



## Five Star Quality Care, Inc.

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NEWS RELEASE

# Five Star Senior Living Announces Restructuring of Business Arrangements with Senior Housing Properties Trust

4/2/2019

Provides Immediate and Permanent Rent Relief and Short-Term Liquidity to Address Five Star's Current Financial Challenges

Restructured Relationship Materially Improves Five Star's Long-Term Financial Outlook

All of Five Star's Leased Communities Leased from Senior Housing Properties Trust Will Convert to Management Contracts

Five Star Common Shares will be Issued to Senior Housing Properties Trust and its Shareholders to Increase Their Combined Ownership to 85% of Five Star

NEWTON, Mass.--(BUSINESS WIRE)-- Five Star Senior Living Inc. (Nasdaq: FVE), or Five Star, today announced that it has entered into a definitive agreement to modify its existing business arrangements with Senior Housing Properties Trust (Nasdaq: SNH).

Five Star expects its current financial position and near-term liquidity challenges will be immediately improved because of the transaction. Key features of the transaction include the following:

- Commencing February 1, 2019, Five Star's aggregate monthly rent payments for the senior living communities that Five Star leases from SNH have been reduced from approximately \$17.4 million to \$11.0 million.
- Five Star has sold approximately \$50 million of property, plant and equipment to SNH relating to the senior

living communities that Five Star leases from SNH.

- Five Star has entered a \$25 million short term revolving credit facility provided by SNH that is secured by six senior living communities owned by Five Star. The interest rate under this credit facility is 6.0% per year on any drawn amounts and matures on January 1, 2020. This credit facility currently has no amount outstanding.

Effective January 1, 2020, the existing five master leases of 184 senior living communities (19,979 living units) that are leased from SNH as well as the existing management agreements and pooling agreements with SNH affecting 77 communities (10,135 living units) will be terminated and replaced with new management agreements for all 261 senior living communities owned by SNH and operated by Five Star. Features of the new management agreements include:

- A 15-year term commencing January 1, 2020, with two, five-year extensions at Five Star's option, subject to maintaining portfolio financial performance.
- A base management fee of 5% of gross revenues at the community level.
- An incentive fee of 15% of property level EBITDA on a combined basis for the total portfolio in excess of performance targets, subject to a limit of up to 1.5% of portfolio gross annual revenue.

Simultaneous with the conversion of the existing lease and management agreements with SNH into new management agreements with SNH, Five Star will issue Five Star common shares to SNH and SNH shareholders such that their ownership of Five Star will be equal to approximately 34% and 51%, respectively, post issuance. At the same time, SNH will reduce Five Star's indebtedness under the SNH credit facility, assume certain liabilities of Five Star or make a cash payment to Five Star in an amount equivalent to \$75 million in aggregate.

Barbara Gilmore and Donna Fraiche, co-chairs of the special committee of Five Star's Board of Directors that is comprised solely of Independent Directors, which led the negotiations regarding this transaction, made the following statement regarding today's announcement:

"The transaction announced today was the result of numerous meetings of the special committee and its advisors over the past four months. We evaluated multiple options to find a solution that would remedy Five Star's deteriorating financial position and near-term liquidity challenges ranging from the restructuring agreement we have announced today to seeking bankruptcy protection to reorganize Five Star. In the end, we are pleased that we were able to reach agreement with SNH. While Five Star is issuing a substantial ownership stake to SNH and SNH shareholders as part of this restructured business arrangement with SNH, we think it is in the best interest of Five Star because this transaction provides both an immediate solution to Five Star's liquidity challenges and provides a materially improved long-term financial outlook for Five Star. We believe for a variety of reasons that this transaction was the best option for Five Star and its stockholders given the

difficult circumstances we faced.”

Katie Potter, Five Star’s President and Chief Executive Officer, made the following statement about today’s announcement:

“I am pleased that Five Star and SNH have come to an arrangement which materially improves our long-term financial outlook as well as addresses our short-term liquidity challenges and enables us to repay \$52 million that is drawn under our revolving credit facility that matures on June 28, 2019. I am also pleased that today’s announcement removes the cloud of uncertainty that has hung over Five Star recently and allows Five Star to continue delivering on its mission of providing an excellent resident and client experience across the enterprise. I look forward to leading a financially strong Five Star, working to evolve our business to meet the rapidly changing preferences of older adults and repositioning Five Star as an industry leader.”

This transaction was unanimously approved by both the special committee of Five Star’s Board of Directors and the entire Five Star Board of Directors. This transaction is expected to close on January 1, 2020. The share issuances to SNH and SNH shareholders are subject to the approval of a majority of Five Star’s stockholders. SNH and ABP Trust, which currently collectively own approximately 44% of Five Star’s outstanding common shares, have both agreed to vote in favor of the issuances of Five Star common shares.

Citigroup Global Markets Inc. is acting as exclusive financial advisor to the special committee of Five Star’s Board of Directors and Ropes & Gray is acting as legal counsel to the special committee of Five Star’s Board of Directors in this transaction.

A copy of the definitive agreement between Five Star and SNH will be filed with the Securities and Exchange Commission, or SEC, on a Current Report on Form 8-K and can be accessed on the SEC website at [www.sec.gov](http://www.sec.gov) or Five Star’s website at [www.fivestarseniorliving.com](http://www.fivestarseniorliving.com). Five Star’s website is not incorporated as part of this news release.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy any of the securities described herein, nor shall there be any sale of these securities in any state or jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

## About Five Star Senior Living

Five Star Senior Living Inc. is a senior living and healthcare services company that owns, leases and manages over 280 senior living communities, including Independent Living, Assisted Living, Alzheimer’s/Memory Care, and



Healthcare Centers with Skilled Nursing & Rehabilitation and Continuing Care Retirement Communities throughout the U.S. Five Star is headquartered in Newton, MA.

## WARNING CONCERNING FORWARD LOOKING STATEMENTS

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- THIS PRESS RELEASE STATES THAT FIVE STAR ENTERED INTO A DEFINITIVE AGREEMENT TO MODIFY ITS EXISTING BUSINESS ARRANGEMENTS WITH SNH. AS DESCRIBED HEREIN, CERTAIN OF THESE ARRANGEMENTS ARE EXPECTED TO BE EFFECTIVE JANUARY 1, 2020. THESE ARRANGEMENTS ARE SUBJECT TO CONDITIONS, INCLUDING, AMONG OTHERS, THE RECEIPT OF REQUISITE APPROVAL BY FIVE STAR'S STOCKHOLDERS AND CERTAIN LICENSING APPROVALS. FIVE STAR CANNOT BE SURE THAT ANY OR ALL OF SUCH CONDITIONS WILL BE SATISFIED. ACCORDINGLY, THESE TRANSACTIONS MAY NOT BECOME EFFECTIVE AS OF JANUARY 1, 2020 OR AT ALL, OR THE TERMS OF SUCH TRANSACTIONS AND THE OTHER TRANSACTIONS MAY CHANGE.
- MS. GILMORE AND MS. FRAICHE'S STATEMENT IN THIS PRESS RELEASE THAT THE TRANSACTION ANNOUNCED TODAY PROVIDES AN IMMEDIATE SOLUTION TO FIVE STAR'S LIQUIDITY AND MATERIALLY IMPROVES THE LONG-TERM FINANCIAL OUTLOOK FOR FIVE STAR MAY IMPLY THAT THIS OPTION WILL ACHIEVE BETTER RESULTS FOR FIVE STAR AND FIVE STAR STOCKHOLDERS IN THE FUTURE THAN OTHER OPTIONS. HOWEVER, FIVE STAR CANNOT BE SURE THAT THIS OPTION WILL ACHIEVE BETTER RESULTS FOR FIVE STAR AND FIVE STAR SHAREHOLDERS IN THE FUTURE.
- MS. POTTER'S STATEMENT IN THIS PRESS RELEASE ABOUT LEADING A FINANCIALLY STRONG FIVE STAR IS CONTINGENT UPON THE CONSUMMATION OF THE TRANSACTION CONTEMPLATED BY THE DEFINITIVE AGREEMENT BETWEEN SNH AND FIVE STAR. THE TRANSACTION CONTEMPLATED BY THE DEFINITIVE AGREEMENT BETWEEN SNH AND FIVE STAR MAY NOT OCCUR AND THE BENEFITS OF THE TRANSACTION MAY NOT MATERIALIZE. IN ADDITION, FIVE STAR MAY NOT BE A FINANCIALLY STRONG COMPANY AT THE CONCLUSION OF THE TRANSACTION. ALSO, FIVE STAR MAY NOT BE ABLE TO SUCCESSFULLY IMPLEMENT ITS LONG-TERM STRATEGY.

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