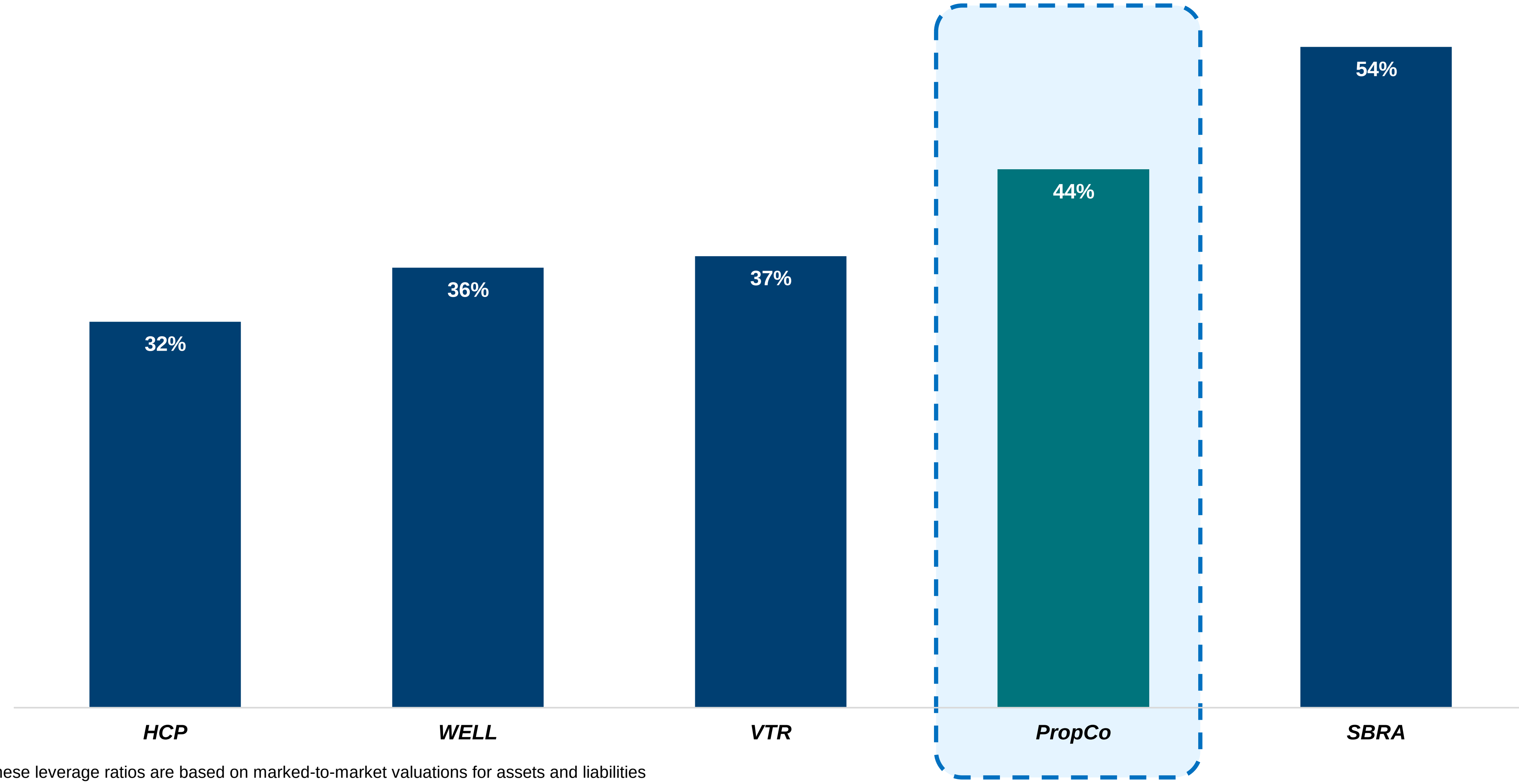
Balance Sheet Risk - PropCo

- **Assessing Balance Sheet Risk:** Balance sheet leverage is a key factor affecting how REITs trade relative to their peers. REITS with relatively low leverage have posted superior long-term performance and are positioned for growth. While PropCo's proposed leverage is reasonable versus its peer set, and not high enough to warrant concern, reducing overall leverage even more over time should be a goal.

Leverage for Health Care REIT peers*



*These leverage ratios are based on marked-to-market valuations for assets and liabilities

Source: Green Street Advisors, SNL

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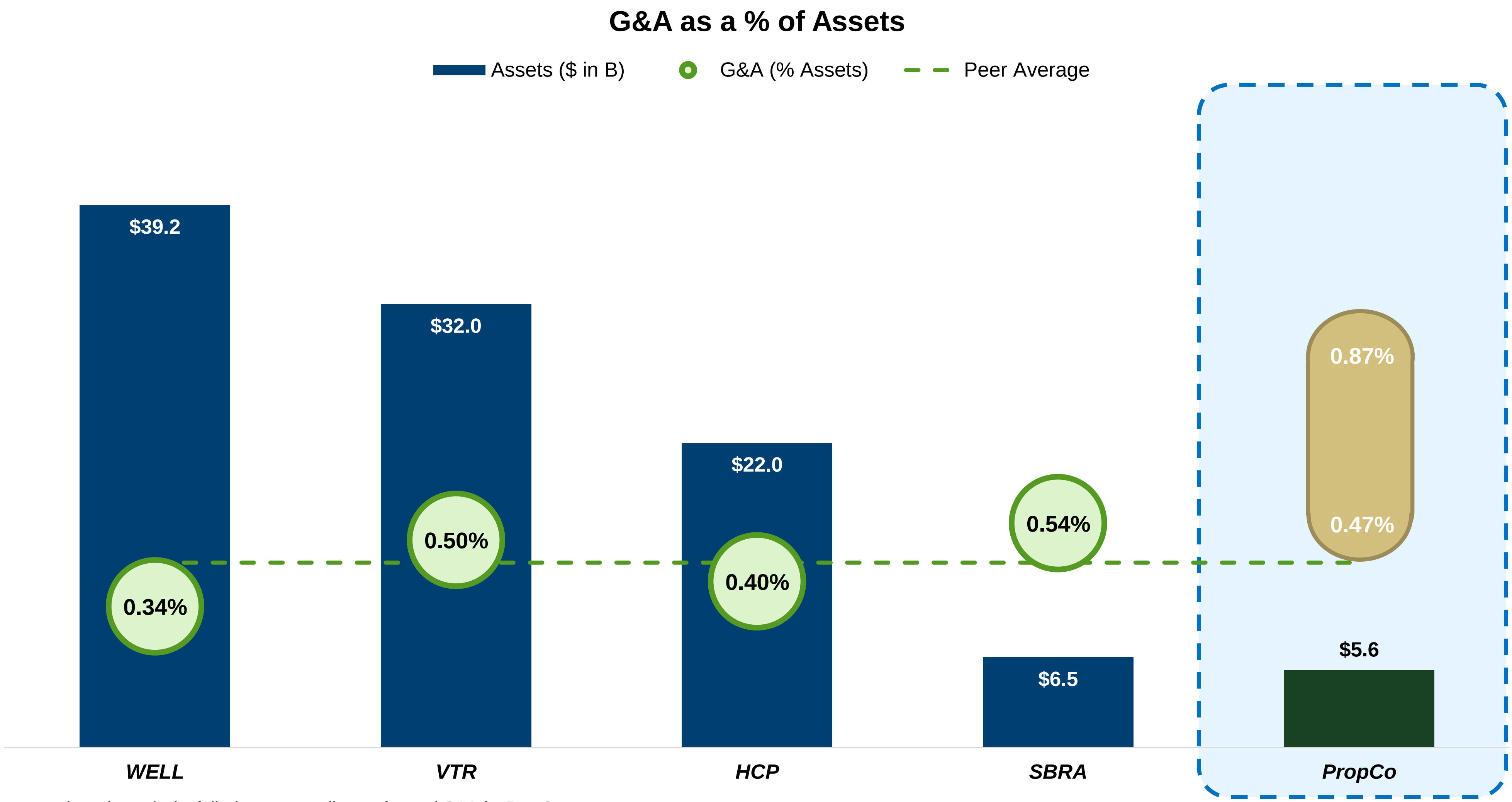
General & Administrative Expenses

- **Higher Initially:** A dollar of cash flow devoted to G&A is worth the same as a dollar of cash flow at the property level, and efficiency differences between REITs can have a profound impact on valuation. All else equal, investors expect REITs within a sector to have similar overhead burdens. Brookdale's proposed PropCo G&A load will likely exceed peer averages initially. Over time, through internal efficiencies and external growth, G&A should come into alignment with peers.



Range was given due to lack of disclosure regarding go-forward G&A for PropCo

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Warranted Price: Corporate Governance

- **Alignment is Key:** Corporate governance reflects the shareholder friendliness of a company. For the purpose of assessing the post-spinoff entity, Green Street has given the PropCo a score equal to the average of Welltower and Ventas, which represent the two Health Care REITs with the highest corporate governance score. This assumes that PropCo will employ industry best practices, decisions that are within the control of Brookdale's Board and management team.

Corporate Governance Metrics	HCP	SBRA	WELL	VTR	PropCo Target
Board Rating (65 pts)	50	20	50	53	52
Anti-Takeover Provisions (30 pts)	15	15	20	20	20
Potential Conflicts (5 pts)	5	5	5	5	5
Corporate Governance Total (100 pts)	70	40	75	78	77

Source: Company Disclosure/Documents, Green Street Advisors

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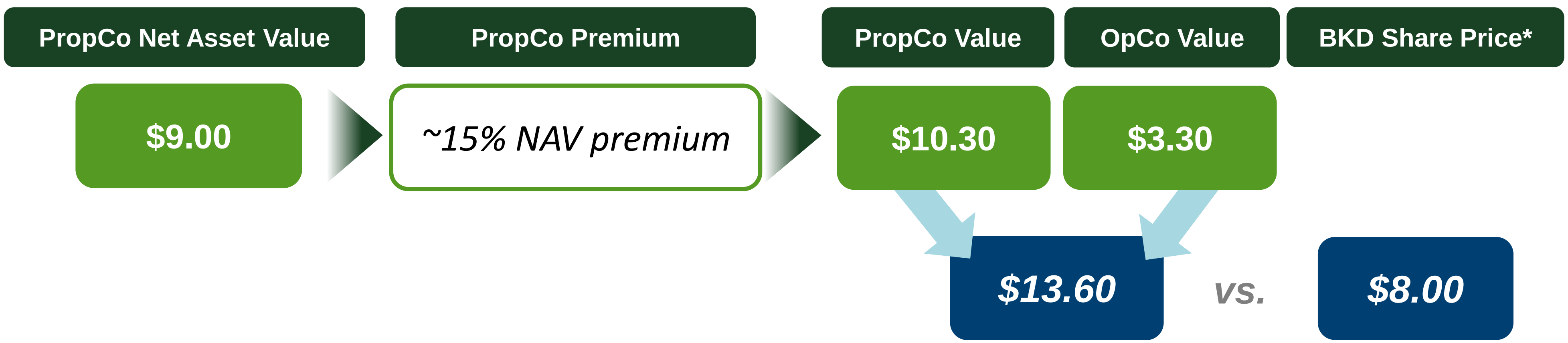
Warranted Share Price

- **Positive Result:** Green Street's fair market value estimate of $13.60 under a PropCo/OpCo scenario is ~70% higher than Brookdale's recent share price. Furthermore, operational and value upside may exist that is not reflected in this estimate. As such, Green Street strongly encourages that further exploration of a PropCo/OpCo split be considered as it appears that it could be in the best interest of shareholders.



Key Takeaway: *By employing a PropCo / OpCo strategy in an environment where Health Care REITs trade at large NAV premiums, Brookdale may be able to realize significant value creation and is encouraged to further evaluate this and other options to maximize shareholder value.*

*Calculated using opening price on 7/17/19 and five trading days prior

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Feasibility Considerations

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PropCo/OpCo History

- **Recent REIT Spinoffs:** Operating companies across a myriad of property sectors have spun off real estate portfolios into REITs (PropCos). Investors have rewarded most spinoffs and have seen these transactions as effective and permanent methods to unlocking shareholder value.

‘13

GLPI/PENN
Enterprise Value[1]
Before: $6.4 Bn
After: **$8.0 Bn**

‘14

CareTrust/Ensign
Enterprise Value
Before: $1.2 Bn
After: **$1.3 Bn**

Seritage/Sears
Enterprise Value
Before: $7.8 Bn
After: **$8.2 Bn**

‘15

CS&L/Windstream
Enterprise Value[2]
Before: $13.4 Bn
After: **$17.3 Bn**

Four Corners/Darden
Enterprise Value
Before: $9.5 Bn
After: **$10.2 Bn**

‘16

MGP/MGM
Enterprise Value
Before: $25.0 Bn
After: **$36.1 Bn**

‘17

Park/Hilton
Enterprise Value
Before: $31.9 Bn
After: **$33.4 Bn**

‘18

CorePoint/ La Quinta[3]

For spinoffs that have not sustained value over time, a key factor has been that the rent-paying entity was in a declining industry (Sears: department stores, CS&L: antiquated data transmission lines). This is not the case for senior housing or Brookdale. The senior housing sector is in a state of growth, with favorable demographic tailwinds.

Enterprise Values are determined by taking the enterprise value of the original company three months prior to split and combining the PropCo and OpCo's individual enterprise values three months after the split
1 GLPI spun out of PENN in Q4 2013, however GLPI financials were not published until the end of Q1 2014. The total Enterprise Value reflects the estimated EV of GLPI at the time of the spinoff
2 CS&L spun out of Windstream in Q1 2015, however CS&L financials were not published until the end of Q2 2015. The total Enterprise Value reflects the estimated EV of CS&L at the time of the spinoff
3 The CorePoint/La Quinta Spinoff included a subsequent merger of La Quinta and Wyndham Hotels, therefore La Quinta did not have appropriate Enterprise Values for this comparison
Source: Green Street Advisors, SNL, Bloomberg

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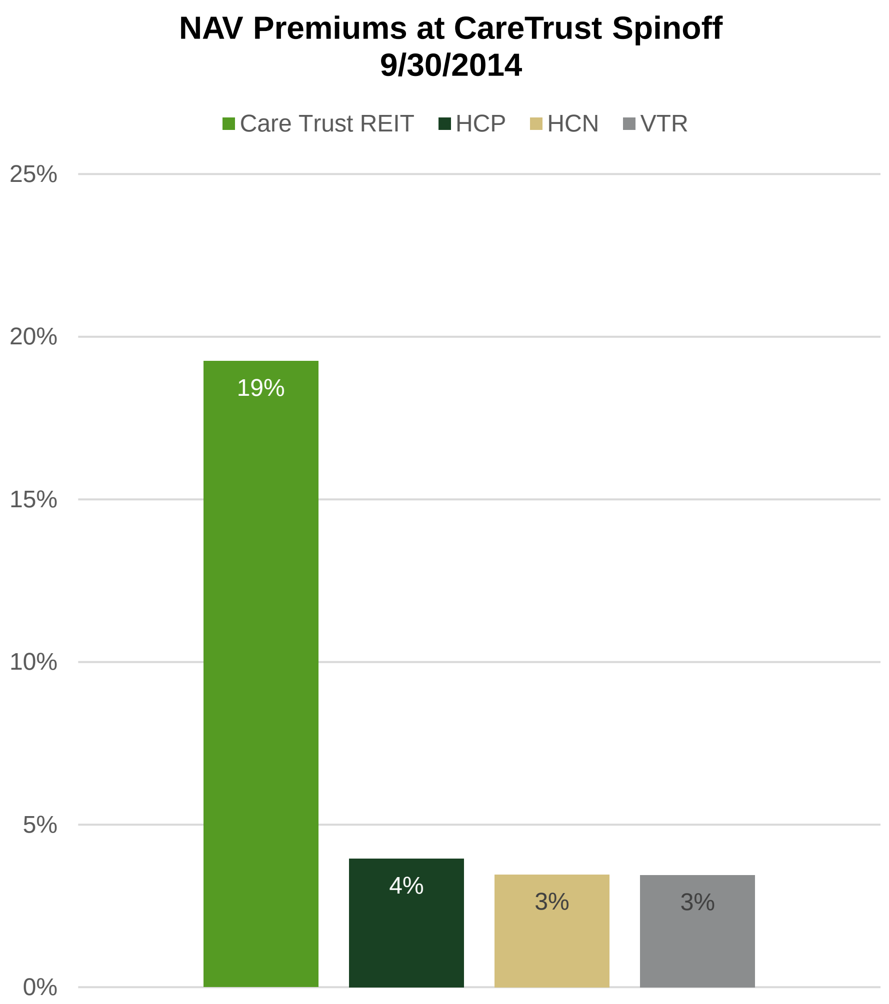
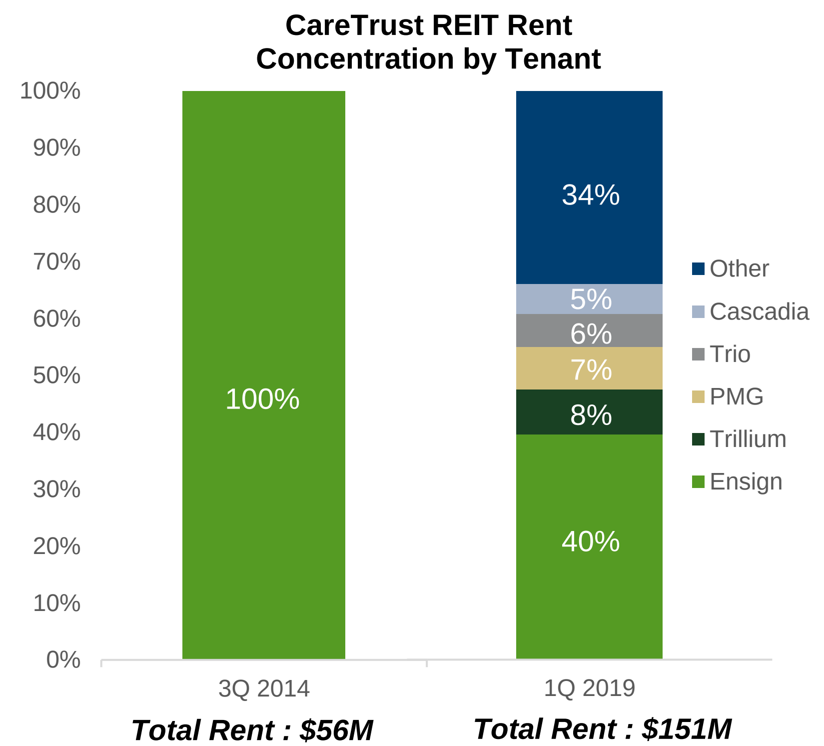
Single-Operator Concentration

- **Evidence:** A look back at a Health Care REIT provides evidence of single-tenant REIT viability. CareTrust REIT is a Skilled Nursing Facility (SNF) REIT that was spun off from its parent company, Ensign Group, in 2014. Despite having only one operator at the time of its spinoff, the REIT traded well compared to the Health Care REIT peer group. Since the spinoff, CareTrust has achieved significant operator diversification.



* Green Street did not cover Sabra at the time, hence it is excluded from the chart

Source: Green Street Advisors, BKD Investor Materials, SNL



Is Brookdale's Single Operator Profile Risky?
PropCo would be expected to diversify over time. Several companies in the health care, hotel, and gaming sectors have successfully dealt with this issue.

OpCo Feasibility

- **A Viable OpCo:** By taking advantage of the RIDEA structure, this asset-lite OpCo would be the first of its kind in the senior housing segment. With no corporate debt and the ability to focus on being a pure operator, this streamlined OpCo is structured to be viable going forward.

Healthy and Viable OpCo

RIDEA Structure	Pure-Play Operator	No Corporate Debt	Favorable Market Conditions
OpCo will not be a rent-payer to PropCo; no lease burden	OpCo will focus on core competency of operating and managing properties and be an asset-lite company	The OpCo may be structured with no corporate debt; further mitigating risk versus other pure OpCos	Current public market NAV premium provides ample opportunity for OpCo to unlock significant shareholder wealth

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Appendix

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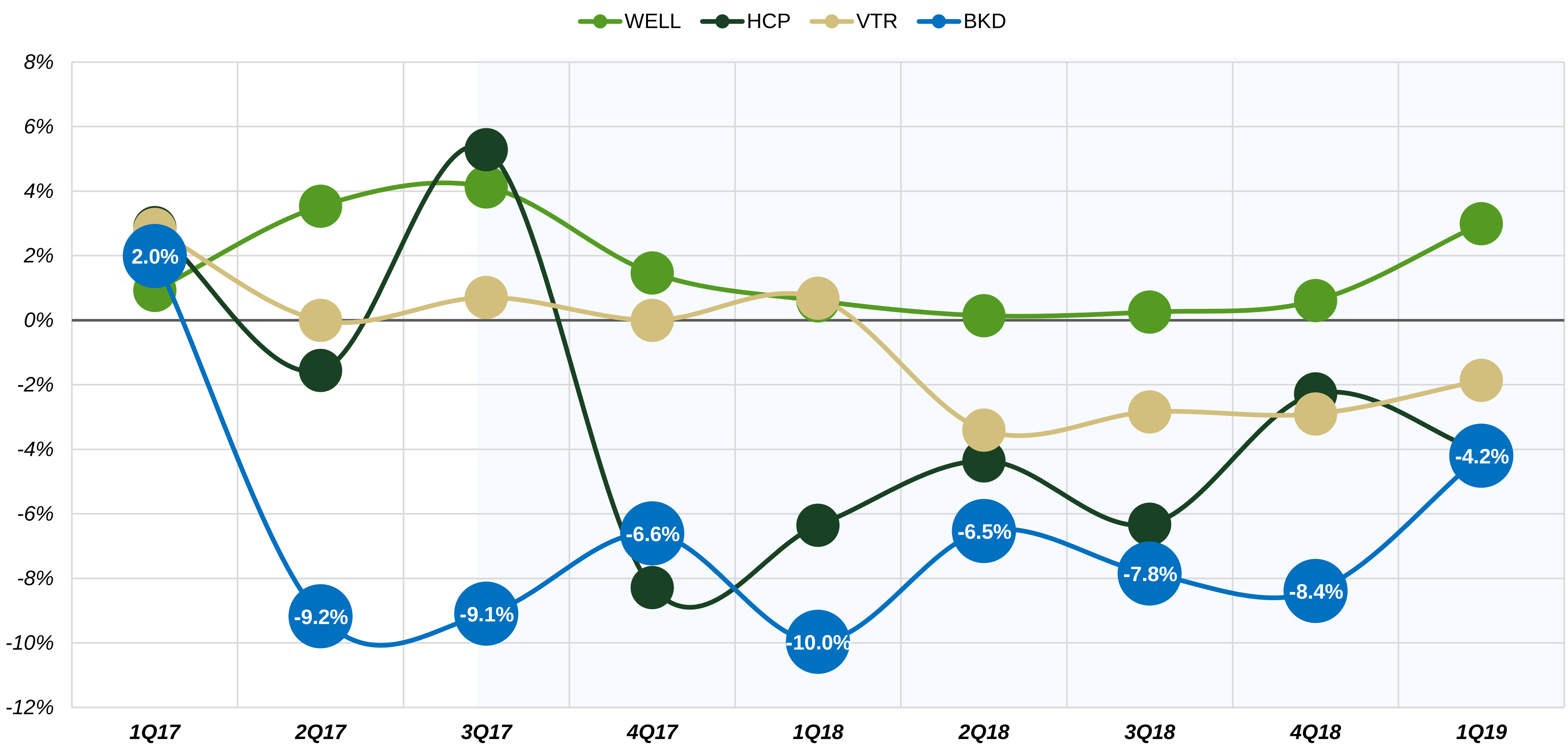
PropCo Considerations: Same-Property NOI Growth

- **A Rough Go:** Over the past two years, Brookdale has delivered negative same-property NOI growth, trailing sector peers by a fairly substantial margin. The senior housing sector is struggling but showing signs of recovery, suggesting that there is potential for significant upside if Brookdale is able to achieve industry average operating performance.

Same-Property NOI Growth (SHOP Segment) by REIT*



*Sabra not included due to disclosure limitations

Source: Green Street Advisors, BKD/HCP/VTR/WELL Investor Materials

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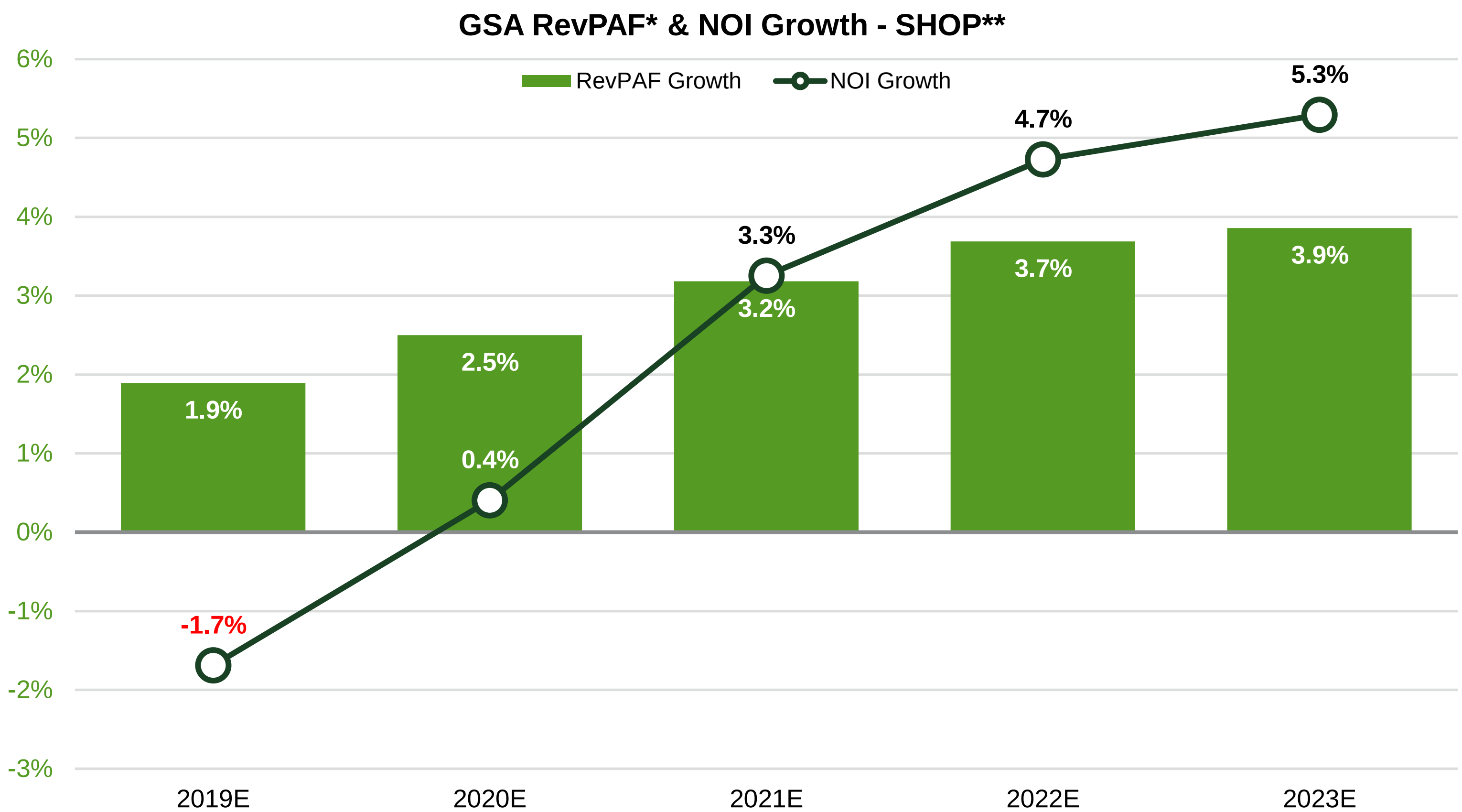
PropCo Considerations: Forward NOI Growth

- **Long-Term Opportunity:** Green Street's research team forecasts slightly negative same-property NOI growth for 2019, but expects attractive demographic impacts. While Brookdale does not provide guidance around same-property NOI growth, only consolidated EBITDA, the company was able to post positive momentum in Q1 '19. A pure-play senior housing-focused RIDEA REIT may be able to capture significant value from the wave of growth that appears on the horizon.



Long Term Upside:
While short-term headwinds persist, Green Street anticipates robust NOI growth in 2021 and beyond. A PropCo spin with RIDEA assets would position the company to capture this future upside. In contrast, REIT leased portfolios would be healthier in terms of lease coverages, but the benefits of the NOI increases would largely be captured by the tenants rather than the REITs themselves.

*A measure of the health of a market (or sector) that combines two key operating metrics (market rents and occupancy) into a single value

**Straight average of HCP, VTR and WELL

Source: Green Street Advisors, BKD Investor Materials

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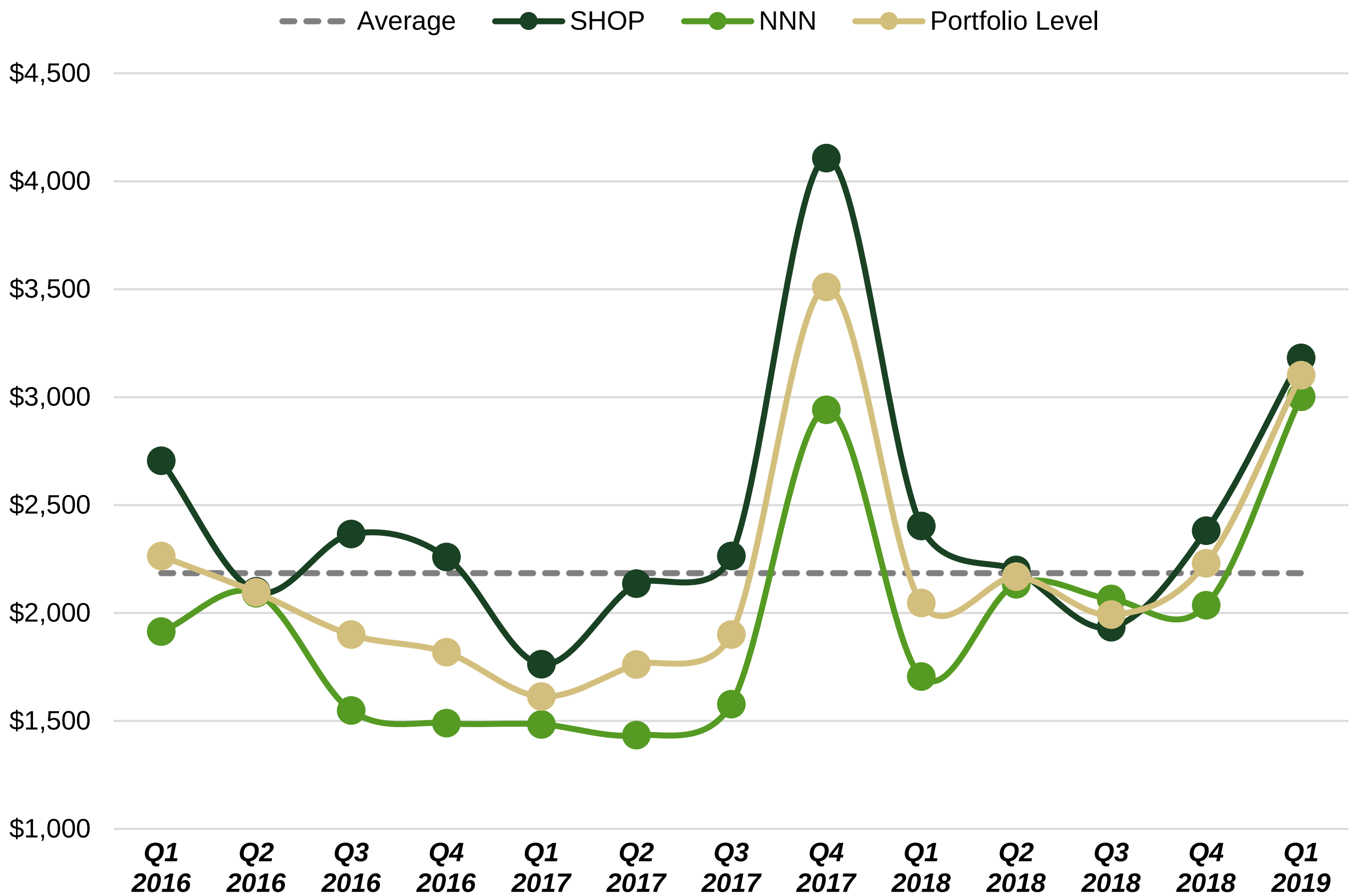
PropCo Considerations: Normalized CapEx Reserves

- **Reinvesting in Brookdale:** CapEx is expected to stay elevated over the near term as Brookdale continues to reinvest in its communities to stay competitive in its markets. Management guidance has indicated that CapEx in 2019 will be $75 million higher than 2018 and taper off going into 2020. To address this going forward, the PropCo/OpCo analysis assumes a CapEx spend of $2,000 per bed.

Brookdale CapEx Per Unit by Segment (Annualized)



[Regarding CapEx in 2019] "...we currently anticipate that our non-development CapEx for 2019 to be up to $75 million higher than our 2018 spend." - Lucinda M. Baier, Q3 2018

[Regarding future CapEx levels] "We see sort of an increase between 2018 and 2019. We think 2020 will come down from 2019." - Lucinda M. Baier, Q4 2018

[Regarding CapEx beyond 2019] "I think it's likely above that $1,800 that we talked about previously but below sort of what we're spending in 2019." - Lucinda M. Baier, Q4 2018

*Brookdale changed methodology for Cap-Ex allocations in Q3 2018. All numbers prior to Q1 2017 have not been recast

Source: Green Street Advisors, BKD Investor Materials

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OpCo Considerations: Management Services

- **Running the Assets:** OpCo is assumed to not own real estate. Instead, it would operate properties on a fee basis under a RIDEA structure. This model is similar to the management companies that are prevalent in the hotel business. Green Street assumes a management fee of 5% of revenue for the Management Services business.

Company	EV / EBITDA	Comments
Hilton	15.9x	This group of operators commands higher multiples because they provide management services to high-end properties that generate higher margins.
Marriott	15.4x	
Hyatt	12.0x	
Wyndham	11.9x	Wyndham and STAY are weighed the heaviest on the multiples valuation due to the resemblance of the quality of assets managed.
STAY	9.5x	
Capital Senior Living	17.1x	Senior housing operators were not used due to their "asset-heavy" balance sheets. With large amounts of real estate on their books, senior housing operator multiples would not provide an "apples-to-apples" comparable for Brookdale's Management Services segment.
Sienna Senior Living	15.3x	
Ensign	14.5x	

12.0x

Source: Green Street Advisors, BKD Investor Materials, Bloomberg

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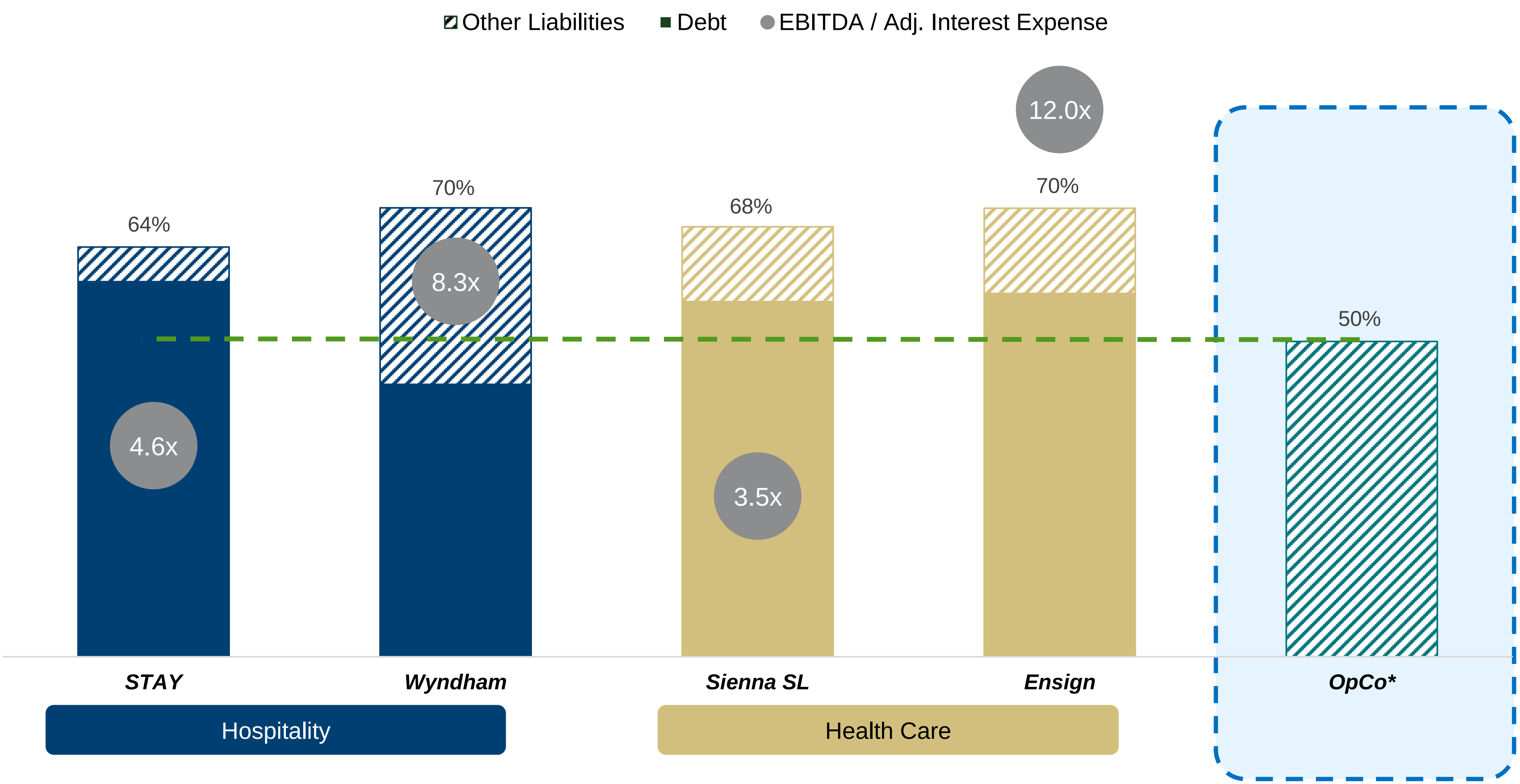
OpCo Considerations: OpCo Leverage

- **OpCo Viability:** A key consideration for any PropCo / OpCo spin-off is the health of the resulting OpCo. Under the proposed structure, the OpCo leverage profile will consist of only working capital liability accounts. The entity will not be burdened with any debt financing in contrast to its peers. This allows for a healthy and viable OpCo with flexibility to grow immediately following the spin.

Leverage by Operating Company



*OpCo does not carry any debt therefore EBITDA / Adj. Interest Expense is not applicable. All other EBITDA / Adj. Interest Expense ratios are done on a trailing-12 basis

Source: Green Street Advisors, Bloomberg

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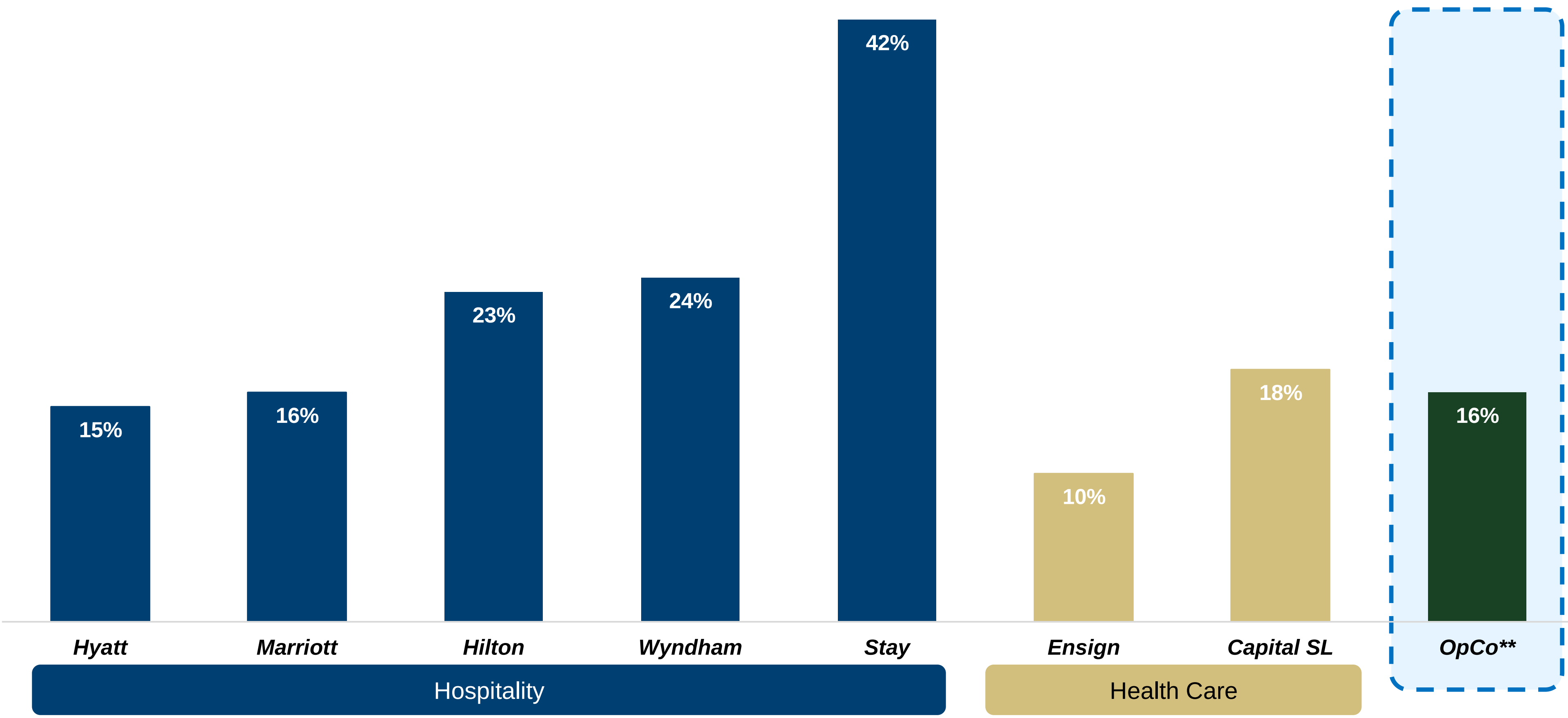
OpCo Considerations: G&A Expenses

- **Room for Improvement:** Given limited disclosure from Brookdale on how G&A expenses are allocated to its fee income businesses, Green Street assumed that all OpCo G&A expenses shown in Brookdale's publicly-available financial reporting incorporated both operational and corporate-level expenses. This assumption was substantiated by analyzing EBITDA margins of comparable hospitality and health care companies, which were higher than Brookdale's observed margin.

EBITDA Margin by Company*



*EBITDA Margins for comparable companies are based on Bloomberg data from Q1 2019

** Exclude health care services

Source: Green Street Advisors, Bloomberg

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