

Subject: Re: Long Equity: Consider \$1mm Brookdale Senior Living on macro/-
micro tailwinds (~30% upside to \$42 tgt) [C]
From: jeffrey E. <jeevacation@gmail.com>
Date: Tue, 20 May 2014 09:41:53 -0400
To: Tazia Smith <[REDACTED]>
Cc: Paul Morris <[REDACTED]>,
Vinit Sahni <[REDACTED]>,
Nav Gupta <[REDACTED]>,
Richard Kahn <[REDACTED]>,
Vahe Stepanian <[REDACTED]>

i want to play a stronger rupee 9 month horizon

On Tue, May 20, 2014 at 9:33 AM, Tazia Smith <[REDACTED]> wrote:
Classification: Confidential

Jeffrey -

Focusing on listed/exchange traded opportunities:

Consider buying \$1-2mm position in Brookdale Senior Living (BKD)

Macro Trend: Baby boomers retiring and aging population

Micro: Merger tailwinds, pro-forma valuation upside and broader investor demand

Brookdale Senior Living (BKD)

Closed 5/19: \$32.06 (\$32.40 last)

\$3.8bn mkt cap (trades 1.3mm shs a day avg)

\$42 DB 12mo price target (implies ~30% upside) vs. 37.71 cons (~16%)

Catalyst: merger proxy filing expected this month (Brookdale bid to acquire Emeritus, ESC (\$1.4bn mkt cap), in late Feb for \$2.8bn in stock; est merger completion is 3Q14)

Valuation: \$42 = 12x proforma BKD+ESC 2015 CFF0/sh of \$3.40

a. Strong Industry Fundamentals

b. BKD's market leadership (10% pro forma market share and attractive national footprint + management team and corporate infrastructure lending itself to leverage/scale)

c. Mid-teen's growth characteristics with organic 6-8% and accretion from the ESC acquisition adding 8-10% for the next 2-3 years (ests = +18% in 2015 and + 27% in 2016). Q1 earnings report no 5/8, BKD posted its third consecutive quarter of double digit CFF0 growth

d. Current Valuation: 9.1x pro-forma 2015 CFF0/sh and just shy of 10x on a stand alone basis (8.9x pro-forma 2015 EV/EBITDA, 11.6x stand-alone)

e. Market Cap – pro-forma will be greater than \$5bn, expected to deliver broader investor interest

Key risks include: competition, new supply, capex requirements to upgrade

Emeritus' portfolio, merger approvals, housing market, interest rate sensitivity

CFFO = cash flow from operations

<https://ger.gm.cib.intranet.db.com/ger/document/pdf/0900b8c088436c25.pdf>

Brookdale Senior Living 12mo Price History as of 5/19/14

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