

Brookdale

Q4 beat but Q1 guide slightly below consensus

Reiterate Rating: NEUTRAL | PO: 6.50 USD | Price: 6.16 USD

Beat on margins. Raising our EBITDA ests

Adj EBITDA was \$6m or 8% above consensus on better margins and 4% above the higher end of the guide. 1Q24 EBITDA guide is \$2m or 2% below consensus (Visible Alpha) due to winter storms costs. We raise 2024/25E adj EBITDA ests to reflect the guide slightly above our est; roll out 2026 est. We raise PO to \$6.50 on the higher est (12.7x 2024E EBITDAR vs 12.4x prior on the updated balance sheet). Reiterate Neutral as the favorable trends are offset by the capital structure being a headwind to cash flows (we estimate the refinancing will be a net \$5m increase in annual interest expense).

Q1 adj EBITDA guide midpoint 2% below consensus

BKD guided to 1Q24 RevPAR growth of +6.25-6.75% y/y, roughly in line with our est, and Adj EBITDA of \$90-95m, with the midpoint \$2m or 2% below consensus. The company called out \$2m costs associated with winter storms in Jan., and y/y higher costs due to the leap year. The guide assumes EBITDA grows \$5-10m Q/Q on rent increases as BKD occupancy declines Q1 from Q4, in line with typical seasonality.

Refinancing at higher rates, more assets sold

BKD refinanced its \$260m debt that was maturing in 2024 with \$179.5m new mortgages maturing in 2031 at fixed interest of 5.97% (vs 4.76% on 2024 debt), and \$77.5m of cash with \$40m coming from net proceeds from asset sales (20% interest in Health Care Services, and one community). Also, BKD obtained \$50m new mortgage debt on 11 communities at SOFR+350bp, implying effective rate of 8.9%. We estimate the transactions will result in a \$5m increase to annual interest expense.

Occupancy growth in line with industry; Jan -30bps m/m

As previously disclosed, Q4 occupancy increased 80bps Q/Q to 78.4%, in line with [the industry's +80bps q/q \(see report\)](#). Occupancy declined 30bps m/m in January (vs -10bps m/m in Dec), better than -40bp m/m in Jan 2023, implying flu was not a major headwind so far in Q1 (month end occupancy was flat m/m).

Margins improved on +8% pricing; SS income +37% y/y

Same store (ss) labor costs increased only +0.7% y/y despite higher occupancy as BKD continues to reduce contract labor. Other opex grew +6.3% y/y resulting in total costs +2.5%. SS pricing was +8.1% y/y driving margin up +530bps y/y to 26.3% (Exhibit 4). This is below 30% pre-COVID but BKD's margins were above peers (Exhibit 3). SS adjusted operating income increased +37% y/y.

| Estimates(Dec) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|---------|--------|--------|--------|--------|
| EPS | (1.25) | (0.84) | (0.66) | (0.58) | (0.49) |
| EPS Change (YoY) | -135.8% | 32.8% | 21.4% | 12.1% | 15.5% |
| Consensus EPS (Bloomberg) | (1.50) | (0.63) | (0.60) | NA | NA |
| Valuation (Dec) | | | | | |
| EV / EBITDA* | 30.4x | 21.9x | 19.6x | 18.5x | 17.4x |
| Adj. EV / EBITDAR | 17.2x | 12.8x | NA | NA | NA |
| Free Cash Flow Yield* | -12.3% | -4.2% | -1.7% | -0.5% | 0.7% |

* For full definitions of *IQmethod*SM measures, see page 5.

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12661768

Timestamp: 21 February 2024 12:05AM EST

21 February 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|------------------|----------|---------|
| Price Obj. | 6.00 | 6.50 |
| 2024E Rev (m) | 3,140.0 | 3,135.2 |
| 2025E Rev (m) | 3,311.5 | 3,306.1 |
| 2026E Rev (m) | NA | 3,483.1 |
| 2024E EPS | -0.60 | -0.66 |
| 2025E EPS | -0.52 | -0.58 |
| 2026E EPS | NA | -0.49 |
| 2024E EBITDA (m) | 364.5 | 373.9 |
| 2025E EBITDA (m) | 387.3 | 397.3 |
| 2026E EBITDA (m) | NA | 420.6 |

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Stock Data

| | |
|---------------------------------|---------------------|
| Price | 6.16 USD |
| Price Objective | 6.50 USD |
| Date Established | 21-Feb-2024 |
| Investment Opinion | C-2-9 |
| 52-Week Range | 2.27 USD - 6.31 USD |
| Mrkt Val (mn) / Shares Out (mn) | 1,389 USD / 225.4 |
| Free Float | 97.0% |
| Average Daily Value (mn) | 8.79 USD |
| BofA Ticker / Exchange | BKD / NYS |
| Bloomberg / Reuters | BKD US / BKD.N |
| ROE (2024E) | -44.2% |
| Net Dbt to Eqty (Dec-2023A) | NA |
| ESGMeter TM | Medium |

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

iQprofileSM Brookdale

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|--------|--------|--------|--------|---------|
| Return on Capital Employed | -1.4% | 0.5% | 1.1% | 1.4% | 3.6% |
| Return on Equity | -37.3% | -38.3% | -44.2% | -62.3% | -148.5% |
| Operating Margin | -3.0% | 0.9% | 1.9% | 2.4% | 2.9% |
| Free Cash Flow | (171) | (58) | (24) | (7) | 10 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|-------|-------|-------|-------|-------|
| Cash Realization Ratio | NM | NM | NM | NM | NM |
| Asset Replacement Ratio | 0.5x | 0.6x | 0.5x | 0.5x | 0.6x |
| Tax Rate | NM | 4.9% | NM | NM | NM |
| Net Debt-to-Equity Ratio | NM | NM | NM | NM | NA |
| Interest Cover | -0.4x | 0.1x | 0.2x | 0.3x | 0.4x |

Income Statement Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|----------------|--------------|--------------|--------------|--------------|
| Sales | 2,825 | 3,016 | 3,135 | 3,306 | 3,483 |
| % Change | 2.4% | 6.7% | 4.0% | 5.5% | 5.4% |
| Gross Profit | 742 | 886 | 937 | 975 | 1,013 |
| % Change | 8.7% | 19.4% | 5.7% | 4.0% | 3.9% |
| EBITDA | 241 | 336 | 374 | 397 | 421 |
| % Change | 74.3% | 39.1% | 11.4% | 6.3% | 5.9% |
| Net Interest & Other Income | (154) | (207) | (247) | (245) | (242) |
| Net Income (Adjusted) | (238) | (189) | (148) | (130) | (112) |
| % Change | -140.1% | 20.7% | 21.5% | 12.2% | 14.2% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|--------------|--------------|--------------|--------------|-----------|
| Net Income from Cont Operations (GAAP) | (241) | (172) | (228) | (200) | (171) |
| Depreciation & Amortization | 354 | 350 | 350 | 350 | 350 |
| Change in Working Capital | (41) | 38 | 25 | 25 | 25 |
| Deferred Taxation Charge | (1) | 8 | (39) | (35) | (30) |
| Other Adjustments, Net | (67) | (64) | 51 | 45 | 39 |
| Capital Expenditure | (174) | (218) | (182) | (192) | (202) |
| Free Cash Flow | -171 | -58 | -24 | -7 | 10 |
| % Change | 27.3% | 66.2% | 58.9% | 70.5% | NM |
| Share / Issue Repurchase | 0 | 0 | 0 | 0 | 0 |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | 113 | (162) | 24 | 7 | (10) |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|--------------|--------------|--------------|--------------|----------|
| Cash & Equivalents | 399 | 278 | 278 | 278 | 0 |
| Trade Receivables | 56 | 48 | 51 | 54 | 0 |
| Other Current Assets | 182 | 152 | 152 | 152 | 0 |
| Property, Plant & Equipment | 4,536 | 4,331 | 4,331 | 4,331 | 0 |
| Other Non-Current Assets | 764 | 764 | 764 | 764 | 0 |
| Total Assets | 5,937 | 5,573 | 5,576 | 5,579 | 0 |
| Short-Term Debt | 66 | 41 | 41 | 41 | 0 |
| Other Current Liabilities | 575 | 559 | 571 | 583 | 0 |
| Long-Term Debt | 4,009 | 3,807 | 3,830 | 3,837 | 0 |
| Other Non-Current Liabilities | 86 | 78 | 181 | 282 | 0 |
| Total Liabilities | 5,353 | 5,168 | 5,307 | 5,427 | 0 |
| Total Equity | 584 | 405 | 269 | 152 | 0 |
| Total Equity & Liabilities | 5,937 | 5,573 | 5,576 | 5,579 | 0 |

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Long-Term Care

Company Description

Brookdale Senior Living Inc. operates senior living communities throughout the U.S. providing room, board and hospitality services to the elderly who are generally in good health but require a base level of health care. The company operates about 670 properties with about 50,000 units, and is the largest senior housing operator in the US.

Investment Rationale

We rate BKD Neutral as we expect the company to continue to benefit from slowing labor cost growth and solid pricing. However, we see some risks to occupancy near term (flu season) while refinancing will be a headwind to cash flows.

Stock Data

Average Daily Volume

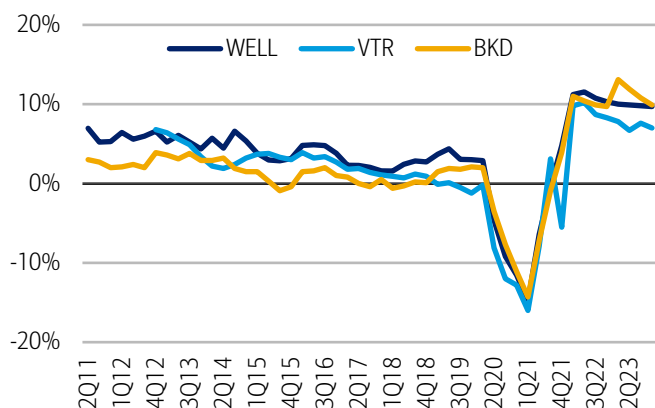
1,462,988

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|--------|--------|
| Q1 | -0.20A | -0.17E |
| Q2 | -0.02A | -0.17E |
| Q3 | -0.22A | -0.17E |
| Q4 | -0.40A | -0.15E |

Exhibit 1: BKD rev growth above peers on higher % pricing

Same store revenue y/y % change; BKD vs HC REITs: WELL's and VTR's senior housing operating portfolios

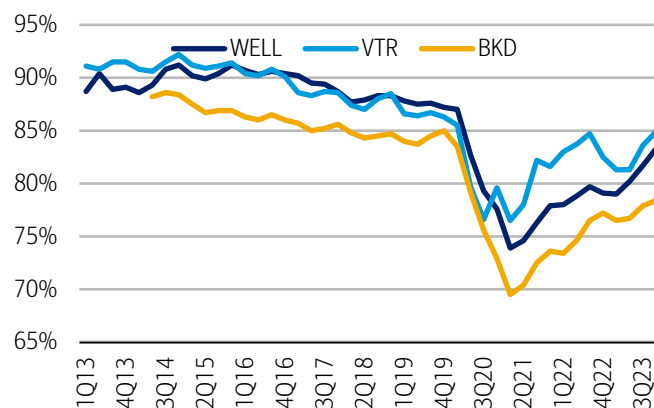


Source: Company filings

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Exhibit 2: BKD occupancy is well below HC REIT peers'

Same store occupancy BKD vs HC REITs: WELL's and VTR's senior housing operating portfolios

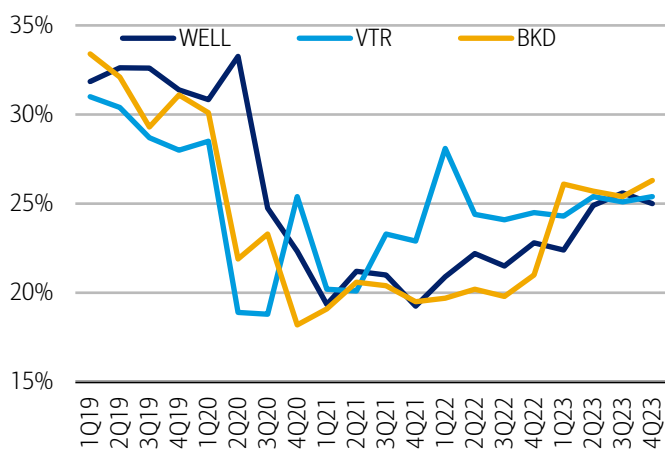


Source: Company filings

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Exhibit 3: BKD SS margins above peers, remain below 2019 levels

Same store margins, BKD vs HC REITs: WELL's and VTR's senior housing operating portfolios

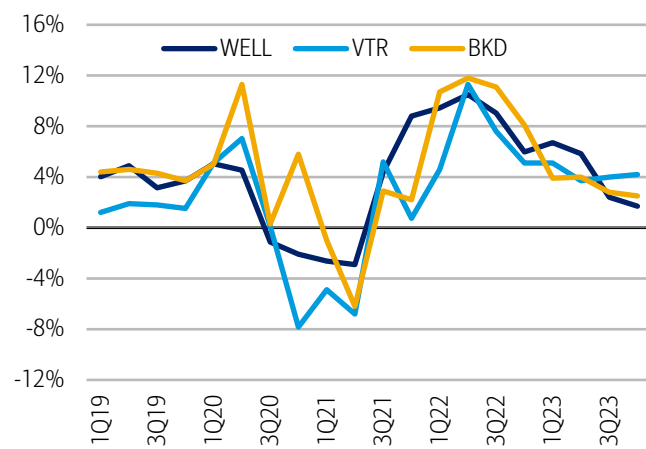


Source: Company filings

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Exhibit 4: Expense growth decelerated

Same store expense y/y % change; BKD vs HC REITs: WELL's and VTR's senior housing operating portfolios



Source: Company filings

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Price objective basis & risk

Brookdale (BKD)

Our \$6.50 price objective is based on 12.7x our 2024E EBITDAR. This is towards the higher end of the historical range given the improved leases and higher % ownership of assets. Given the labor pressures and slowing down occupancy growth, we believe it will be difficult for the company to continue to show major margin improvements.

Upside risks to our PO are 1) occupancy improves faster, 2) pricing is better than expected, 3) labor costs improve faster than expected, 3) better-than-expected economy drives better-than-expected demand.

Downside risks to our PO are 1) labor pressure is greater than expected. 2) high leverage, and 3) operational risk.

Analyst Certification

I, Joanna Gajuk, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|-------------------------------|-------------|------------------|----------------------|
| BUY | | | | |
| | Acadia Healthcare | ACHC | ACHC US | Kevin Fischbeck, CFA |
| | Addus HomeCare | ADUS | ADUS US | Joanna Gajuk |
| | Agilon Health | AGL | AGL US | Adam Ron |
| | BrightSpring Health Services | BTSG | BTSG US | Joanna Gajuk |
| | Chemed Corporation | CHE | CHE US | Joanna Gajuk |
| | Elevance Health Inc | ELV | ELV US | Kevin Fischbeck, CFA |
| | Encompass Health | EHC | EHC US | Kevin Fischbeck, CFA |
| | HCA | HCA | HCA US | Kevin Fischbeck, CFA |
| | Humana Inc | HUM | HUM US | Kevin Fischbeck, CFA |
| | Option Care Health | OPCH | OPCH US | Joanna Gajuk |
| | Oscar Health | OSCR | OSCR US | Adam Ron |
| | Privia Health | PRVA | PRVA US | Adam Ron |
| | Select Medical Corp. | SEM | SEM US | Kevin Fischbeck, CFA |
| | Service Corp. | SCI | SCI US | Joanna Gajuk |
| | Surgery Partners, Inc | SGRY | SGRY US | Kevin Fischbeck, CFA |
| | Tenet Healthcare | THC | THC US | Kevin Fischbeck, CFA |
| | The Cigna Group | CI | CI US | Kevin Fischbeck, CFA |
| | UnitedHealth Group | UNH | UNH US | Kevin Fischbeck, CFA |
| | Universal Health Services | UHS | UHS US | Kevin Fischbeck, CFA |
| | US Physical Therapy | USPH | USPH US | Joanna Gajuk |
| NEUTRAL | | | | |
| | Alignment Healthcare | ALHC | ALHC US | Adam Ron |
| | AMN Healthcare | AMN | AMN US | Kevin Fischbeck, CFA |
| | Apollo Medical | AMEH | AMEH US | Adam Ron |
| | Brookdale | BKD | BKD US | Joanna Gajuk |
| | Centene Corporation | CNC | CNC US | Kevin Fischbeck, CFA |
| | Molina Healthcare, Inc. | MOH | MOH US | Kevin Fischbeck, CFA |
| UNDERPERFORM | | | | |
| | AdaptHealth Corp. | AHCO | AHCO US | Joanna Gajuk |
| | Agility Health Inc | AGTI | AGTI US | Kevin Fischbeck, CFA |
| | Cross Country Healthcare | CCRN | CCRN US | Kevin Fischbeck, CFA |
| | DaVita Inc | DVA | DVA US | Kevin Fischbeck, CFA |
| | Enhabit Home Health & Hospice | EHAB | EHAB US | Joanna Gajuk |
| | Pediatrix Medical Group, Inc. | MD | MD US | Kevin Fischbeck, CFA |

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|---------|-------------|------------------|---------|
|-------------------|---------|-------------|------------------|---------|

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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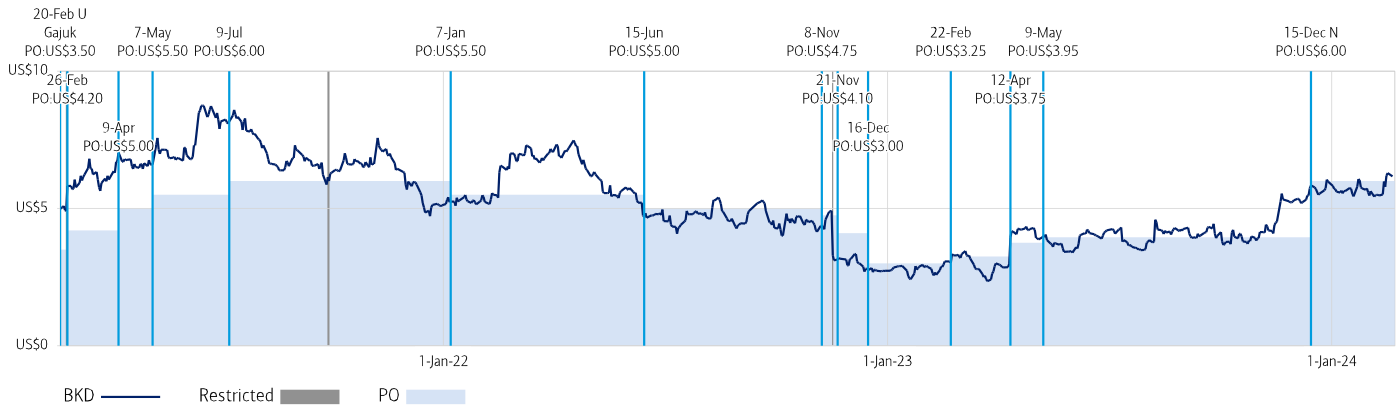
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Disclosures

Important Disclosures

Brookdale (BKD) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 234 | 60.94% | Buy | 115 | 49.15% |
| Hold | 80 | 20.83% | Hold | 36 | 45.00% |
| Sell | 70 | 18.23% | Sell | 29 | 41.43% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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