

Brookdale

Takes from the call: guide less bullish than peers

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

Q4 beat but guide less bullish than peers'

While Q4 was much better than expected and Q1 guide brackets consensus, the stock has been weak as the Q1 guide implies EBITDA growth of only 7% y/y while BKD's peers, Welltower (WELL) and Ventas (VTR), guided to 2024 same store operating income growth in their senior housing operating portfolios in the teens. Also, BKD highlighted some competitive pricing pressures. We remain Neutral as the favorable trends are offset by the capital structure being a headwind to cash flows.

Occupancy was better but pricing slightly worse

Q4 occupancy was better than the typical seasonality with January tracking better than last year's trends. However, pricing was slightly worse due to dispositions, product mix, and response to competitive pricing. Adj EBITDA came in above the higher end of the guide due to higher margins on the incremental revenue and slightly lower G&A.

Occupancy recovery continues, timing not specified

The Q1 guidance assumes occupancy to resemble historical seasonality (typically down 70-80bps Q/Q) with the growth expected for the full year as BKD continues to rebuild occupancy. After growing 900bps from its lows, occupancy is still 600bps below the pre-COVID levels – BKD did not specify when it expects to return to pre-COVID levels.

Capex to decline y/y, helping FCF

BKD expects a significant improvement in adj free cash flow or FCF (it was negative \$48m in 2023) as EBITDA grows and non-dev capex is expected to decline to \$180m from \$192m in 2023 net of \$25m insurance proceeds. The company noted that one of its goals is to improve cash flows, and lease expirations provide an optionality to extend or end a lease, similar to what happened with the LTC lease where it ultimately extended a portion of the lease after initially deciding to exit the entire contract.

Better turnover, labor productivity to help costs

The labor market continues to improve but there are still challenges in nursing and some hourly positions. BKD expects wage inflation to be more muted vs 2023, premium labor cost savings to be less than in 2023 (back at pre-COVID levels adjusted for inflation), and expects more benefit from an improved labor productivity given the higher occupancy and improved retention: full-time staff turnover improved 910bps vs 4Q22, and +190bps for three key community roles (made changes to roles in 2023).

Outcomes of Senate inquiries too early to call

In January, the Senate Special Committee on Aging held hearings focused on assisted living facilities' quality of care, and lack of transparency and standards. Also, the committee called for a Government Accountability Office (GAO) study on these topics. BKD believes that it is too early to tell what the outcomes will be, noting the company has more communities recognized in senior living ratings than any other provider, and it is ranked highly in customer satisfaction rankings (e.g., JD Power).

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Equity

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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
Mkt Val (mn) / Shares Out (mn)	1,389 USD / 225.4
Free Float	97.0%
Average Daily Value (mn)	9.01 USD
BofA Ticker / Exchange	BKD / NYS
Bloomberg / Reuters	BKD US / BKD.N
ROE (2024E)	-44.2%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	Medium

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RevPOR = revenue per occupied room/unit

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.

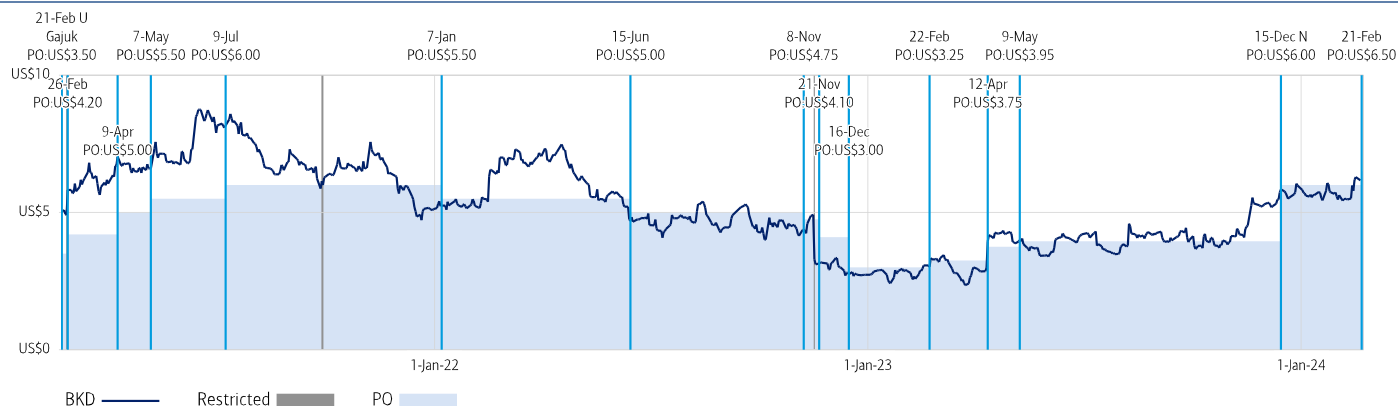
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Brookdale (BKD) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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