PARTNER PASS

EXCLUSIVE REPORT

DISTRESSED INVESTING

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A Stock-Bond Combo Buy

- Profiting From the Long-Term Growth in Senior Housing
- After Cleaning Up Its Debt, This Company's Bonds and Shares Will Rise

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Profiting From the Long-Term Growth in Senior Housing

After Cleaning Up Its Debt, This Company's Bonds and Shares Will Rise

> *This month's distressed-debt recommendation*
> *Used multi-pronged valuation,*
> *The product of our rumination*
> *Is a bond-stock combination.*
> *- Martin Fridson*

Halloween came six months early for custom-home builder Pat McNeil.

On an early April day in 2002, Pat was on a private haunted hayride... cruising through the cornfields of Omaha, Nebraska, past several half-finished, abandoned million-dollar mansions he wouldn't be completing.

It was a chilling sight for an independent developer.

The empty houses were haunted by the ghost of Level 3 Communications, an Omaha-based dot-com bubble company that had nearly ruined many local investors after it dropped from its $132-per-share peak in March 2000, to below $4 in April 2002.

Nebraskan investors – who reported just $400 million in total capital gains in 2002, down from a high of $3.3 billion before the bubble popped – could hardly be blamed for going all in on Level 3, though...

The fiber-optic cable company, a home-grown sensation, was a spinoff from Peter Kiewit Sons' Inc, a long-standing and well-regarded Omaha construction company. Walter Scott, Kiewit's upstanding CEO, was a local institution, too... and loyal Omahans had been thrilled to back Scott's new internet startup.

Until the bubble popped, that is.

During the late 1990s, Level 3 built out an impressive network of fiber broadband cable – over 16,000 miles spread across America. But as the tech economy deflated, the paying internet traffic that traveled those "roads" dramatically slowed. "[I]t's like a great racetrack," *Fortune* reported in 2002. "You still need the fans. You still need the customers."

As overblown expectations of the information superhighway caught up to reality, Omaha felt the pain. "There are hundreds, probably thousands of investors in Omaha who have suffered combined losses in Level 3 stock equal to tens of billions of dollars," *Fortune* reported in the same 2002 story.

The financially fallen-to-earth recent retirees dusted off their ties to return to work, and backed out of pricey building contracts. Their abandoned homes became known as "Level 3 squeezes."

"It was so good, so long that people thought it would stay good forever," Pat McNeil told *The Wall Street Journal*, adding that construction work had slowed down a lot for him since the dot-com crash. "It's scary."

However, one very famous Omaha citizen wasn't spooked.

Multibillionaire Berkshire Hathaway CEO Warren Buffett and Walter Scott were long-time pals who shared an office building in downtown Omaha and – back in their high-school days – had a crush on the same girl, Carolyn. (Scott, who Buffett described as "the best man," ultimately won out and married her.) Over the years, Scott served on the board of Berkshire Hathaway, and partnered with Buffett to launch Berkshire Hathaway Energy.

And while Buffett declined to comment publicly on Scott's internet company during the boom – the Oracle of Omaha voted with his deep pockets during the bust.

As "Level 3 squeeze" houses rotted in the cornfields, Level 3's bonds traded at 40 cents on the dollar, and Merrill Lynch downgraded the stock to "Sell," Berkshire Hathaway stepped in where angels feared to tread. Buffett and his investors purchased $500 million in convertible bonds, giving the distressed telecom an extra $1.5 billion cushion, along with the cachet of a Buffett endorsement.

Buffett bet – albeit with a convertible-bond hedge – that Level 3 would weather the dot-com carnage. Even at its lowest point in 2002, the company had lined up promising contracts to provide broadband to new, large clients like Microsoft, AOL Time Warner, and Yahoo, and expected to break even on a free cash flow basis by 2004.

"With the cash we have, the company is hardly a Chapter 11 candidate," Walter Scott told *Barron's* in 2001. "The business plan is working fine, and we continue to sign up important customers on a regular basis."

And the bet paid off. Plenty of internet companies filed Chapter 11 after the crash – but Level 3 leveled out… and then began to level up.

The company's deeply discounted bonds were refinanced and paid off. Everyone got paid (including Buffett). By 2003, Level 3 had enough cash to start buying other internet companies. In 2012 – a decade after its $3 low point – it accepted a 10-year U.S. government defense contract.

Then, in 2017, it ultimately got bought out by a larger telecom, CenturyLink, for $34 billion (just $10 billion less than its overinflated peak bubble market cap, which, at the time, had been **larger** than General Motors').

One thing never changed, though – Warren Buffett and Walter Scott remained great friends until Scott's death in 2021, at the age of 90. (Contractor Pat McNeil also weathered the storm, and is a successful builder in the Omaha area today.)

It was an impressive, and unusual, turnaround tale...

Very occasionally in the distressed-investing world, we come across a turnaround like the Level 3 story: so dramatic that it's almost like looking at a different company. Pre-transformation, the investment thesis might be a story of upside potential (often, cautiously hedged, as we see in the case of Buffett's convertibles).

But after the makeover, it's a *bona fide* success story... and we approach the opportunity in a completely different way.

In this issue, we're revisiting an old story in a new light. A year after we first wrote about it, this company is out of distress and now presents a long runway of opportunity.

That means an entirely new recommendation. Let's dig in...

What a Difference a Year Makes

In the March 2023 issue of *Distressed Investing*, "A Safe Bet on the 'Graying of America,'" we recommended **Diversified Healthcare Trust's (Nasdaq: DHC)** 9.75% bonds maturing on June 15, 2025.

We liked DHC's 9.75% bonds because the company's portfolio of senior-housing communities, medical offices, and life-sciences buildings (used as pharmaceutical labs, among other things) were worth a lot more than all of DHC's debt put together.

At the time, the operating performance of DHC's senior housing properties ("SHOP") had declined significantly as a result of the pandemic. The company's bank lenders – which it owed $450 million – would not commit to renewing DHC's loans when they matured. DHC faced $700 million in debt that was beginning to come due in 2024 and it wasn't clear if the company could repay it. On the surface, it was a scary picture, but we recommended the bonds because, as we said above, the value of DHC's properties was significantly more than its debt and the SHOP properties had just started to show improving results.

Indeed, much has changed for DHC over the last 14 months – for the better. As we detail below, its operating results are improving, and its debt is under control. The "graying of America" – the increasing number of aging Americans – is providing

DHC years of opportunity to expand its senior-living facilities and medical and life-sciences office business.

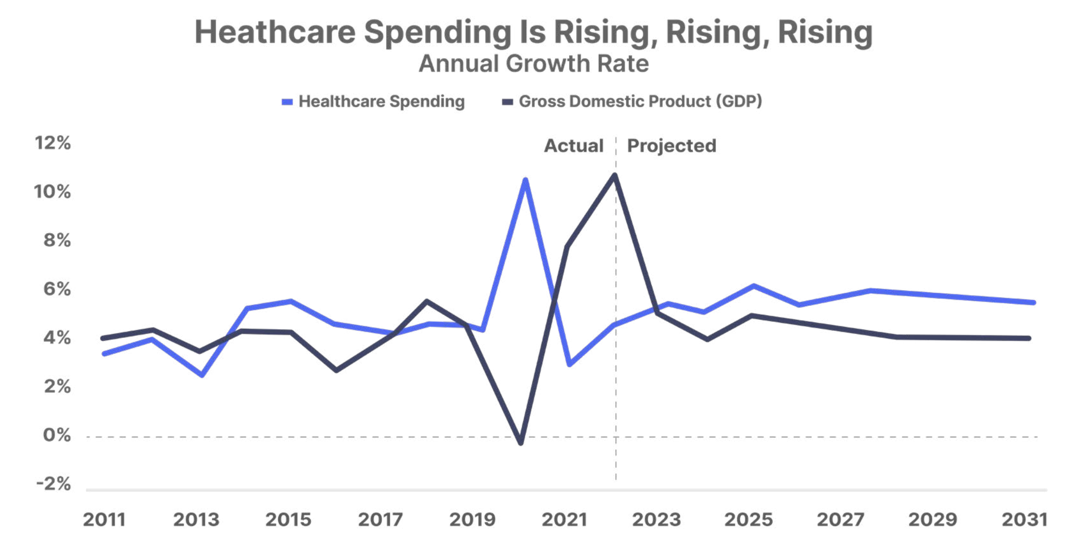
Let's look at the industry as a whole and then the details of DHC's business.

The Megatrend of Aging Continues

It's good to be on the right side of a growth trend – to know that time is your friend.

America is getting older.

- People aged 65 and older will make up 21% of the U.S. population in 2030, up from roughly 15% in 2016, according to the U.S. Census Bureau
- The percentage of people in the U.S. aged 85 and older will grow 30% over the next five years
- Total healthcare spending is projected to rise 5.4% annually between 2022 and 2031, outpacing gross domestic product ("GDP")



Source: Centers for Medicare & Medicaid Services, National Health Expenditures, June 2023; and Congressional Budget Office, An Update to the Budget Outlook: 2023 to 2033, May 2023

These long-term trends will work to DHC's advantages in both area of its business:

- Occupancy at its senior-living communities will rise – and as occupancy increases, profits go up
- DHC's medical-office buildings will benefit because an older population will require more medical attention – which means demand for doctors' offices should rise

- Research on new pharmaceuticals and medical devices will increase – bolstering demand for DHC's life-sciences buildings, which feature laboratories and other areas designed for medical research

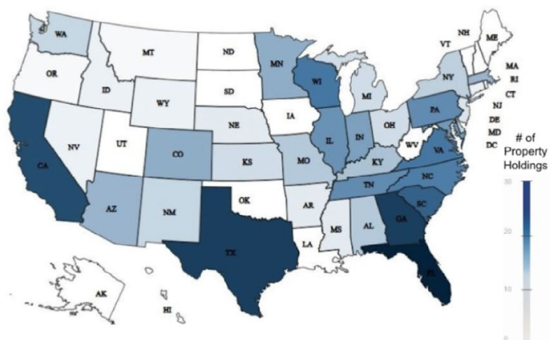
Overview of DHC's Properties

As of December 31, DHC owned 371 properties – 234 senior-housing communities and 137 medical and life-science office buildings. The company's holdings are geographically diversified – the largest concentrations are in Florida (10%), California (9%), and Texas (9%).

SHOP accounts for just over 60% of DHC's assets, based on their current book values, but 42% of its net operating income ("NOI"), which is rental income minus operating expenses.

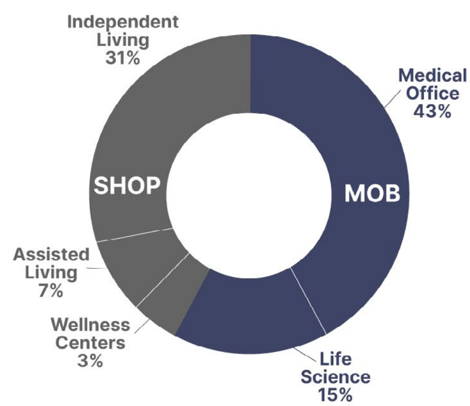
DHC's Portfolio Profile

Geographic Diversification By Holdings



412 properties located in 38 states and Washington, D.C.

DHC's Segments by NOI



Let's take a look at DHC's two business segments – senior housing, and medical and life-science offices.

Senior Housing Operating Portfolio (SHOP)

DHC owns 234 senior-housing properties that together have 25,300 residential units – a unit being one residence. The company's portfolio has a depreciated book value (the original value minus an annual discount for aging) of $2.9 billion and includes:

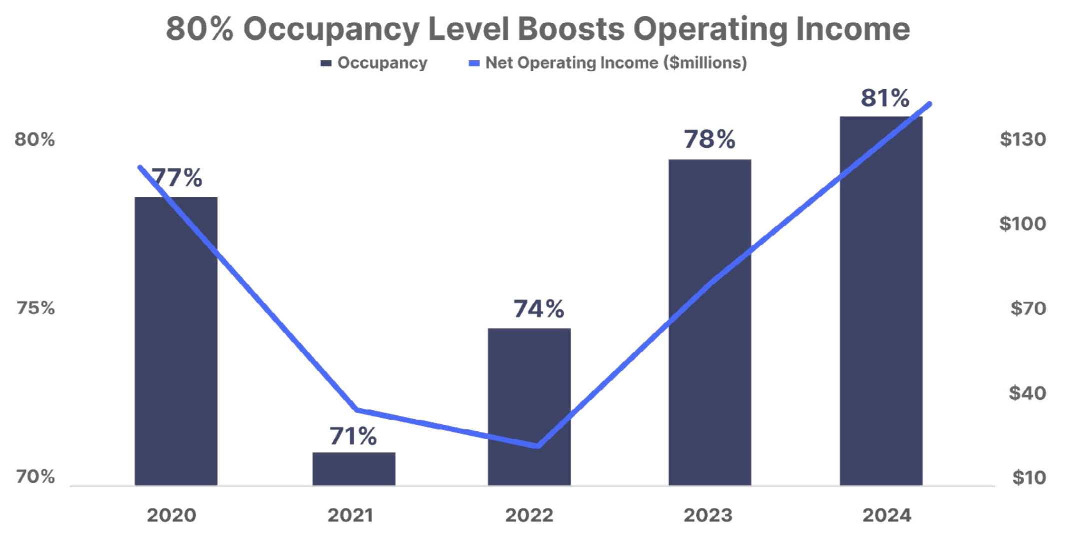
DHC Senior Housing Properties

Number of Facilities	Type of Facility	Number of Units
62	Independent living communities	10,400
159	Assisted living and memory care properties	13,500
13	Skilled nursing facilities	1,400
234		25,300

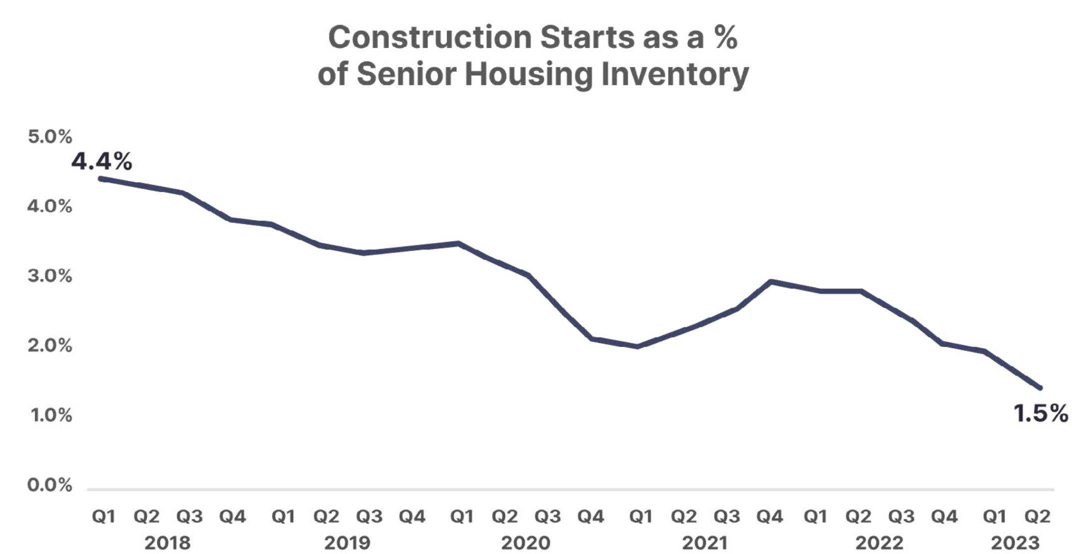
To maintain its status as a REIT, DHC is not permitted to operate the senior-housing portfolio. The company relies on outside management companies to run its existing communities. Five Star Senior Living, in which DHC has a roughly 33% ownership interest, oversees operations of half of the properties (119 out of 234). Various other management companies operate the balance of the communities (RMR Group manages DHC's business on a broader level – purchasing, construction, and ownership management).

SHOP generated NOI of $214.7 million in 2019, when occupancy was 84.1%. This business declined severely during the pandemic, with NOI falling 93% – and bottoming out at $13.8 million in 2022. Despite this decline, the company has spent more than $200 million annually since 2021 renovating its retirement communities – and it will spend a similar amount in 2024.

Occupancy has risen since 2022. NOI rose sharply in 2023. The company projects net operating income will exceed 2020's level this year – reaching $130 million.



Management has emphasized that once occupancy rates rise above 80%, the company can easily raise prices. We expect this trend of increasing occupancy leading to higher profits to continue, thanks to the aging population – further helped by the fact that, as the chart below shows, the construction of new properties has not kept up with demand. For example, according to the National Investment Center for Senior Housing and Care, in the last quarter of 2023, demand for senior-living units in the U.S. rose 4.1% while the supply rose just 1.3%.



This beneficial trend for DHC should continue well past 2024. In February, commercial real estate broker Jones Lang Lasalle published the results of a survey of investors in senior housing. It reported the central point:

> *"The underlying market fundamentals continue to bounce back from the lows experienced during the COVID-19 pandemic with occupancy increasing, construction starts slowing, and the market showing signs of stabilization and growth."*

In a sign that the market for senior-housing communities is heating up, on February 13, 2024, Welltower Inc. (NYSE: WELL), owner of a large portfolio of senior housing, announced the acquisition of competitor Affinity Living Communities. Welltower will pay $969 million for 25 high-end retirement communities with 3,900 residential units, largely concentrated in the Pacific Northwest, where the growth of people aged 55 and older is 2.5x higher than the U.S. average.

These are high-end communities that have many more amenities (like gyms and pickleball courts) than are typically found at other developments. The price equates to a little under $250,000 per unit, or "key," as they are called.

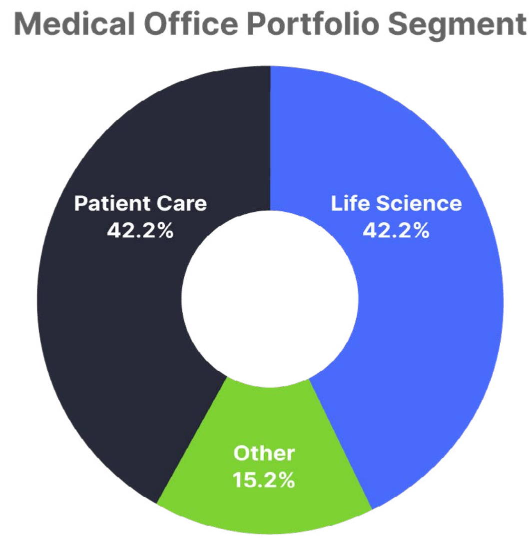
The acquisition increases Welltower's portfolio of age-targeted and age-restricted units to almost 25,000 – equaling the size of DHC's SHOP business. Many of DHC's 25,000 residential units are similar in quality to Affinity's.

Based on company data, our best guess is that DHC's SHOP properties are worth something like $150,000 per key – which works out to a roughly 40% discount to the Welltower price. If that is the case, DHC's SHOP would be worth $3.75 billion. It's currently on DHC's books at $2.9 billion – and the stock is trading at roughly a 70% discount from book value. So buying the stock at current levels is equivalent to paying approximately $870 million – 30% of $2.9 billion – for the entire SHOP portfolio, before assigning value for its medical and life-science offices.

Medical and Life-Science Office Buildings (MOB)

DHC owns 102 medical office and life-science office buildings – its segment referred to as MOB – located in 24 states and Washington, D.C. Though it represents less than half of its total value of assets, the segment generates 58% of DHC's net operating income.

The buildings total 8.6 million square feet – equivalent to more than three Empire State Buildings. About 85% of the space is rented to medical-service providers, and to life-sciences companies (including pharma giant Merck, medical-device leader Medtronic, and insurance company Cigna). The remaining 15% is leased to a variety of tenants.



In 2023, DHC signed new and renewal leases for about 10% of its office space, 886,000 square feet, at an average rental-income *increase* of 11.1%. The company has roughly 655,000 square feet of leases coming due this year and has labeled the leasing pipeline "strong."

MOB net operating income fell by roughly half between 2020 and 2022 – from $241.7 million to $118.1 million. However, a significant part of this decline is related to lower-performing properties that DHC sold off during those years to pay down nervous bank lenders and to invest into existing SHOP properties. Looking only at the MOB buildings that DHC continues to own, NOI fell just 26% between 2020 and 2022, and stabilized in 2023.

We are optimistic that operating results for DHC's MOB segment will get stronger over time because of ongoing underlying demand. As noted, spending on doctors and medical services is projected to increase just over 5% annually in the U.S. – reaching $1.2 *trillion* by 2027.

While the company does not offer specific estimates for NOI in this segment, we expect 2024 to be in line with 2023, at $125 million.

So let's see what the company did to get itself from a precarious position to a secure one.

Office Properties Income Trust Wanted to Merge With DHC

One year ago, DHC was in a vulnerable position. In June 2023, DHC shareholders received an offer to merge with Office Properties Income Trust (OPI), a REIT managed by RMR Group, which also manages DHC properties and operations. In fact, RMR was instigating the merger. **As we reported in our recommendation of an OPI bond last month**, OPI owns mostly office buildings and was looking to diversify its assets – and take advantage of a weak DHC.

Because performance of the SHOP holdings had declined substantially, DHC was not permitted under the terms of its bank loans to borrow new money. That handcuff looked likely to cause DHC to file for bankruptcy when its $700 million in debt came due in 2024. OPI sought to take advantage of that problem with a low-ball offer of $1.70 per share.

RMR suggested the combination of these two REITs it managed made sense to both parties:

- DHC would be able to use OPI's cash flow and unpledged assets to refinance that $700 million in loans and bonds that were going to mature in 2024
- The combined company would be more diversified than each one individually – in addition to DHC's life-sciences buildings and senior-housing facilities, the business would own OPI's office properties

In the proposed transaction, DHC shareholders would have received 42% of the new company, valued at $1.70 per share when the transaction was announced. A vote on the transaction by DHC shareholders was set for August 30, 2023.

Enter Flat Footed LLC, an investment management firm that specializes in businesses with asset-heavy companies with high levels of debt, to block the acquisition. Flat Footed bought 9.8% of DHC's common stock and already owned $151 million face amount of DHC's **9.75% bonds maturing June 15, 2025 – the bond we recommended in March 2023**. Flat Footed argued that the acquisition was coming at the wrong time for DHC – just as that company's housing communities were beginning to rebound.

In August, Flat Footed released a thoroughly researched 66-page presentation entitled "The Case for Voting AGAINST the Proposed DHC-OPI Merger" (all-caps emphasis in original). Its main points were:

- DHC stock was worth a lot more than than the $1.70 OPI was offering
- Since RMR managed both DHC and OPI, it had a conflict of interest and was not acting in the best interest of DHC's shareholders
- DHC had $380 million in cash and enough unpledged assets that it could sell or pledge to pay off the $700 million in debt that would mature in 2024

It soon became apparent to RMR that DHC's shareholders would reject OPI's merger offer at the vote scheduled later that month, on August 30. DHC's board postponed that meeting and then both companies agreed to terminate the merger process.

DHC then set out to follow a blueprint Flat Footed had proposed for raising cash to pay off the debt coming due in 2024. On December 19, 2023, DHC issued 0% secured bonds and raised $732 million.

These bonds do not pay interest – and therefore do not divert capital needed for making improvements to DHC's senior-housing properties. (The balance of the loan increases by 11.25% each year until it totals $941 million at maturity on January 15, 2026, or January 15, 2027, at the company's option.) DHC put the value of the collateral for these bonds – medical office buildings – at $1.57 billion. DHC used the proceeds of these bonds to repay its $450 million bank debt in full, and to pay off $250 million of unsecured bonds that were scheduled to mature May 1, 2024.

As a result of these moves, DHC met its 2024 obligations – and is in full compliance with all of its loan agreements. The stock price has increased from under $1 per share to $2.60, having reached a closing high of $3.74 in December.

Finding the Best Valuation for DHC Stock

Today, we can value DHC's stock in a number of ways. Although the results of these estimates vary, they average out to $7.17 per share – roughly three times the current stock price of $2.30.

Book Value of DHC Stock

On its balance sheet as of December 31, DHC reported properties with a book value of $4.8 billion (excluding depreciation, these properties originally cost $7.2 billion). After adjusting for debt, the stockholders' equity – the total book value of all 240 million shares – was $2.34 billion. Dividing by 240 million outstanding shares, this works out to a book value per share of $9.74.

Capitalization Rate

As we wrote in "**The Return-to-Office Rebound**" last month, when we recommended OPI's bond, the most common method real estate professionals use to value properties is a capitalization rate – which relies on a multiple of NOI. To find this value, take NOI (rental income minus expenses) and divide it by a capitalization rate – an approximate return on capital investors would require.

The higher the capitalization rate, the lower the resulting value, and the lower the capitalization rate the higher the resulting value. In a down market, commercial investors require a higher return on investment, given the uncertainty of a property's future value.

In its survey of senior-housing investors mentioned earlier, Jones Lang Lasalle reported that capitalization rates for senior housing communities averaged 6.75% at the end of 2023. Welltower's February 2024 agreement to buy Affinity Living Centers at a 6.1% capitalization rate is in line with this estimate.

In our segment-by-segment analysis, we use capitalization rates in the range of 6% to 10% (6% is a bit too aggressive and 10% is almost certainly too conservative). Our best estimate is that the SHOP properties deserve a capitalization rate of 7.5% and 8.5% for MOB.

If we apply a 7.5% capitalization rate to the SHOP expected 2024 NOI of $130 million, we get a value for that segment of $1.73 billion. And if we use 8.5% and $125 million NOI (in line with 2023) for MOB, we get $1.47 billion, added together for a $3.2 billion in valuation. When we subtract the company's debt and adjust for its $246 million cash, we arrive at our best estimate of $2.64 per each of its 240 million DHC shares outstanding.

We also run the same calculation based on our estimated NOI for 2025 – $175 million for the SHOP and $135 million for MOB. This results in a range of values of $2.20 to $10.82 and a best-estimate value of $5.63 per share.

There are three other pieces of information that relate to DHC's valuation.

First, DHC recently disclosed that in May 2022 an unnamed company offered to pay $4 in cash per share for the whole company. DHC's board of directors rejected the offer as "inadequate."

Second, during the attempted merger with OPI last summer, OPI hired an undisclosed advisor, which valued DHC's assets at $3.8 billion *more than the debt*. This would equate to $15.80 per share.

Third, in its August presentation encouraging shareholders to reject the overture from OPI, Flat Footed provided its own sum-of-the-parts valuation of DHC's assets calculated a value of $9.13 per share.`

DHC Has a Healthy Cash Position

Estimates of DHC's stock value may vary, but they all point to a company that is worth more than its debt. The company ended 2023 with $246 million in cash. It plans on spending $250 million to $270 million on new buildings and improvements this year – $200 million on SHOP and $50 million to $70 million on MOB. Based on the company's estimate of SHOP's operating performance and keeping results from MOB being even with last year, we expect DHC will deplete $115 million to $155 million of its cash this year – leaving between $91 million and $131 million at year end.

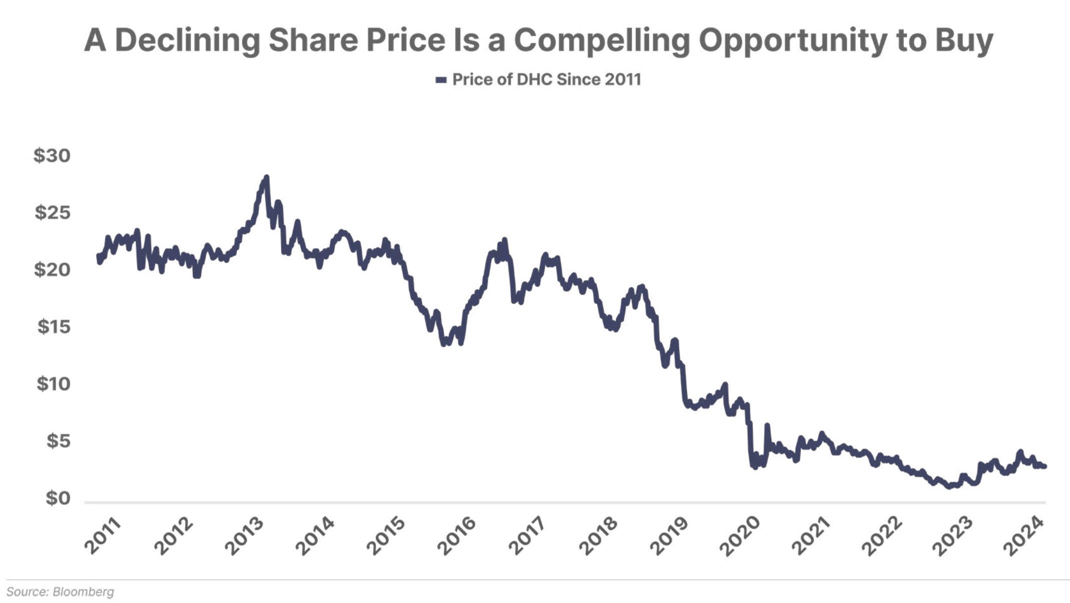
DHC will likely have comfortable liquidity going forward. In addition to its cash, it has no debt on its SHOP holdings – $3 billion at book value and likely worth more. This means the company will have no problem raising the cash to pay off the $500 million of 9.75% bonds maturing June 15, 2025. In fact, management might repay them early, starting June 15, 2024, when it is permitted to redeem the bonds without paying a call premium.

The next debt to come due is the $941 million of recently issued secured bonds on January 15, 2026. As mentioned, the company has the option of extending the bonds until January 15, 2027.

The key point is that we think the company has a long runway to increase profits in order to pay off its debt. And we think that the stock is currently undervalued and will rise in price as its financial condition continues to improve.

We Recommend Buying a Stock/Bond Combination

We recommend buying a bond and purchasing shares of stock up to a total cost of $1,000 per unit.



For example, assuming you buy the bond at $800 and the stock for $2.50 per share (both close to current prices), each $1,000 unit of investment would include one bond and 80 shares of stock:

One Recommended Unit of Investment	
1 Diversified Healthcare Trust 4.75% bond maturing February 15, 2028	$800
80 Shares of DHC common stock at $2.50 per share	$200
Total Purchase Price	**$1,000**

We believe that this combination will preserve your principal – the bond will be worth $1,000 per bond at maturity in nearly four years – in addition to generating roughly $180 from total interest payments.

DHC shares should provide upside from what we believe is a meaningfully undervalued stock. We point out that even if the stock does not go up in price, you will earn a minimum return of 4.75% per year on the $1,000 investment from the bond coupon payments.

To provide a *sense* of the potential gain, here is the total value of the bond/stock combination at a range of stock prices from $1 per share to $10 per share

Gain of DHC Bond/Stock Combination Until 2028 Bond Maturity

Stock Value	Value of Bond at Maturity	Total Interest Received	Value of 80 Shares	Total Value	Total Gain	Annual Gain
$1	$1,000	$178	$80	$1,258	25.8%	6.9%
$2	$1,000	$178	$160	$1,338	33.8%	9.0%
$3	$1,000	$178	$240	$1,418	41.8%	11.1%
$4	$1,000	$178	$320	$1,498	49.8%	13.3%
$5	$1,000	$178	$400	$1,578	57.8%	15.4%
$6	$1,000	$178	$480	$1,658	65.8%	17.5%
$7	$1,000	$178	$560	$1,738	73.8%	19.7%
$8	$1,000	$178	$640	$1,818	81.8%	21.8%
$9	$1,000	$178	$720	$1,898	89.8%	23.9%
$10	$1,000	$178	$800	$1,978	97.8%	26.1%

Source: Porter & Co. | Annual gains are not compounded

Discussion of Bond Terms

Diversified Healthcare Trust's 4.75% bond maturing 2/15/28 is a $500 million issue that is senior unsecured. In the event of a bankruptcy filing, these bondholders would get paid along with all other unsecured debt – but *after* holders of secured bonds and bank loans. Absent a dramatic and sudden change, we do not see a bankruptcy in DHC's future.

As of December 31, DHC has roughly $950 million in debt secured by a variety of specified properties. Those lenders would be paid first from the value of the properties pledged as collateral. The $2.1 billion in senior unsecured bonds outstanding (including our recommended $500 million of 4.75% bonds scheduled to mature February 15, 2028) would be paid next. After unsecured bondholders are paid, stockholders are entitled to the remaining value. As we have discussed, we believe that DHC's assets are worth meaningfully more than its total debt, and that there is a substantial cushion remaining for stockholders.

Risks

- DHC benefits from its status as a REIT, which means the company itself does not pay taxes, which helps its cash position. If the company does not meet IRS tests to maintain its REIT status, its income could become taxable, reducing its cash flow.
- A REIT is not permitted to operate businesses. For this reason, DHC hires various companies to manage its senior housing communities – with compensation agreements that give DHC the profits above an agreed-upon fee. As a result of this structure, DHC does not directly control the operations of SHOP – so fixing poor performance would require replacing management companies, which is not easily done.
- DHC faces development or renovation risks when it builds new senior-housing communities or renovates existing properties.
- Life-sciences businesses often invest in early-stage medicines or in developing medical technology. These are typically speculative, risky businesses that have a higher-than-average failure rate. Anything that causes a tenant to fall behind on its rent – or, worse, stop paying it entirely – could end up reducing DHC's operating profits.
- The company has pledged roughly $1.6 billion (roughly 33% of its $4.8 billion in assets) to various lenders. In the unlikely event of a bankruptcy filing, the loans secured by these properties are entitled to full repayment before any value would go to pay unsecured bondholders and shareholders.

Action to Take: Buy this combination: Diversified Healthcare Trust 4.75% bonds maturing February 15, 2028, up to a price of $830 per bond *and* shares of DHC stock (Nasdaq: DHC), up to $3 per share, in increments that equal a total investment of $1,000 per bond and stock

Bond Box

Diversified Healthcare Trust 4.75% Unsecured Bond Maturing 2/15/2028 CUSIP#81721MAM1		
Summary		
May 10, 2024	Amount Invested	$819.22
	Amount Left to Buy Stock	$180.78
	Total Interest and Principal	$1,190.00
	Current Yield (unit)	4.75%
	Current Yield (bond only)	5.57%
	Total Return	45.2%
	Term	Under 3 years
	Issue Size	$500 million
	Credit Rating	Ca (Moody's) CCC+ (Standard & Poor's)
	Callable	Yes @ $1,000 starting 8/15/27 or after
Details		
May 10, 2024: Purchase the bond	Accrued Interest*	$11.22 per bond
	Total Cost	$819.22 per bond
	Amount left to buy stock	$180.78 per bond
August 15, 2024	Receive interest payment	$23.75 per bond
February 15, 2025	Receive interest payment	$23.75 per bond
August 15, 2025	Receive interest payment	$23.75 per bond
February 15, 2026	Receive interest payment	$23.75 per bond
August 15, 2026	Receive interest payment	$23.75 per bond
February 15, 2027	Receive interest payment	$23.75 per bond
August 15, 2027	Receive interest payment	$23.75 per bond
February 15, 2028	Receive interest and principal payment	$1,023.75 per bond

* The accrued interest from February 15, 2024, until May 10, 2024. This amount is received by the seller on the settlement date and is added to the price of the bond. The first interest payment you receive, on August 15, 2024, is $22.37.

How to Buy This Bond With a Live Broker

If you are putting in a phone call to your broker, here's a quick breakdown of the steps you'll go through.

1. **Tell your broker the number of bonds you'd like to acquire.**
2. **Provide the name of the borrower, the coupon, and date of maturity.**
3. **Provide the CUSIP number.**

CUSIP stands for "Committee on Uniform Securities Identification Procedures" and is a unique series of numbers and letters assigned to every traded security. Providing the CUSIP will ensure that you're buying the right security. The CUSIP of the bond we recommend in this issue is 8**1721MAM1**.

Specific Instructions for Buying Diversified Healthcare Trust's 4.75% 2/15/2028 Bond

Now, the bond we are recommending today is generally not tradeable online, except at Fidelity, and a few very high-end brokerages, so instead you will need to place your trade by phone. We've confirmed that the Diversified Healthcare Trust's 4.75% 2/15/2028 senior unsecured bond secured bond is available online and over the phone at Schwab, Fidelity, and at full-service brokerage firms. (DHC shares can be purchased at discount and full-service brokers.)

Recall that the bond market is much less popular (and there's much less trading volume) compared to the stock market, so don't be surprised if you are dealing with a broker who knows little about the bond market. This is part of the reason why, in the bond market, there are fewer market participants and less overall interest, so it's easier to scoop up bargains when opportunities arise.

The instructions for placing an order are usually standard across the brokerage platforms mentioned above.

Here's an example of how the conversation with your broker might go:

Investor: "Hello. I am interested in buying Diversified Healthcare Trust's 4.75% 2/15/2028 senior unsecured bond. Can you get me the bond quote so I can decide whether or not I want to buy?"

Broker: "Yes, can you confirm with me the CUSIP?"

Investor: "The CUSIP is 81721MAM1."

Broker: "We don't have these bonds in our inventory. However, we can place open market orders which allows for this bond to be traded and sold through an alternative trading system ("ATS"). We can get you a quote. How many of these Diversified Healthcare Trust 4.75% 2/15/2028 senior unsecured bonds are you looking to purchase?"

Investor: "I'd like to purchase 25 of the Diversified Healthcare Trust 4.75% 2/15/2028 senior unsecured bond secured bonds."

Broker: "Okay, I will get you a quote and call you back. Bye."

This is where the first conversation with the broker will come to an end... but within the next 24 to 48 hours of the next trading day, the broker should return your call and will give you the quote (the price) of the bond. This call is when you will place and confirm your order.

After your initial call to receive the quote, the broker will call you back in most cases and after he confirms he's speaking to the correct person, he can go ahead and place your order.

Here's how the second call might go:

Broker: "Hello, this is John Doe, the fixed-income specialist you spoke to earlier. I am calling to give you a quote for the 25 Diversified Healthcare Trust 4.75% 2/15/2028 senior unsecured bond secured bonds you inquired about. The price for the size of your request to buy 25 bonds is $80.80 plus accrued interest. Would you like to go ahead and place the trade?"

Note: The $80.80 price he quoted is really $808 for the cost of each bond. When quoting bonds, brokers will most likely drop the last zero, so $80.80 becomes $808. Now, if the investor decides to purchase 25 bonds, his total will be $20,200 ($808 × 25 =$20,200) plus $280.50 for accrued interest ($11.22 × 25 = $280.50) and any commission or service fee.

Investor: "Yes. The total comes out to $20,480.50 plus the service fee. Is that correct?"

Broker: "Yes, it is correct. I will go ahead and make the transaction. You will get an email confirmation over the next 24 hours. Have a great day!"

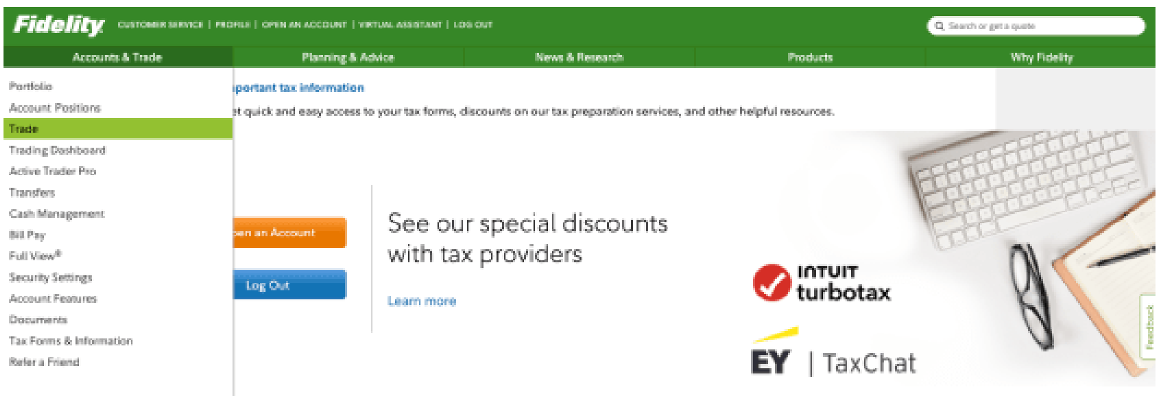
As always, if you have questions, please call Lance, your personal Porter & Co. Concierge, at his team at 888-610-8895, or internationally at +1 443-815-4447. We do not endorse any specific brokerage and are offering this guide for informational purposes only.

How to Buy This Bond Online

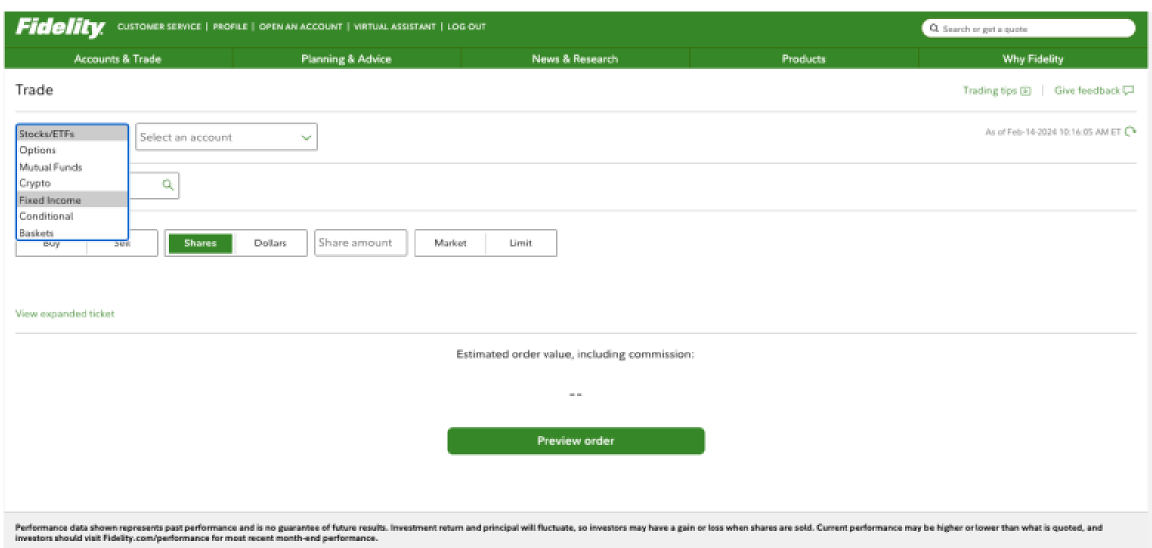
For readers who prefer to purchase bonds online or who have Interactive Brokerage accounts, we've taken screenshots to walk you through what to expect. We do not endorse any specific brokerage and are offering this guide for informational purposes only.

For Fidelity Users

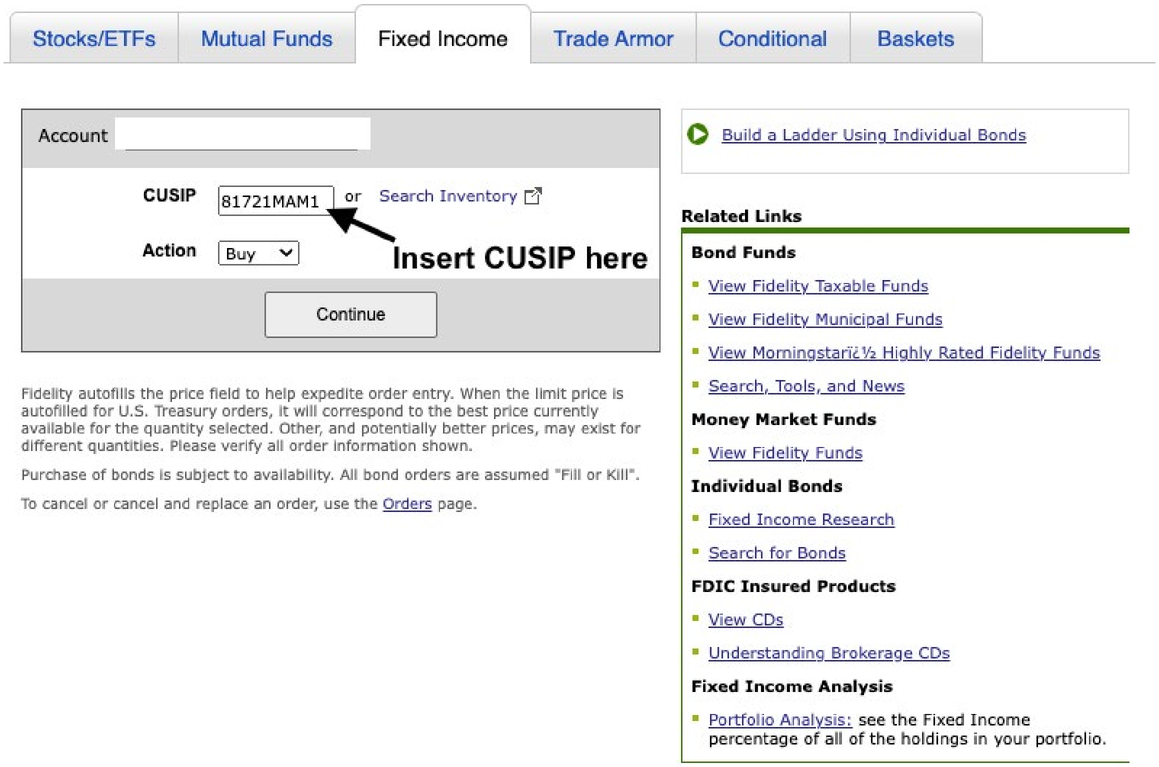
1. Log in to your account as you usually would access your equity portfolio.
2. Go to the "**Trade**" section under the "**Accounts & Trade**" tab at the top menu.



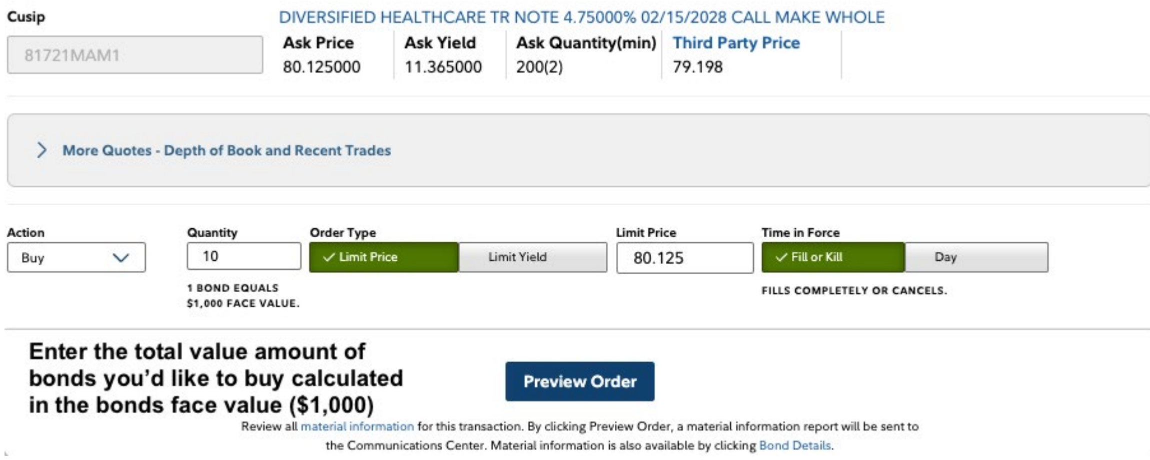
3. On the next page, select "**Fixed Income**" on the "**Trade**" dropdown menu as seen below.



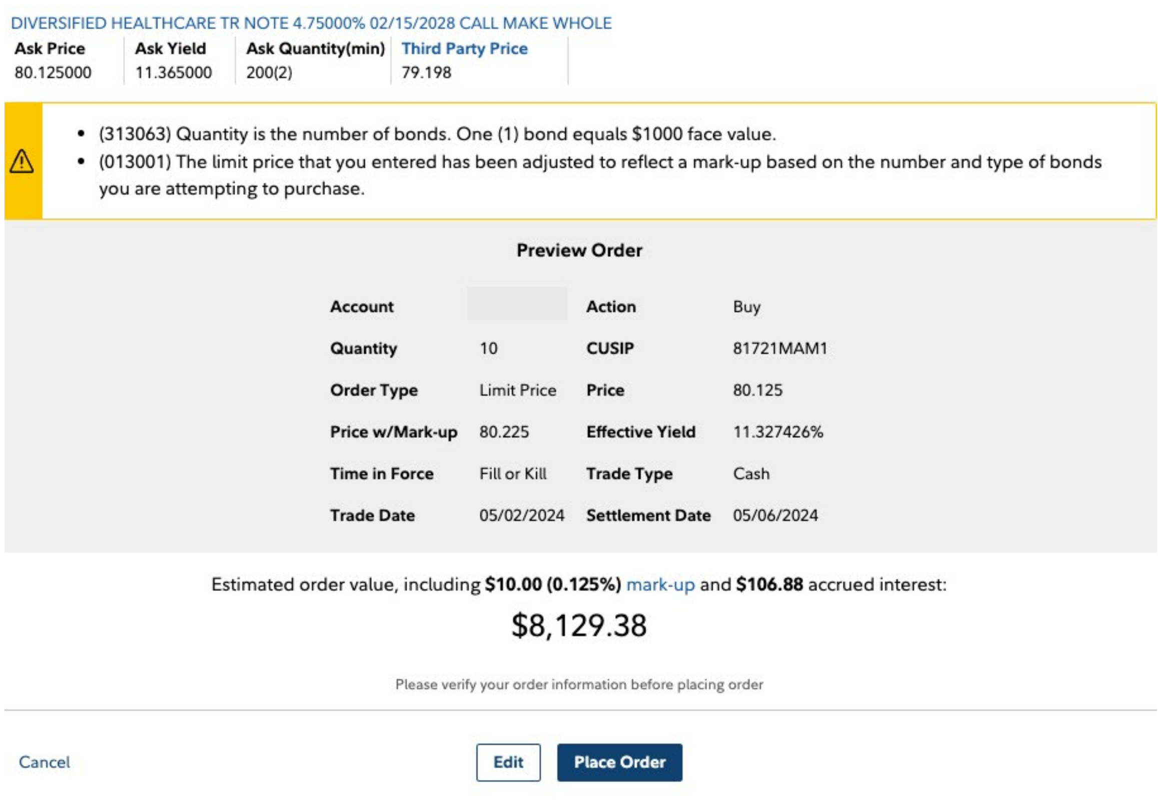
4. When you land on the trade page, enter the CUSIP and select “Buy” for the “Action” box. The Diversified Healthcare Trust 4.75% 2/15/2028 senior unsecured bond’s CUSIP is 81721MAM1. You will also need to select the account you’d like to purchase the bond. When ready to proceed, click “Continue”.



5. Here is where you will enter your order and specify your position size. You will need to specify an amount in dollars, as seen in the image below. Remember, the amount of bonds you enter is based on the face value of the bond. So, if you want to purchase one bond, the face value is $1,000 and you’d be purchasing one bond for the price of $801.25 (not including any fees). If you’d like to purchase 10 bonds, enter 10, and your order will come out to $8,012.50 based on the quote below. Then select “Preview Order”.



6. Once you've reviewed and confirmed the details for the order, click "Place Order" to purchase the bond.



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P.S. To read more about bankruptcy and how it plays out in the bond world, check out "**Learning to Love Bankruptcy**."

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