

Ventas Inc. (VTR)

\$28.73 (As of 03/26/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/28/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: F

Summary

Ventas has withdrawn its previously-issued 2020 financial guidance in response to the uncertainty caused by the COVID-19 pandemic. The company noted that in its senior housing business, there are solid signals that tours and move-ins are starting to slow, while the pandemic increases the risk of a high level of move-outs. Shares of Ventas have also underperformed its industry, over the past year. However, Ventas has drawn on its revolving credit facility in the amount of \$2.75 billion and remains focused on maintaining a strong balance sheet, liquidity and financial flexibility. The company's diversified portfolio is well poised to gain from demographic-driven demand boom from the aging population. It is making efforts to enhance its office portfolio, banking on solid demand for university-based research and innovation developments.

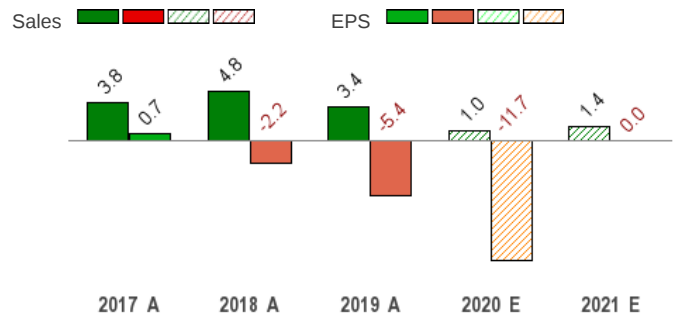
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$75.40 - \$13.35
20 Day Average Volume (sh)	8,608,888
Market Cap	\$10.7 B
YTD Price Change	-50.2%
Beta	0.31
Dividend / Div Yld	\$3.17 / 11.0%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 38% (96 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.1%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	-7.3%
Expected Report Date	04/24/2020
Earnings ESP	-0.4%
P/E TTM	7.5
P/E F1	8.5
PEG F1	3.6
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	994 E	997 E	1,002 E	1,006 E	3,969 E
2020	976 E	966 E	970 E	971 E	3,913 E
2019	943 A	951 A	983 A	996 A	3,873 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.91 E	\$0.90 E	\$0.91 E	\$0.90 E	\$3.40 E
2020	\$0.90 E	\$0.91 E	\$0.90 E	\$0.89 E	\$3.40 E
2019	\$0.99 A	\$0.97 A	\$0.96 A	\$0.93 A	\$3.85 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

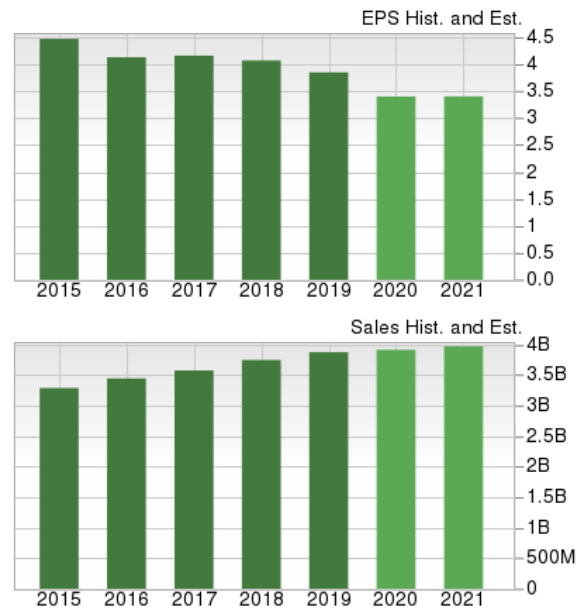
Overview

Chicago, IL-based Ventas, Inc. is a healthcare real estate investment trust (REIT) that is mainly engaged in the acquisition and ownership of seniors housing, research and innovation as well as healthcare properties, and leasing them to unaffiliated tenants or operating them through independent third-party managers.

The company has a diverse portfolio of nearly 1,200 properties located in the United States, Canada and the U.K. These properties include seniors housing communities, medical office buildings (MOBs), research and innovation centers, inpatient rehabilitation, long-term acute-care facilities and health systems. Ventas offers MOB management, leasing, marketing, facility development and advisory services to well-rated hospitals and health systems throughout the United States through its ownership interest in PMB Real Estate Services LLC and its subsidiary, Lillibridge Healthcare Services, Inc. It also makes secured and non-mortgage loans and other investments relating to seniors housing and healthcare properties or operators.

As of Dec 31, 2019, Ventas mainly operated through three reportable segments — triple-net leased properties (generated 36.8% of net operating income or "NOI" in 2019), senior-living operations (30.7%) and office operations (28.0%).

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ The national healthcare expenditure is expected to rise in the upcoming years. Also, senior citizens constitute the major customer base of healthcare services – they end up spending more on healthcare services compared with the average population. Hence, with an expectation of a rising senior citizens' population in the years ahead, Ventas has a strong upside potential, being well-poised to capitalize on this expenditure trend of senior citizens on healthcare services. Moreover, the healthcare sector is relatively immune to the macroeconomic problems faced by office, retail and apartment companies and offers stability to the company amid volatility in the market. This is because even amid tough economic conditions, consumers need to spend on healthcare services while curtailing discretionary purchases.
- ▲ Ventas is focusing on assets in high-barrier-to entry coastal markets. The company's seniors housing operating portfolio (SHOP) assets are located in elite markets that enjoy stronger demographics trends and increasing penetration rates, positioning it to generate steady cash flows. The company completed or committed to nearly \$4 billion of new investments in 2019, at an attractive blended 6.4% initial cash yield and this included \$1.8-billion investment in partnership with Le Groupe Maurice, in a high-quality portfolio of senior housing communities in the attractive Quebec market. In addition, the market for seniors' housing and healthcare real estate is large and fragmented, offering a huge scope of consolidation. This provides a solid opportunity for this healthcare REIT.
- ▲ Amid favorable demographics and growing outpatient trends, the company is focusing to capture the upside with its office segment, which includes MOBs, academic medical and research and innovation (R&I) businesses. The company's 2019 investments included five outstanding R&I development projects affiliated with top-tier new and existing university partners totaling nearly \$1 billion. The company also has a robust development pipeline. Such investments offer Ventas the opportunity to capitalize on the growing healthcare-driven research and development, supported by top-tier research universities. Increasing longevity of the aging U.S. population, along with biopharma drug development growth opportunities, have also promoted the institutional life science and medical-market fundamentals. Further, long-lease terms and top-rated, institutional quality tenants assure steady growth in cash flows for Ventas. Moreover, Ventas announced that it has sponsored and formed the Ventas Life Science and Healthcare Real Estate Fund, L.P, a perpetual life vehicle, which will focus on investments in core and core plus life-science, medical office and senior housing real estate asset classes. This new growth platform builds on Ventas brand, team and industry expertise and relationships.
- ▲ Ventas usually leases its healthcare facilities under "triple net" leases, where the tenant pays for taxes, insurance and maintenance of the properties, in addition to rent. These long-term net lease properties produce a steady cash flow with escalations, the majority of which are tied to CPI (consumer price index). This insulates the company from short-term market swings that may adversely affect the operations of a particular facility. In fact, with a well-diversified portfolio with rent-paying ability from significant tenants, the company's triple-net operation is likely to remain healthy.
- ▲ Ventas has a strong balance sheet with ample liquidity to eye high-yielding acquisitions and high ROI (return on investments) capital projects. At the end of 2019, the company had robust available liquidity from cash on hand and existing credit facilities aggregating \$2.6 billion, net of \$567 million of outstanding commercial paper. Further, the company has improved its balance sheet and liquidity and funded new investments through issuance and refinancing of \$1.4 billion of company debt and sourcing equity financing and local currency debt for its Canadian investments. Moreover, at year-end 2019, the company maintained a weighted average debt maturity on senior notes of nearly 8 years and improved its cost of debt to 3.5%. Such capital market executions improve the company's financial flexibility, providing it the dry power to pursue its growth endeavors.
- ▲ Moreover, solid dividend payouts are arguably the biggest enticement for REIT shareholders and Ventas remains committed to that. The company marginally increased its dividends for fourth-quarter 2018 and maintained the same dividend rate subsequently. In fact, the company has consistently increased its dividend every year for more than a decade. Considering from 2001, the company's compound annual dividend increase is 8%. Given its financial position, this dividend rate is expected to be sustainable.

Ventas' high-quality diversified portfolio is well positioned to gain from strong demographic demand. Accretive external investments and upside in the office portfolio are growth drivers.

Reasons To Sell:

- ▼ Increase in supply of seniors' housing assets in certain markets is a concern for Ventas. This is because elevated supply usually curtails landlords' pricing power and limits growth in occupancy level. Moreover, while discussing the impact of COVID-19, the company noted that in its senior housing business, there are solid signals that tours and move-ins are starting to slow, while the pandemic increases the risk of a high level of move-outs. Also, the operating costs of the company's partners are rising. With anticipations of these trends to continue, the company has withdrawn its full-year 2020 guidance.
- ▼ The company also faces tenant concentration risk in its triple-net leased property segment. Specifically, properties leased to Brookdale Senior Living, Ardent and Kindred account for a significant part of Ventas' segmental revenues and NOI. Hence, in case of no lease renewal or any adverse development in these three tenants, Ventas' financial condition and results will likely be impacted.
- ▼ Although interest rates are at low levels currently, any hike remains a woe for Ventas, particularly considering its substantial exposure to long-term leased assets. Properties under long-term triple-net leases generally have fixed rental rates, which are subject to annual escalations. However, many of the company's debt obligations bear floating rates with interest and related payments rates varying with the movement of LIBOR, bankers' acceptance or other indexes. Therefore, any rise in the interest rate is likely to raise the cost of debt, which, in turn, might affect the company's profitability. In addition, rising rates increase the cost of financing acquisitions, investment and development-activity and also lowers the amount that third parties are ready to pay for the company's assets at disposal. Moreover, the dividend payout might become less attractive than the yields on fixed income and money market accounts.
- ▼ The company is making efforts to unlock value of its assets through opportunistic disposals of non-core senior housing operating assets and using proceeds to retire debt and invest in growth opportunities. Particularly, the company initiated plans to dispose of \$600 million of non-strategic senior housing assets in 2020. Although such efforts enable the company to optimize its portfolio, better manage financial obligations and reinvest in its attractive R&I development pipeline, near-term dilution in earnings cannot be bypassed.
- ▼ Ventas operates in a cut-throat market and competes with national and local healthcare operators on a number of factors, including quality, price and range of services provided, reputation, location and demographics of the population in the surrounding area, as well as the financial condition of its tenants and operators. Also, the company's operators contend with peers for occupancy and to manage labor costs. This significantly limits its power to drive its top line as well as crack deals at attractive rates.
- ▼ Shares of Ventas have plunged 56%, wider than its industry's decline of 21.9% over the past year. In addition, the trend in estimate revisions of 2020 FFO per share does not indicate a favorable outlook for the company as estimates have declined over the past month. Hence, given the above-mentioned concerns and downward estimate revision, the stock is unlikely to perform well in the upcoming period.

Dependence on few tenants and intense competition with national and local operators are concerns for Ventas. Further, higher supply of senior housing assets curtails its pricing power.

Last Earnings Report

Ventas Q4 FFO Beats Estimates, Revenues Improve Y/Y

Ventas reported fourth-quarter 2019 normalized FFO per share of 93 cents, beating the Zacks Consensus Estimate of 92 cents. However, the figure came in lower than the year-ago tally of 96 cents.

Results reflect solid performance of its Medical Office, Healthcare and R&I portfolios, though the Senior Housing business faced a choppy market environment.

The company generated revenues of around \$996 million in the fourth quarter, which surpassed the Zacks Consensus Estimate of \$979.5 million. The top line also compares favorably with the year-ago number of \$923.3 million.

For full-year 2019, the company reported normalized FFO per share of \$3.85, down 5.4% from the prior year's \$4.07. Revenues for the full year also climbed 3.4% year on year to \$3.87 billion.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	1.69%
EPS Surprise	1.09%
Quarterly EPS	0.93
Annual EPS (TTM)	3.85

Quarter in Detail

For the fourth quarter, same-store cash NOI growth for the total property portfolio (1,102 assets) edged down 0.6% year over year. Segment wise, though same-store cash NOI for the triple-net leased portfolio grew 2.1% and the office portfolio rose 3.8%, the senior housing operating properties (SHOP) portfolio reported a decline of 7.5%, year on year.

Notably, the same-store SHOP NOI performance in the fourth quarter reflects the cumulative impact of new competition that affected SHOP occupancy and rate. Nevertheless, same-store growth of the triple-net leased portfolio was driven by in-place lease escalations, specifically in its growing triple-net leased healthcare portfolio of acute and post-acute assets. Moreover, solid growth of the office portfolio was fueled by Ventas' university-based R&I portfolio and healthy growth in its Medical Office Building (MOB) portfolio.

Liquidity

Ventas exited fourth-quarter 2019 with cash and cash equivalents of \$106.4 million, up from the \$148.1 million recorded as of the prior-quarter end. In addition, the company's available liquidity from cash on hand and existing credit facilities aggregated \$2.6 billion, net of \$567 million of outstanding commercial paper at the end of 2019.

Outlook

Ventas expects its 2020 normalized FFO per share of \$3.56-\$3.69. The 2020 Nareit FFO per share is projected at \$3.79-\$3.94.

The full-year projection of the company is backed by same-store cash NOI growth assumption of a 1.5-2.5% year-over-year increase for the tripple-net leased portfolio and a 3-4% jump for the office portfolio. However, the company expects a 4-9% decline for the SHOP portfolio, reflecting lower occupancy start point in January 2020 as well as the impact of cumulative supply.

Recent News

Ventas Withdraws 2020 Guidance, Updates on Liquidity - Mar 17, 2020

Ventas has withdrawn its previously issued 2020 financial guidance in response to the uncertainty caused by the COVID-19 pandemic.

Regarding its senior housing business, the company noted that through February 2020, the senior housing operating business delivered results in-line with the company's expectations and so far in 2020, the company has received significantly all of its NNN rent payments, as expected.

However, the company noted that there are solid signals that tours and move-ins are starting to slow, while the pandemic increases the risk of a high level of move-outs. Also, the operating costs of the company's partners are rising. With anticipations of these trends to continue, the company has withdrawn its full-year outlook.

Moreover, as part of its protective measure, the company has recently drawn on its revolving credit facility in the amount of \$2.75 billion under its \$3.0 billion revolving credit facility and remains focused on maintaining a strong balance sheet, liquidity and financial flexibility. Encouragingly, due to the proactive measures taken by the company of late, the company has limited debt maturities through 2021, negligible commercial paper outstanding and no unannounced investment commitments.

Ventas Unveils Perpetual Life Vehicle With Focus on Life Science & Healthcare Real Estate - Feb 20, 2020

Ventas announced that it has sponsored and formed the Ventas Life Science and Healthcare Real Estate Fund, L.P, a perpetual life vehicle. This vehicle will focus on investments in core and core plus life science, medical office and senior housing real estate asset classes in North America and concurrently benefit Ventas's public equity shareholders.

Expected to launch during the first quarter of 2020, this new growth platform builds on Ventas brand, team and industry expertise and relationships. It will have more than \$700 million in assets under management and third-party equity commitments of around \$650 million.

Dividend Update

On Mar 19, Ventas announced its first-quarter 2020 cash dividend of 79.25 cents per share. The dividend will be paid on Apr 14, to the shareholders of record on Apr 1, 2020.

Valuation

Ventas' shares have plunged 56% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 21.9% and 24% over the past year.

The S&P 500 Index is down 12.8% over the past year.

The stock is currently trading at 8.05X forward 12-month FFO, which compares to 13.41X for the Zacks sub-industry, 10.66X for the Zacks sector and 14.92X for the S&P 500 Index.

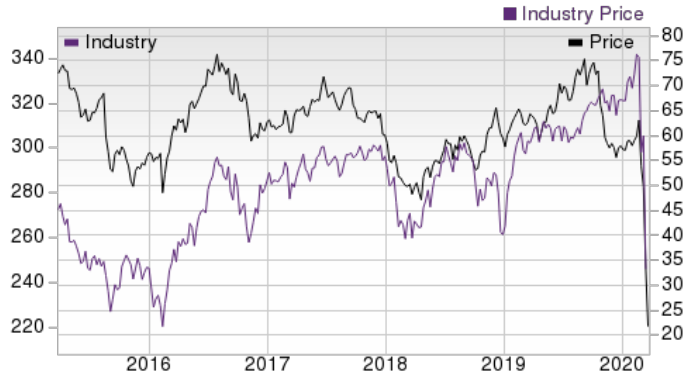
Over the past five years, the stock has traded as high as 19.29X and as low as 4.71X, with a 5-year median of 15.06X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$30 price target reflects 8.41X FFO.

The table below shows summary valuation data for VTR.

Valuation Multiples - VTR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.05	13.41	10.66	14.92
	5-Year High	19.29	18.7	16.21	19.34
	5-Year Low	4.71	13.41	10.66	14.92
	5-Year Median	15.06	16.08	13.97	17.42
P/S F12M	Current	2.72	5.96	5.99	2.68
	5-Year High	7.79	8.14	6.64	3.43
	5-Year Low	1.6	5.91	5.39	2.54
	5-Year Median	6.04	6.87	6.04	3
P/B TTM	Current	1.02	2.06	1.92	3.33
	5-Year High	2.78	3.01	2.89	4.56
	5-Year Low	0.6	1.8	1.68	2.85
	5-Year Median	2.08	2.52	2.52	3.63

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 253)



Top Peers

Healthcare Realty Trust Incorporated (HR)	Neutral
Healthcare Trust of America, Inc. (HTA)	Neutral
LTC Properties, Inc. (LTC)	Neutral
Medical Properties Trust, Inc. (MPW)	Neutral
Omega Healthcare Investors, Inc. (OHI)	Neutral
Healthpeak Properties, Inc. (PEAK)	Neutral
Sabra Healthcare REIT, Inc. (SBRA)	Neutral
Welltower Inc. (WELL)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	VTR Neutral	X Industry	S&P 500	PEAK Neutral	SBRA Neutral	WELL Neutral
VGM Score	D	-	-	F	D	F
Market Cap	10.71 B	1.88 B	18.50 B	12.30 B	2.30 B	20.70 B
# of Analysts	8	4	13	8	6	10
Dividend Yield	11.03%	5.80%	2.35%	6.09%	16.07%	6.90%
Value Score	C	-	-	F	D	D
Cash/Price	0.02	0.04	0.07	0.02	0.03	0.02
EV/EBITDA	12.14	12.85	11.16	19.11	12.01	16.45
PEG Ratio	3.64	3.07	1.74	7.46	-3.14	3.64
Price/Book (P/B)	1.02	1.13	2.44	1.81	0.65	1.24
Price/Cash Flow (P/CF)	7.17	9.51	9.87	16.39	9.04	8.98
P/E (F1)	8.62	11.00	15.29	13.73	6.59	12.67
Price/Sales (P/S)	2.77	4.14	1.93	6.16	3.47	4.04
Earnings Yield	11.83%	9.09%	6.47%	7.28%	15.18%	7.90%
Debt/Equity	1.15	0.87	0.70	0.95	0.69	0.90
Cash Flow (\$/share)	4.01	2.02	7.01	1.48	1.24	5.62
Growth Score	D	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	-3.38%	2.75%	10.85%	-14.64%	-2.11%	-1.60%
Proj. EPS Growth (F1/F0)	-11.65%	2.19%	2.89%	0.64%	-8.69%	-4.38%
Curr. Cash Flow Growth	13.38%	4.13%	5.93%	-55.20%	-46.74%	28.20%
Hist. Cash Flow Growth (3-5 yrs)	3.38%	12.64%	8.55%	-12.01%	21.58%	9.39%
Current Ratio	0.68	1.26	1.23	0.95	1.44	1.86
Debt/Capital	53.55%	46.57%	42.57%	48.79%	40.78%	48.25%
Net Margin	11.18%	13.67%	11.64%	2.24%	10.43%	24.07%
Return on Equity	4.08%	4.42%	16.74%	0.68%	2.11%	8.07%
Sales/Assets	0.16	0.13	0.54	0.15	0.11	0.16
Proj. Sales Growth (F1/F0)	1.03%	3.41%	2.37%	6.84%	-5.98%	-0.57%
Momentum Score	F	-	-	D	D	F
Daily Price Chg	1.16%	6.00%	6.21%	11.05%	2.00%	9.21%
1 Week Price Chg	-35.13%	-21.66%	-16.96%	-27.37%	-13.37%	-17.28%
4 Week Price Chg	-47.77%	-25.00%	-15.70%	-25.79%	-44.44%	-33.30%
12 Week Price Chg	-49.05%	-27.79%	-23.67%	-27.79%	-46.59%	-37.10%
52 Week Price Chg	-55.97%	-28.29%	-13.99%	-23.26%	-42.94%	-35.85%
20 Day Average Volume	8,608,888	1,233,460	4,286,768	6,733,496	4,853,276	7,154,818
(F1) EPS Est 1 week change	-4.49%	0.00%	-0.15%	-1.72%	-3.60%	-3.80%
(F1) EPS Est 4 week change	-7.27%	-0.81%	-2.28%	-2.14%	-4.05%	-7.38%
(F1) EPS Est 12 week change	-9.42%	-1.30%	-3.22%	-2.38%	-9.10%	-8.77%
(Q1) EPS Est Mthly Chg	-0.55%	0.00%	-1.60%	-0.96%	0.46%	-0.36%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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