

Welltower Inc. (WELL)

\$58.71 (As of 06/04/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/03/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

Summary

Welltower's seniors housing operating (SHO) portfolio has been witnessing elevated operating expenses and a decline in occupancy amid the pandemic. This is concerning as senior housing has been struggling from new supply and higher labor costs. Also, the company's shares have underperformed the industry over the past year. Nonetheless, Welltower recently entered two disposition transactions for \$1.3 billion, bolstering its near-term available liquidity to \$4.6 billion. This along with a diversified portfolio will support the company in uncertain times. Over the long term, it will benefit from the growing demand for healthcare assets amid rising healthcare spending and a favorable demographic trend. The company also renewed outpatient medical lease for 86% of leases expiring in the second quarter, indicating strength of the asset class.

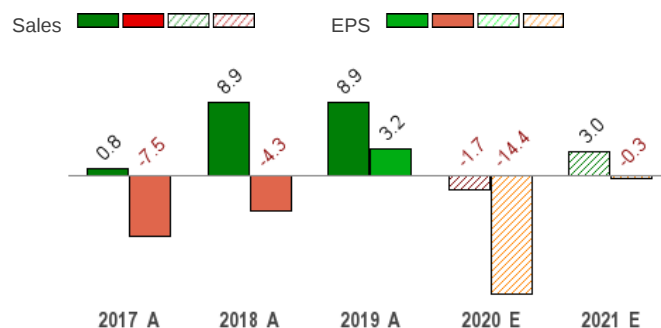
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.17 - \$24.27
20 Day Average Volume (sh)	4,632,570
Market Cap	\$24.5 B
YTD Price Change	-28.2%
Beta	0.85
Dividend / Div Yld	\$2.44 / 4.2%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 47% (120 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	07/29/2020
Earnings ESP	-9.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,233 E	1,251 E	1,269 E	1,288 E	5,184 E
2020	1,259 A	1,245 E	1,242 E	1,244 E	5,034 E
2019	1,272 A	1,320 A	1,266 A	1,263 A	5,121 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.88 E	\$0.90 E	\$0.93 E	\$0.95 E	\$3.55 E
2020	\$1.02 A	\$0.90 E	\$0.91 E	\$0.90 E	\$3.56 E
2019	\$1.02 A	\$1.05 A	\$1.05 A	\$1.05 A	\$4.16 A

*Quarterly figures may not add up to annual.

P/E TTM	14.1
P/E F1	16.5
PEG F1	3.4
P/S TTM	4.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/04/2020. The reports text is as of 06/05/2020.

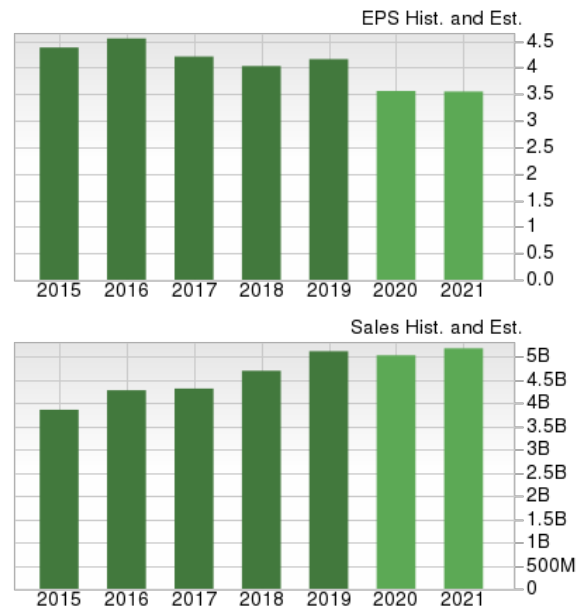
Overview

Toledo, OH-based, Welltower, formerly known as Health Care REIT, Inc. is a real estate investment trust (REIT) that is engaged in investments of seniors housing operators, post-acute providers and health systems. Founded in 1970, this company was the first REIT to invest exclusively in healthcare facilities. Its portfolio is concentrated in major, high-growth markets in the United States, Canada and the U.K. Properties include seniors housing communities, post-acute care facilities and outpatient medical centers. In addition to this, the company also offers a vast range of property management and development services.

Welltower's consolidated portfolio can be categorized into three property types — triple-net, seniors housing operating (operated through RIDEA structures) and outpatient medical facilities. For the period ended Mar 31, 2020, 42.2% of the company's net operating income (NOI) came from seniors housing operating assets, 33.7% from triple-net and 24.1% from outpatient medical facilities.

Welltower's pro-rata gross investments in the first quarter totaled \$538 million. This included \$398 billion in acquisitions and \$141 million in development funding. Apart from this, the company completed property dispositions of \$708 million, while loan payoffs summed \$9 million.

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:

- ▲ Welltower has a diversified portfolio in the healthcare real estate industry that allows it to explore opportunities in different markets based on individual market dynamics. The company usually leases its healthcare facilities under "triple net" leases, where the tenant pays all taxes, insurance and maintenance for the properties in addition to rent. Moreover, the company establishes and is expanding business relationships with experienced healthcare management companies or operators who lease these properties on a long-term basis. These activities insulate the company from short-term market swings and drive steady top-line growth.
- ▲ Welltower is focusing on strategic portfolio optimization and synergistic collaborations with health systems to invest in the next generation assets of health and wellness care delivery. In fact, the company has resorted to capital-recycling activities to finance near-term investment and development opportunities. Specifically, the company is selling non-core properties to reduce its exposure to long-term/post-acute care segment. Moreover, restructuring initiatives have enabled the company to attract top-class operators while dispositions have improved the quality of its cash flows.
- ▲ The national healthcare expenditure is projected to increase in the coming years with senior citizens incurring higher medical expenses against the average population. Therefore, in the wake of aging baby boomers, we expect Welltower to benefit from this trend. Also, the healthcare sector is relatively immune to the macroeconomic problems faced by office, retail and apartment companies and offers stability to the company amid market volatility. This is because, even during tough economic conditions, consumers prioritize the spending on healthcare services while curtailing discretionary purchases.
- ▲ There has been a favorable outpatient visits trend compared with in-patient admissions. Banking on this, the company is optimizing its outpatient medical portfolio and growing relationships with strategic health system partners and deploying capital in strategic acquisitions. In fact, in 2019, the company completed \$2.4 billion of pro rata gross outpatient medical investments at a 5.6% yield and \$155 million in development funding with a 6.4% yield. The acquisition efforts continued in first-quarter 2020. The company is experiencing decent NOI growth in its outpatient medical segment. Given the favorable secular trends and growing need for value-based care, the company's efforts to strengthen its outpatient medical footprint will boost long-term growth. Moreover, it executed renewal lease for 86% of leases expiring in the second quarter.
- ▲ Welltower remains focused on improving its SHO portfolio through addition of strategic properties and recycling of capital on the back of dispositions. Through these prudent capital-allocation measures, the company has improved its SHO portfolio operator diversification and expanded geographic footprint in high barrier-to-entry urban markets. Although RevPOR growth is expected to be flat in the second quarter, stronger demographics and increasing penetration rates have favorably positioned the portfolio for long-term growth. Further, by structuring management contracts as RIDEA 3.0 negotiations as compared to standard RIDEA ones, the company is enhancing its operating capabilities.
- ▲ Welltower has a decent balance-sheet position and ample liquidity to meet near-term obligations and fund its development pipeline. Moreover, in light of the coronavirus pandemic, the company continues to undertake steps to solidify the balance sheet. In fact, following the completion of recent \$1.3-billion dispositions, it bolstered its near-term available liquidity to \$4.6 billion as of May29, 2020. In April, it closed on the previously-announced \$1-billion two-year unsecured term loan. These proceeds were used to reduce the company's debts under its unsecured revolving credit facility. Also, Welltower has no significant unsecured debt maturities until 2023. This ready availability of significant liquidity with no short-term debt maturities bodes well for the company in the testing times. Further, the company improved net debt to adjusted EBITDA to 5.93x at the first-quarter end from 6.37x at the end of 2019. Finally, as of the first-quarter end, it enjoyed investment-grade credit rating of BBB+, BBB+ and Baa1 from S&P Global Ratings, Fitch and Moody's, respectively.

With a diversified portfolio of healthcare assets, strategic repositioning efforts and strong balance-sheet position, Welltower will benefit amid rising healthcare spending and aging population.

Reasons To Sell:

- ▼ Amid the COVID-19 pandemic, the company's SHO portfolio is experiencing a decline in occupancy, higher operating expenses and lower NOI margin. The company is experiencing declining move-ins and move-outs, tour limitations, elevated labor expenses and higher procurement costs of personal protective equipment (PPE). Amid this backdrop, the company expects SHO portfolio occupancy to witness a sequential decline of 500-600 basis points in the second quarter. In addition, total SHO portfolio expense for the April-June quarter is anticipated to increase 5% sequentially. Furthermore, stay-at-home orders and the temporary closure of certain medical practices will likely impact Welltower's medical-office-building tenants' ability to pay rent. The company expects this to result in revenue reductions and increase in uncollectible receivables.
- ▼ Welltower's near-term cash flow is expected to be impacted by continued occupancy declines and increase in operator expenses, owing to staffing and the cost of PPE as well as rent deferment requests from medical office tenants. Further, the company reduced its quarterly dividend by 30% and withdrew its 2020 guidance in April.
- ▼ Welltower operates in an intensely competitive market and competes with national and local healthcare operators regarding factors such as quality, price and range of services provided, and reputation, location and demographics of the population in the surrounding area, along with the financial condition of its tenants and operators. This limits the company's power to significantly raise its top line and ink deals at attractive rates.
- ▼ As part of its portfolio-repositioning efforts, Welltower is aggressively disposing its assets. The company completed \$1.5 billion in pro-rata dispositions from the start of the year through May 30. It expects sale proceeds of \$312 million from assets held for sale for the remainder of the year. Though such efforts of the company to improve its portfolio mix are commendable, the dilutive impact on earnings from such asset dispositions cannot be bypassed. Also, amid the COVID-19 pandemic, the company's ability to sell its healthcare properties has been limited.
- ▼ Welltower's shares have lost 28.9% in the trailing 12 months compared with its industry's decline of 3%. In addition, the trend in estimate revisions of second-quarter 2020 FFO per share does not indicate a favorable outlook for the company as estimates experienced marginal downward revision over the past month. Hence, given the above-mentioned concerns and downward estimate revision, the stock is unlikely to perform well.

Rising supply and stiff competition are pressing concerns. Also, occupancy declines and higher operating expenses at Welltower's senior housing portfolio amid the coronavirus pandemic are woes.

Last Earnings Report

Welltower Surpasses Q1 FFO Estimates, Revenues Miss

Welltower reported normalized FFO per share of \$1.02 in first-quarter 2020, which surpassed the Zacks Consensus Estimate of \$1.01. The reported figure remained unchanged year over year.

The company's SHO portfolio was severely impacted by the coronavirus pandemic. In fact, the segment witnessed \$7 million of unexpected property-level expenses related to the virus outbreak in March 2020. This impacted the company's normalized FFO per share.

Moreover, it generated revenues of \$1.26 billion, which missed the Zacks Consensus Estimate of \$1.28 billion. The top line also compared unfavorably with the year-earlier quarter's reported figure of \$1.27 billion.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	-1.54%
EPS Surprise	0.99%
Quarterly EPS	1.02
Annual EPS (TTM)	4.17

Quarter in Detail

Welltower's pro-rata gross investments in the first quarter totaled \$538 million. This included \$398 billion in acquisitions (four transactions) and \$141 million in development funding.

Apart from this, the company completed property dispositions of \$708 million, while loan payoffs summed \$9 million.

It exited the quarter with \$303 million of cash and cash equivalents, up from \$249.1 million recorded a year ago. In addition, as of Mar 31, 2020, it had \$2.2 billion of available borrowing capacity under its unsecured credit facility.

Share Repurchase

In first-quarter 2020, the company's board of directors authorized a share repurchase program of up to \$1 billion of common stock through Dec 31, 2021.

Recent News

Welltower Issues Update on May Portfolio, Disposition & Liquidity Status – Jun 1, 2020

Welltower announced an update on the SHO portfolio, triple-net portfolio, outpatient medical portfolio, disposition transactions and liquidity status.

SHO Portfolio

Notably, new admissions continue to be restricted for around 39% of SHO properties as of May 29. Moreover, during May, move-ins declined year over year to nearly 79%. Low move-in activities and ban on admissions likely drove an occupancy decline.

The company announced the SHO portfolio's spot occupancy of 81.1% as of May 29, 2020. This indicates a decline of around 150 bps since May 1.

Nonetheless, it witnessed a slowing pace of occupancy declines in the second half of May.

The company continues to expect SHO portfolio occupancy to witness a sequential decline of 500-600 bps in the second quarter.

Moreover, total SHO portfolio expenses for the April-June quarter are anticipated to increase by 5% sequentially, primarily driven by a rise in labor expenses. In fact, the company incurred \$18 million in the coronavirus outbreak-related expenses, labor costs and procurement of PPE in April.

Outpatient Medical & Triple-Net Portfolio

The outpatient medical portfolio's occupancy as of May 29, 2020, was 93.8%. Moreover, the company has collected or approved deferral requests for 98% of its May rents.

It continues to capitalize on the favorable secular trends and growing need for value-based care in its medical office asset class as indicated by lease renewal activity. In fact, the company executed a renewal lease for 86% of leases expiring in the second quarter.

It also received 94% of May rents in its triple-net portfolio.

Dispositions and Liquidity Position

Post first-quarter earnings, the company's dispositions aggregated \$1.3 billion across two transactions. This included the two-phased sale of a \$1-billion portfolio of seven seniors housing and 29 outpatient medical properties as well as a \$300-million portfolio of six seniors housing assets in the Midwest.

The first tranche of the \$1-billion portfolio sale closed in May. The company disposed of six seniors housing assets and 12 outpatient medical assets for gross proceeds of \$429 million. The second tranche of the transaction is expected to close in July 2020 for gross proceeds of \$360 million.

The \$300-million portfolio was closed on May 29 for \$228 million.

With this, the company completed \$1.5 billion in pro-rata dispositions year to date. It also expects proceeds of \$312 million from assets held for sale for the remainder of the year.

Through the dispositions, the company also enhanced its near-term liquidity to more than \$4.6 billion.

Dividend Update

On May 4, 2020, Welltower announced a cash dividend of 61 cents per share for the first quarter. The dividend was paid out on May 28 to stockholders of record as of May 19. This marks the company's 196th consecutive quarterly cash dividend payout. The announced dividend represents a 30% sequential decline and was slashed due to the anticipated impacts of the COVID-19 outbreak.

Valuation

Welltower's shares have been down 28.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have declined 2.9% and 10.3%, over the past year.

The S&P 500 Index has been up 9.9% over the trailing 12-month period.

The stock is currently trading at 16.51X forward 12-month FFO, which compares to 19.03X for the Zacks sub-industry, 17.16X for the Zacks sector and 22.48X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.51X and as low as 7.82X, with a 5-year median of 19.44X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$62 price target reflects 17.44X FFO.

The table below shows summary valuation data for WELL.

Valuation Multiples - WELL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.51	19.03	17.16	22.48
	5-Year High	21.51	19.03	17.16	22.48
	5-Year Low	7.82	14.90	11.57	16.14
	5-Year Median	19.44	17.72	14.09	17.54
P/S F12M	Current	4.81	8.21	5.80	3.50
	5-Year High	7.08	8.21	6.69	3.50
	5-Year Low	2.64	6.59	4.98	2.80
	5-Year Median	6.47	7.76	6.24	3.19
P/B TTM	Current	1.41	2.39	2.40	4.25
	5-Year High	2.35	3.01	2.86	4.56
	5-Year Low	0.82	1.80	1.71	3.03
	5-Year Median	2.09	2.66	2.68	4.06

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Top 47% (120 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Healthcare Realty Trust Incorporated (HR)	Neutral	3
Healthcare Trust of America, Inc. (HTA)	Neutral	3
LTC Properties, Inc. (LTC)	Neutral	4
Medical Properties Trust, Inc. (MPW)	Neutral	3
Omega Healthcare Investors, Inc. (OHI)	Neutral	3
Healthpeak Properties, Inc. (PEAK)	Neutral	3
Sabra Healthcare REIT, Inc. (SBRA)	Neutral	3
Ventas, Inc. (VTR)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	WELL	X Industry	S&P 500	OHI	PEAK	VTR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	B	D	C
Market Cap	24.51 B	2.07 B	22.58 B	7.54 B	14.95 B	15.36 B
# of Analysts	9	4	14	5	8	9
Dividend Yield	4.16%	4.15%	1.87%	8.06%	5.33%	7.70%
Value Score	D	-	-	D	D	C
Cash/Price	0.02	0.07	0.06	0.05	0.07	0.22
EV/EBITDA	17.78	14.55	12.93	14.82	21.17	14.24
PEG Ratio	3.66	3.65	3.06	6.11	3.89	4.38
Price/Book (P/B)	1.41	1.34	3.09	1.79	1.80	1.43
Price/Cash Flow (P/CF)	10.45	11.21	12.17	11.24	18.72	10.28
P/E (F1)	17.73	15.29	22.17	10.88	16.71	13.14
Price/Sales (P/S)	4.80	5.12	2.41	7.87	6.97	3.90
Earnings Yield	6.06%	6.08%	4.27%	9.20%	5.98%	7.60%
Debt/Equity	0.82	0.92	0.76	1.31	0.82	1.32
Cash Flow (\$/share)	5.62	2.03	7.01	2.96	1.48	4.01
Growth Score	C	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	-1.85%	2.02%	10.87%	-0.66%	-14.44%	-3.31%
Proj. EPS Growth (F1/F0)	-14.42%	-2.81%	-10.79%	-0.46%	-5.54%	-18.62%
Curr. Cash Flow Growth	28.20%	3.36%	5.48%	15.21%	-55.20%	13.38%
Hist. Cash Flow Growth (3-5 yrs)	9.39%	12.74%	8.55%	13.24%	-12.01%	3.38%
Current Ratio	2.00	1.83	1.29	3.93	1.40	2.86
Debt/Capital	45.75%	48.50%	44.75%	56.68%	44.99%	56.94%
Net Margin	24.71%	12.85%	10.59%	37.71%	12.22%	19.80%
Return on Equity	8.51%	3.98%	16.26%	8.66%	3.80%	7.26%
Sales/Assets	0.16	0.13	0.55	0.10	0.15	0.16
Proj. Sales Growth (F1/F0)	-1.70%	0.00%	-2.61%	8.75%	23.72%	-0.11%
Momentum Score	D	-	-	B	B	B
Daily Price Chg	-0.44%	0.02%	-0.08%	0.76%	0.65%	1.48%
1 Week Price Chg	5.96%	4.79%	4.60%	5.31%	0.37%	3.68%
4 Week Price Chg	39.79%	15.01%	12.07%	25.85%	18.47%	52.07%
12 Week Price Chg	27.77%	14.11%	25.17%	33.75%	10.59%	50.46%
52 Week Price Chg	-28.91%	-14.64%	0.34%	-8.28%	-12.75%	-35.41%
20 Day Average Volume	4,632,570	877,892	2,537,324	2,513,417	5,123,960	4,487,618
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.63%	-0.11%	-0.08%	3.85%	0.38%	3.83%
(F1) EPS Est 12 week change	-16.76%	-5.29%	-16.19%	-2.91%	-8.21%	-15.21%
(Q1) EPS Est Mthly Chg	-0.92%	-0.52%	0.00%	10.15%	-1.36%	4.23%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Growth Score	C
Momentum Score	D
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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