

Welltower Inc. (WELL)

\$50.68 (As of 03/11/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: B

Summary

Welltower's better-than-expected normalized funds from operations (FFO) per share in fourth-quarter 2019 reflect healthy same-store net operating income performance. Continued strength across all its operating segments is a positive. Welltower has a differentiated portfolio of seniors housing and medical office assets, which positions it well to capitalize on growing demand for healthcare assets amid a rising healthcare spending and a favorable demographic trend. Efforts to expand the outpatient medical portfolio through accretive acquisitions are encouraging and a decent balance sheet offers ample scope to pursue growth moves. Yet, its shares have underperformed its industry over the past year. High supply of seniors housing assets will likely stiffen competition while large-scale sales might induce near-term earnings dilution.

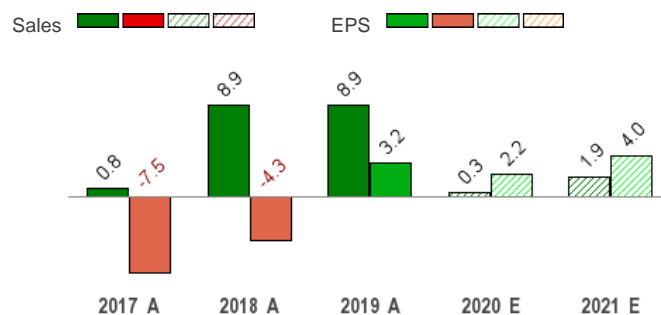
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.17 - \$55.34
20 Day Average Volume (sh)	3,861,978
Market Cap	\$23.2 B
YTD Price Change	-30.9%
Beta	0.34
Dividend / Div Yld	\$3.48 / 6.2%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 45% (113 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	05/05/2020
Earnings ESP	-0.2%
P/E TTM	13.6
P/E F1	12.0
PEG F1	2.5
P/S TTM	4.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,312 E	1,322 E	1,333 E	1,344 E	5,235 E
2020	1,276 E	1,279 E	1,281 E	1,287 E	5,136 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	\$1.08 E	\$1.09 E	\$1.09 E	\$1.09 E	\$4.42 E
2020	\$1.04 E	\$1.05 E	\$1.07 E	\$1.07 E	\$4.25 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/11/2020. The reports text is as of 03/12/2020.

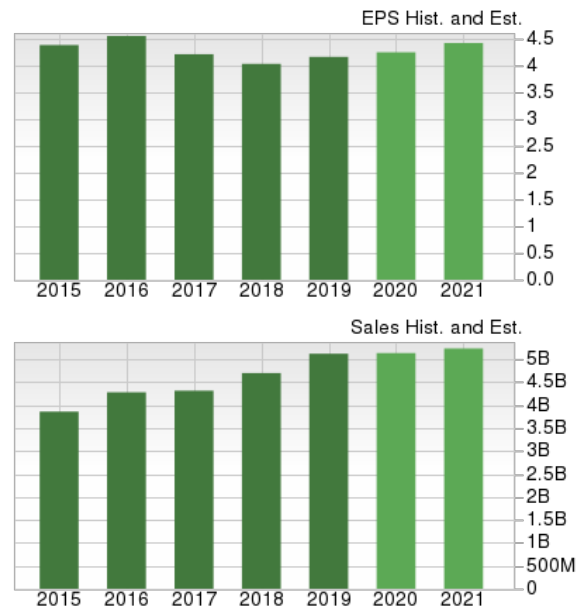
Overview

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 Dec 31, 2019, 42.8% of the company's net operating income (NOI) came from seniors housing operating assets, 37.9% from triple-net and 19.3% from outpatient medical facilities.

Welltower's pro-rata gross investments in 2019 totaled \$4.8 billion. This included \$4.1 billion in acquisitions and \$682 million in development funding. This apart, the company completed property dispositions of \$2.7 billion while loan payoffs summed \$192 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. Further, the company is selling non-core properties to reduce its exposure to long-term/post-acute care segment. Such accretive acquisition efforts are also aimed at increasing focus on premium private-pay healthcare real estate and capitalizing on the increased interest of domestic and foreign institutional investors in the U.S. healthcare real estate. 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 as 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 significant increase in outpatient visits 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 company is experiencing decent NOI growth in its outpatient medical segment. Further, same-store growth is expected to improve in the upcoming quarter as cash rent commences in its newly-leased space. 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.
- ▲ Welltower remains focused on improving its SHOP asset 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 SHOP portfolio operator diversification and expanded geographic footprint in high barrier-to-entry urban markets, leading to superior RevPOR gains in its portfolio in the United States, the U.K and Canada. With stronger demographics and increasing penetration rates, the company's SHOP platform is favorably positioned for growth in the upcoming period. Further, by structuring management contracts as RIDEA 3.0 negotiations as compared to standard RIDEA ones, the company is enhancing its operating capabilities.
- ▲ To pursue growth opportunities and maintain its ability to source future accretive transactions, Welltower has prudently accessed both public and private capital markets across market cycles. This, in turn, helps it maintain a decent balance-sheet position. Moreover, through its disposition activities, the company remains focused on deleveraging the balance sheet. In fact, prudent capital-deployment initiatives enabled the company to extend the weighted average maturity of its unsecured debt stack to 8.8 years. Moreover, the company exited 2019 with \$284.9 million of cash and cash equivalents, up from \$215.4 million recorded a year ago. In addition, as of Dec 31, 2019, it had \$1.4 billion of available borrowing capacity under its unsecured credit facility. Such a financing strategy establishes a more conservative and balanced capital sourcing policy and will likely contribute to strengthening of the company's balance sheet.

Diversified portfolio, strategic repositioning efforts and strong balance sheet place Welltower well to gain amid rising healthcare spending and aging population.

Reasons To Sell:

- ▼ The senior housing environment remains challenging and this is a concern for Welltower. In fact, increase in the supply of seniors housing assets in certain markets is expected to impact Welltower's performance in the near term. This is because elevated supply usually curtails the landlords' pricing power and limits growth in occupancy level.
- ▼ Although interest rates levels are currently low, any hike in interest rate is a concern for Welltower as the company has substantial exposure to long-term leased assets. The properties under long-term triple-net leases generally have fixed rental rates, which are subject to annual increases. However, any rise in rates increases the cost of financing acquisitions, as well as investment and development activity expenses, and lowers the amount that third parties would be 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.
- ▼ 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. Further, increasing labor costs continues to be challenging for the company's bottom-line expansion.
- ▼ As part of its portfolio-repositioning efforts, Welltower is aggressively disposing its assets. The company had \$2.7 billion of dispositions in 2019 and for 2020, it expects pro rata disposition proceeds of \$1.7 billion. 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.
- ▼ Welltower's shares have been down 27% in the trailing 12 months while its industry has inched up 1.2%. In addition, the trend in estimate revisions of 2020 FFO per share does not indicate a favorable outlook for the company as estimates experienced a marginal downward revision over the past week. Hence, given the above-mentioned concerns and a negative estimate revision, the stock is unlikely to perform well.

Rising supply and intense competition are pressing concerns. Also, any rise in interest rates can be a challenge for Welltower as the company has substantial exposure to long-term leased assets.

Last Earnings Report

Welltower's Q4 FFO Beats Estimates, Revenues Up Y/Y

Welltower reported normalized FFO per share of \$1.05 in fourth-quarter 2019, which surpassed the Zacks Consensus Estimate by a penny. Further, the bottom line compared favorably with the year-ago quarter figure of \$1.01.

Results reflect healthy same-store NOI (SSNOI) performance of its seniors housing triple-net, outpatient medical, seniors housing operating and long-term/post-acute care segments.

Moreover, the company generated revenues of nearly \$1.26 billion, which surpassed the Zacks Consensus Estimate of \$1.25 billion. The top line also compared favorably with the year-earlier quarter's reported figure of \$1.24 billion.

In full-year 2019, normalized FFO per share came in at \$4.16, in line with the Zacks Consensus Estimate. The figure also climbed 3.2% year over year. Full-year revenues improved 9% to \$5.12 billion. Also, the reported figure marginally outpaced the Zacks Consensus Estimate of \$5.1 billion.

Quarter in Detail

Total portfolio SSNOI increased 2.2% year over year, driven by growth across all its segments.

Welltower's pro-rata gross investments in the fourth quarter totaled \$1.4 billion. This included \$1.1 billion in acquisitions (seven transactions) and \$308 million in development funding.

This apart, the company completed property dispositions of \$40 billion, while loan payoffs summed \$116 million.

The company exited the quarter with \$284.9 million of cash and cash equivalents, up from \$215.4 million recorded a year ago. In addition, as of Dec 31, 2019, it had \$1.4 billion of available borrowing capacity under its unsecured credit facility.

2020 Outlook

Welltower issued 2020 normalized FFO per share guidance of \$4.20-\$4.30.

In addition, the company expects its 2020 average blended SSNOI to grow between 1.5% and 2.5%. Further, full-year disposition proceeds are projected around \$1.7 billion.

Quarter Ending **12/2019**

Report Date	Feb 12, 2020
Sales Surprise	0.91%
EPS Surprise	0.96%
Quarterly EPS	1.05
Annual EPS (TTM)	4.17

Recent News

Chartwell Announces Acquisition of a New Residence in Quebec — Mar 3, 2020

Chartwell Retirement Residences announced completion of the acquisition of a 42.5% interest in Chartwell Le St-Gabriel résidence pour retraités from its development partner Batimo Inc. Welltower also acquired a 42.5% stake in the property while Batimo will retain 15% ownership.

A 345-suite residence offering 313 independent living and 21 assisted living suites in Saint-Hubert, Quebec — Chartwell Le St-Gabriel — opened in May 2018 and is currently 97% occupied. The property is developed by Batimo and managed by Chartwell.

Dividend Update

Welltower announced cash dividend of 87 cents per share for the fourth quarter. The dividend was paid out on Feb 28 to stockholders of record as on Feb 24. This marked the company's 195th consecutive quarterly cash dividend payout.

The board of directors also approved a 2020 quarterly cash dividend rate of 87 cents per share (\$3.48 per share annually) commencing with the February 2020 dividend payment.

Valuation

Welltower's shares have been down 27% in the trailing 12 months. Stocks in the Zacks sub-industry inched up 1.2%, while the Zacks Finance sector declined 10.7% in the past year.

The S&P 500 index is up 1.5% in the past year.

The stock is currently trading at 13.12X forward 12-month FFO, which compares to 16.81X for the Zacks sub-industry, 12.42X for the Zacks sector and 16.58X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.51X and as low as 11.58X, with a 5-year median of 15.79X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$60 price target reflects 13.94X FFO.

The table below shows summary valuation data for WELL.

Valuation Multiples - WELL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.12	16.81	12.42	16.58
	5-Year High	21.51	18.7	16.21	19.34
	5-Year Low	11.58	14.32	12.01	15.18
	5-Year Median	15.79	16.11	13.97	17.42
P/S F12M	Current	4.44	7.55	5.99	3.05
	5-Year High	7.47	8.14	6.64	3.44
	5-Year Low	4.15	5.91	5.39	2.54
	5-Year Median	5.9	6.88	6.04	3.01
P/B TTM	Current	1.39	2.54	2.34	3.88
	5-Year High	2.35	2.92	2.89	4.56
	5-Year Low	1.3	2.07	1.83	2.85
	5-Year Median	1.78	2.52	2.52	3.63

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Top 45% (113 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
Ventas, Inc. (VTR)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	WELL Neutral	X Industry	S&P 500	OHI Neutral	PEAK Neutral	VTR Neutral
VGM Score	D	-	-	D	D	D
Market Cap	23.18 B	2.18 B	19.20 B	7.13 B	14.68 B	14.15 B
# of Analysts	10	4	13	6	9	9
Dividend Yield	6.16%	5.03%	2.31%	8.52%	5.10%	8.35%
Value Score	D	-	-	F	F	D
Cash/Price	0.01	0.02	0.05	0.00	0.01	0.01
EV/EBITDA	17.61	14.39	11.76	14.26	21.58	13.98
PEG Ratio	2.46	2.95	1.73	4.40	2.87	3.47
Price/Book (P/B)	1.39	1.36	2.64	1.58	2.16	1.34
Price/Cash Flow (P/CF)	10.06	11.44	10.55	10.63	19.57	9.47
P/E (F1)	11.95	12.47	15.66	9.82	16.04	10.41
Price/Sales (P/S)	4.53	5.21	2.06	7.68	7.35	3.65
Earnings Yield	7.51%	8.02%	6.38%	10.18%	6.23%	9.62%
Debt/Equity	0.90	0.88	0.70	1.18	0.95	1.15
Cash Flow (\$/share)	5.62	2.01	7.01	2.96	1.48	4.01
Growth Score	C	-	-	D	C	D
Hist. EPS Growth (3-5 yrs)	-1.60%	2.75%	10.85%	0.30%	-14.64%	-3.38%
Proj. EPS Growth (F1/F0)	2.04%	3.17%	6.02%	4.29%	2.84%	-5.28%
Curr. Cash Flow Growth	28.20%	3.51%	6.09%	15.21%	-55.20%	13.38%
Hist. Cash Flow Growth (3-5 yrs)	9.39%	12.77%	8.52%	13.24%	-12.01%	3.38%
Current Ratio	1.86	1.28	1.24	2.67	0.95	0.68
Debt/Capital	48.25%	46.73%	42.57%	54.22%	48.79%	53.55%
Net Margin	24.07%	13.67%	11.69%	36.73%	2.24%	11.18%
Return on Equity	8.07%	4.47%	16.74%	8.38%	0.68%	4.08%
Sales/Assets	0.16	0.13	0.54	0.10	0.15	0.16
Proj. Sales Growth (F1/F0)	0.29%	4.09%	3.55%	12.42%	9.49%	1.75%
Momentum Score	B	-	-	A	A	C
Daily Price Chg	-12.57%	-7.81%	-5.37%	-10.30%	-9.53%	-13.61%
1 Week Price Chg	-1.15%	1.97%	-0.67%	-0.78%	6.57%	-7.72%
4 Week Price Chg	-34.21%	-21.30%	-20.57%	-27.32%	-20.98%	-35.31%
12 Week Price Chg	-27.94%	-16.52%	-17.57%	-22.77%	-10.45%	-32.25%
52 Week Price Chg	-27.00%	-11.84%	-8.21%	-14.15%	-7.01%	-40.25%
20 Day Average Volume	3,861,978	738,363	2,882,511	2,386,715	4,661,991	4,447,915
(F1) EPS Est 1 week change	-0.64%	0.00%	0.00%	0.00%	-0.06%	-1.10%
(F1) EPS Est 4 week change	-1.19%	-0.27%	-0.23%	0.00%	0.00%	-2.50%
(F1) EPS Est 12 week change	-2.24%	-0.69%	-0.60%	-1.17%	-0.12%	-3.82%
(Q1) EPS Est Mthly Chg	-0.38%	-0.15%	-0.52%	0.00%	0.11%	-2.45%

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	B
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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