

JULY 31, 2000

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

THE FOLLOWING REPORT IS EXCERPTED FROM
THE WALL STREET TRANSCRIPT

CEO/COMPANY INTERVIEW

LAWRENCE A. COHEN
Capital Senior Living Corp.

NOTICE

The Wall Street Transcript does not in any way endorse or guarantee the accuracy or reliability of any of the information, statements or opinions expressed in the reports or comments of other firms or individuals. We take due care to report or transcribe accurately what has been written or said by others but because of the possibility of human or mechanical error, we cannot assume any liability for the correctness of the transcription. We point out further that, of course, all opinions expressed are subject to change without notice. Neither the information or any opinion which may be expressed constitutes a solicitation for the purchase or sale of any securities referred to herein. For further information, contact the individual or investment organization concerned.

CHIEF EXECUTIVE OFFICER FORUMS/INTERVIEWS

Important Note: Wall Street Transcript forums and interviews with Chief Executive Officers are published verbatim as editorial content and include "forward-looking statements" (as such term is defined in the United States Private Securities Litigation Reform Act of 1995). These "forward-looking statements" may be subject to and be made pursuant to the "safe-harbor" provisions of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Since these statements are based on factors that

involve risks and uncertainties, actual results may differ materially from those expressed or implied by such "forward-looking statements". Such factors are often included in the company's filings of reports with the United States Securities and Exchange Commission, including Forms 10-K, 10-Q, 8-K and Proxy Statements; the company's annual and interim reports to shareholders and similar documents. In carrying out our responsibilities to our readers and to the Chief Executive Officers selected for forums or interviews, we are required to offer, and we offer, each Chief Executive Officer an opportunity to back-up the interview and provide our readers and potential investors with specific financial data, including earnings statements, balance sheet statements and other material business and financial data, through the sponsored publication of such reports or highlights therefrom, with meaningful information.

Founded 1963
Published by Wall Street Transcript Corporation
67 Wall Street, New York, NY 10005
Copyright 2000 Wall Street Transcript Corporation
All Rights Reserved

Capital Senior Living Corp. (CSU)



LAWRENCE A. COHEN is Vice Chairman and Chief Executive Officer of Capital Senior Living Corporation. He served as Vice Chairman and Chief Financial Officer of the company from November 1996 through May 1999. From 1991 to 1996, Mr. Cohen served as President and Chief Executive Officer of PaineWebber Properties Incorporated, which controlled a real estate portfolio with a cost of approximately \$3 billion, including senior living communities of approximately \$110 million. He serves as a member of the

Corporate Finance Committee of the NASD Regulation, Inc., and was a founding member of the Executive Committee of the Board of the American Seniors Housing Association. Mr. Cohen has earned a Master's degree in Law, is a licensed attorney and is also a Certified Public Accountant. He has 15 years of experience in senior living.

SECTOR – LONG-TERM CARE FACILITIES

(KAK619) TWST: Could we start out with an overview and profile of Capital Senior Living?

Mr. Cohen: Capital Senior Living is one of the nation's leading operators and developers of residential communities for senior adults. We have been operating in the senior living industry since 1990, with a philosophy that differentiates us from other companies in the senior living sector. We emphasize a continuum of care, whereby we integrate independent living with assisted living and home care so our residents can choose the type of lifestyles that best suits their needs and be able to age in place. As a result, the average length of stay of our residents is typically double of those living in freestanding assisted living communities. The average age of our residents upon entry into our communities is 80, and the average age of our residents is 84.

We currently own and/or operate 40 communities in 20 states, with a capacity for approximately 7,000 residents. We are increasing this

capacity through the development of 19 communities, as well as the expansion of three existing communities. When these are completed, we expect our capacity to increase to approximately 9,500 residents. In the communities we operate, 83% of the residents live independently, and 17% require some assistance with activities of daily living.

I joined Capital Senior Living in 1996 as Vice Chairman & Chief Financial Officer, and became Chief Executive Officer in May of 1999. Prior to joining Capital, I was President & Chief Executive Officer of PaineWebber Properties, which controlled a \$3 billion real estate portfolio, including senior living communities with a basis of about \$110 million.

TWST: What's on the agenda when you look ahead over the next 12 months? What specific accomplishments would make that time frame a success?

Mr. Cohen: We are in the process of completing a \$155 million merger transaction. We have been operating 13 senior living communities for 2

REITS since 1996, and they are being merged into Capital Senior Living. Approvals for the mergers have been received and financing commitments have been obtained. We expect to complete the mergers at the end of July. Upon consummation of these mergers we will increase the capacity of our owned and operated communities by 2,100 residents. In addition, we expect the merger to contribute approximately \$38 million to our annual resident revenues and about \$16.5 million to our EBITDA. Since we have been operating these communities for the past four years, we don't anticipate any integration issues.

In addition, we're very excited about opening 19 communities over the next year and a half. Most of these new communities will be Waterford Communities, which are predominantly independent living communities targeted at middle-income seniors. While there has been concern about overbuilding of assisted living communities in certain markets, the affordable independent living market has been underserved. According to the most recent Seniors Housing Construction Report, construction of independent living communities over the past three years has averaged only about 10% of total seniors housing construction. So we see an exciting year where we will be bolstering our balance sheet and our income statement through the merger of 13 communities, and gaining significant new capacity through the development of 19 new communities.

TWST: From the market perspective and your perspective, are there any limitations on cash or capital as you look at these opportunities?

Mr. Cohen: Today, there are significant capital constraints affecting the senior living industry. We have seen the major sources of capital exit the industry. Those had been the public equity market and the more traditional debt providers,

such as banks and CMBS lenders. I believe that this constraint of capital will be positive in the long term because it will limit the supply of new senior living communities. As we experience the continued growth of elder seniors, increasing the demand for senior living communities, I would expect to see a shortage of purpose-built senior housing communities in the next few years.

From Capital Senior Living's perspective, we are fortunate that all of our immediate growth plans have financing in place. We have a commitment from GMAC to finance the mergers of the 13 communities in late July. And, various banks have financed or committed financing for all of our planned developments. We have managed our balance sheet to where we have the lowest debt to total capitalization amongst the publicly traded senior living companies. As a result, we have been able to obtain attractive financing despite the current restraints in the capital markets.

TWST: Give us a frank assessment of your top management team. Do you feel you have the bench strength and skill sets on board for these opportunities?

Mr. Cohen: Yes, I do. I believe that the strength of Capital Senior Living is our management team. We have a management team that was built from an operations perspective. Everyone in senior management overseeing operations and marketing started on site in the seniors housing industry and worked their way up. The years of experience of our senior management team is the greatest I've seen in this industry. Our seven senior executives average about 20 years of experience, and our four regional managers average 19 years of experience in seniors housing. What's key is that these are professionals who have spent their entire careers in seniors housing. Capital's operating structure permits us to empower our

communities to operate as local businesses. The combination of a strong senior management team, a highly experienced regional management team, and superior systems and controls make this strategy successful.

The reputation of our management team and our sophisticated reporting systems and financial controls help us attract some of the most talented professionals in the industry to fill positions at the community level. We have enjoyed many successes in opening new communities and integrating acquisitions into our existing infrastructure. In fact, we have been successful in doubling the size of our operations in 1992, and again in 1996, and we expect to achieve more than 35% growth over the next 12 months. I believe that we have the strength and depth of management as well as the necessary systems in place to accommodate that growth.

TWST: How could the investment community better understand Capital Senior Living? What misperceptions do you encounter?

Mr. Cohen: I think the largest misperception we encounter in the investment community is the constant comparison of Capital Senior Living to other companies that provide pure assisted living, skilled nursing, or other long-term care. While most of our operations are limited to private pay independent living, the investment community categorizes us as a long-term care provider. In 1999, the long-term care index was down by nearly 70%. Many of the factors that caused such a disappointing stock performance do not apply to Capital Senior Living. Yet, we are thrown into the same basket, and our stock performance mirrored that of the long-term care industry. The biggest challenge we have faced since our public offering in October 1997 has been that of differentiating ourselves from other providers in the long-term care indus-

try. We attempt to focus the investment community on the quality of lifestyles that we provide our residents, who are predominantly independent seniors, as opposed to someone who has higher levels of acuity or more medical needs. Moreover, our operating performance demonstrates that our independent direction continues to generate the highest occupancies and operating margins in the seniors housing industry. These benchmarks result from our residents' longer length of stays, lower staffing needs, efficient building models, and the high levels of satisfaction (95% or greater) consistently reported by our residents.

TWST: When you look long term, what do you see as the ultimate enterprise for Capital Senior Living?

Mr. Cohen: We always speak about our commitment to our residents first, and our vision is to continue to provide quality housing and services based on the highest standards of excellence in the industry. Our mission is to enrich the daily lives of our senior residents by providing an environment that stimulates them physically, mentally and emotionally. We expect our Capital Senior Living residents to be treated with dignity and respect.

As we continue to succeed in the delivery of services and quality housing to our residents, I believe we will continue to see opportunities for growth. With the population of 65- to 74-year-olds expected to more than double from 18 million in 1990 to over 37 million by 2030, and the 85-plus population expected to triple in the same time period, the demand for our communities and services will continue to grow. Our vision is to continue our focus on independent living, and to grow our business by continued strong, internal growth from same-store sales and net operating income growth. We will also

grow by completing the new communities and expansions that are under construction to meet the needs of our growing senior population. In addition, we are well positioned to take on additional communities through strategic acquisitions or new management opportunities.

TWST: What role might mergers and acquisitions play as you look to add to that growth formula?

Mr. Cohen: As I mentioned previously, we expect to complete two significant mergers in late July. Beyond that, we will look for tactical acquisitions and new management opportunities. We don't plan to grow for the sake of growth. We want to find companies or communities that fit strategically within our focused operating philosophy. The senior living industry is extremely fragmented — in fact, the publicly traded companies own less than 10% of the current supply of senior living communities. The strength of our management team and systems position us well to take advantage of opportunities that will develop as a result of the capital constraint that has been impacting the senior living industry since late last year.

TWST: When you talk about all these opportunities, is there a level between top management and middle management that you also have to focus on?

Mr. Cohen: I think you have touched upon an issue that has affected a lot of companies in the senior living industry. From 1994 through 1998, a number of companies were able to attract capital because the seniors housing story was so compelling. Unfortunately, many of these companies lacked the operational depth to accommodate their growth. Many of these companies have stopped their growth and have been focusing on operations, which is good for the industry, and particularly for the residents who live in their communities.

We have been fortunate to have a regional management system around which we have been clustering our growth. We have a seasoned group of professionals serving as regional managers throughout the United States whom average approximately 19 years of experience in senior housing. They have the ability to visit any of our communities within a two-hour travel span. The regional managers will typically visit our communities at least once a quarter, and very often once a month. During those visits they're able to train on-site people and provide support. With our existing infrastructure, reporting systems and controls we have the ability to integrate our growth plans. As we grow, we will supplement our marketing and operational support through the addition of more mid-level staff to assist in the oversight of our communities and to work with our national headquarters and with our staff at the community level.

TWST: What's the summary statement for an investor? What would compel them to buy in?

Mr. Cohen: What should be compelling to an investor today is the expected growth of the senior population, and the quality lifestyles and enrichment that we afford our residents. We offer a very attractive living alternative for seniors, who are the fastest growing segment of our population. We have a proven track record, a seasoned management team, and an undervalued stock price. If you look at our stock price today, which is about \$3 a share, we are trading significantly below our book and net asset values. What's even more compelling is a comparison of our stock price to our balance sheet. We ended last quarter with approximately \$33 million in cash, which is about a \$1.68 per share. We also ended the quarter with working capital of about \$46 million, or \$2.35 a share. Our

stockholders' equity of \$110 million equates to \$5.53 a share. So if you compare our cash, our working capital, or our equity, our current stock price is awfully compelling. In addition, our long-term debt to total capitalization is about 45%, which is the lowest of the publicly traded companies in our sector.

The growth that we are planning over the next 12 to 18 months is all financed. I think that's extremely important in light of the current capital constraints and the uncertainties surrounding the ability for companies to finance their growth. We are witnessing population trends that will result in continued demand for our communities and services. At Capital Senior Living we are facing a time of opportunity.

TWST: Thank you.

LAWRENCE A. COHEN
Vice Chairman & CEO
Capital Senior Living Corp.
14160 Dallas Parkway
Suite 300
Dallas, TX 75240
(972) 770-5600
(972) 770-5666 - FAX
www.capitalsenior.com
e-mail: main@capitalsenior.com

Each Executive who is the featured subject of a TWST Interview is offered the opportunity to include an Investors Brief or other highlight material to be provided and sponsored by and for the company.