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Jan 14, 2020

Welltower Inc. (WELL)

$84.07 (As of 01/13/20)

Price Target (6-12 Months): **$89.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/01/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: F | Growth: D | Momentum: F	**3-Hold** VGM:F

Summary

Welltower recently unveiled plans to form a long-term joint venture (JV) with Jefferson, per which it will receive Jefferson's clinician supervision at its senior housing communities in Philadelphia. Welltower has a differentiated portfolio of seniors housing and medical office assets. This positions it well to capitalize on the growing demand for healthcare assets amid rising healthcare spending. It is also improving cash flow quality by focusing on strategic portfolio optimization and non-core dispositions. A decent balance sheet offers ample scope to pursue growth endeavors. However, shares of Welltower have underperformed its industry, over the past six months. Also, high supply of seniors housing assets will impede portfolio rent and occupancy growth. Additionally, large-scale sales might result in near-term earnings dilution.

Price, Consensus & Surprise

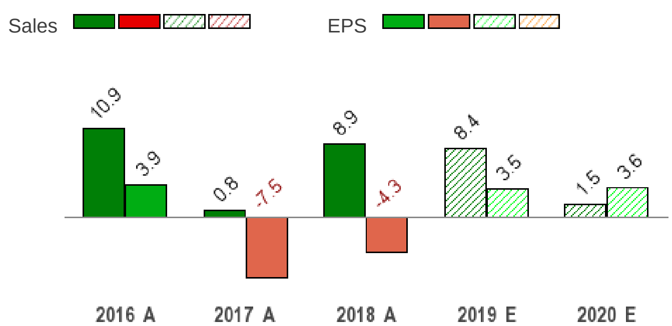
Data Overview

52 Week High-Low	**$93.17 - $71.18**
20 Day Average Volume (sh)	**1,840,881**
Market Cap	**$34.1 B**
YTD Price Change	**2.8%**
Beta	**0.14**
Dividend / Div Yld	**$3.48 / 4.1%**
Industry	**REIT and Equity Trust - Other**
Zacks Industry Rank	**Bottom 31% (174 out of 254)**

Last EPS Surprise	**1.0%**
Last Sales Surprise	**-4.4%**
EPS F1 Est- 4 week change	**-0.3%**
Expected Report Date	**02/11/2020**
Earnings ESP	**-1.0%**

P/E TTM	**20.4**
P/E F1	**19.5**
PEG F1	**4.0**
P/S TTM	**6.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	1,253 E	1,269 E	1,283 E	1,293 E	5,173 E
2019	1,272 A	1,320 A	1,266 A	1,252 E	5,098 E
2018	1,097 A	1,126 A	1,236 A	1,241 A	4,701 A

EPS Estimates

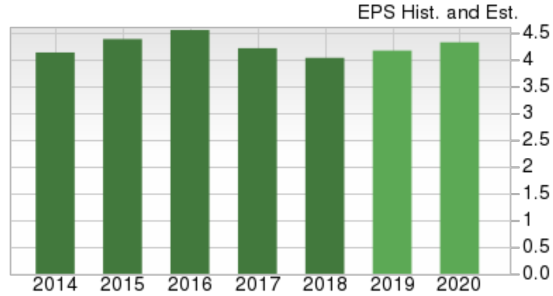
	Q1	Q2	Q3	Q4	Annual*
2020	$1.04 E	$1.08 E	$1.09 E	$1.11 E	$4.32 E
2019	$1.02 A	$1.05 A	$1.05 A	$1.05 E	$4.17 E
2018	$0.99 A	$1.00 A	$1.04 A	$1.01 A	$4.03 A

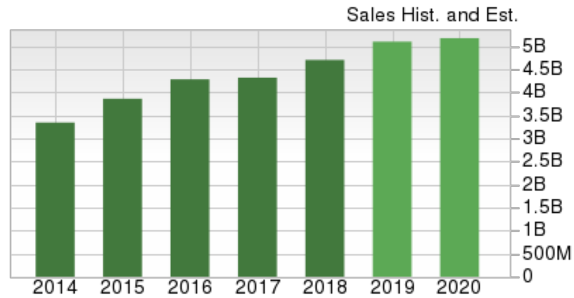
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

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 Sep 30, 2019, 41.7% of the company's net operating income (NOI) came from seniors housing operating assets, 37.8% from triple-net and 20.5% from outpatient medical facilities.

In December 2018, Welltower announced 11 separate Seniors Housing and Medical Office transactions for an aggregate investment volume of $1 billion. The Seniors Housing buyouts amounted to $725 million, while Medical Office acquisitions amounted to $280 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:

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

- ▲ 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 exposure to long-term/post-acute care segment. Since 2015 through third-quarter 2019, it has made gross investments worth $16 billion in strategic acquisitions, while dispositions amounted to $10 billion. 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, year to date through Nov 11, Welltower closed and announced pro rata outpatient medical acquisitions amounting to $3.5 billion. The company has witnessed five consecutive quarters of NOI growth in its outpatient medical segment. Further, management expects same-store growth 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. In fact, since 2015, the company has raised capital of $13 billion in gross proceeds through debt borrowings and equity offerings. 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. Prudent capital-deployment initiatives have enabled the company to extend its weighted average debt maturity to 7.8 years. The company exited the third quarter with $266 million of cash and cash equivalents. In addition, as of Sep 30, 2019, it had $1.7 billion of available borrowing capacity under its new primary 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.

Reasons To Sell:

> 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.

- 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. Year to date through October, the company has sold $2.675 billion of assets, including $558 million of post-acute transactions. In addition, this restructuring process has resulted in nearly $2 million of annual rent loss. Also, for 2019, the company expects disposition proceeds to be nearly $3.1 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.

- Over the past six months, shares of Welltower have edged down 0.4%, as against the industry's gain of 2%. In addition, the trend in estimate revisions of 2019 FFO per share does not indicate a favorable outlook for the company as estimates have remained unchanged over the past month. Hence, given the above-mentioned concerns and lack of any positive estimate revision, the stock is unlikely to perform well.

Last Earnings Report

Welltower's Q3 FFO Beats Estimates, Revenues Up Y/Y

Quarter Ending	09/2019
Report Date	Oct 28, 2019
Sales Surprise	-4.42%
EPS Surprise	0.96%
Quarterly EPS	1.05
Annual EPS (TTM)	4.13

Welltower reported normalized FFO per share of $1.05 for third-quarter 2019, which surpassed the Zacks Consensus Estimate by a penny. Further, the reported tally compared favorably with the year-ago quarter figure of $1.04.

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

The company generated revenues of nearly $1.27 billion, which lagged the Zacks Consensus Estimate of $1.32 billion. The top line, nonetheless, compared favorably with the year-earlier quarter's reported figure of approximately $1.24 billion.

Quarter in Detail

Total portfolio SSNOI jumped 2.6% year over year, driven by growth across all its segments.

Welltower accomplished $435 million of pro-rata gross investments in the third quarter. This included $294 million in acquisitions (seven transactions) and $141 million in development funding.

This apart, the company completed property dispositions of $2 billion, while loan payoffs summed $62 million.

The company exited the quarter with $266 million of cash and cash equivalents, up from the $191.2 million recorded a year ago. In addition, as of Sep 30, 2019, it had $1.7 billion of available borrowing capacity under its primary unsecured credit facility.

2019 Outlook

Welltower increased the mid-point of its 2019 normalized FFO per share guidance to $4.14-$4.18 from the prior band of $4.10-$4.20.

In addition, the company raised its 2019 average blended SSNOI expectation to 2.25-2.75% from 2-2.5% previously estimated. Further, full-year disposition proceeds are projected at around $3.1 billion. This includes year-to-date dispositions proceeds and loan payoffs of $2.8 billion and expected proceeds of $0.3 billion.

Recent News

Welltower & Jefferson Sign MoU, Announce JV Plans - Jan 13, 2020

Welltower and Philadelphia-based Thomas Jefferson University and Jefferson Health recently announced their plans to form a long-term JV, in order to enhance care at the company's senior housing communities.

While a Memorandum of Understanding (MOU) has been signed by both parties, a definitive agreement is anticipated to be executed over the next 90 days. This will mark Welltower's first-of-its-kind partnership with a major academic health system.

Per the terms of the MOU, clinicians from Jefferson will offer care at Welltower's senior housing, assisted living and memory-care communities in Philadelphia and southern New Jersey region, as well as future properties that the organizations will jointly develop. This suggests that Jefferson clinicians will manage and enhance full continuum of care for residents, from pre-acute to acute and post-acute.

Additionally, the partnership calls for Welltower to acquire a stake in certain real estate assets of Jefferson, providing the latter with cash for other clinical and academic strategic plans, including the expansion of its ambulatory care centers network.

Other than financial support, Welltower will provide its best-in-class predictive analytical tools to guide Jefferson in determining the best sites to build these ambulatory care centers and for other future real estate investments.
The partnership will likely have an emphasis on technology. Both companies envision to track residents and wellness at the facilities through wearable devices, mobile-enabled communications and alert messaging integrated into electronic medical records.

Welltower Announces JV With Invesco Real Estate Worth $850M – Nov 11, 2019

Welltower announced a JV with Invesco Real Estate, for a portfolio of 35 medical office buildings (MOBs), worth $850 million. Notably, Welltower, which previously enjoyed full ownership of the properties, will now retain 15% economic interest in the portfolio.

Further, going by the recent presentation, where the company provided an update on its outpatient medical acquisition activities, it will receive $722.5 million from this JV.

Specifically, the MOBs, spanning 2.6 million square feet across 15 states, are 100% affiliated with health systems. Considering the portfolio's average age of 19 years, the properties have been experiencing strong second-generation leasing and occupancy. In fact, the portfolio has a weighted average lease term of five years and is 89% occupied.

Shankh Mitra, Welltower's executive vice president and chief investment officer noted, "Welltower's relationship driven investment approach contributes directly to the strength of our platform, and we think this relationship with Invesco will create significant value for our shareholders."

Welltower to Acquire 29 MOBs for $787M From Hammes – Nov 11, 2019

Welltower entered into a definitive agreement to acquire a portfolio of Class-A MOBs from Hammes Partners, in line with its efforts to strengthen the company's outpatient medical platforms. The firm will shell out $787 million for the transaction, scheduled to close in fourth-quarter 2019.

The acquisition is for 29 properties spanning 1.5 million square feet of space. These properties are concentrated in the New York and Boston MSAs, and other densely-populated areas in California, Massachusetts, Texas and Maryland.

Further, the portfolio, with an average age of 10 years, is affiliated with well-known health systems and multi-specialty physician groups like Baylor Scott & White, Providence St. Joseph, Trinity Health, Medstar. An economic occupancy of 97% and portfolio-weighted average lease term of 12 years makes the acquisition a strategic fit. Additionally, with average rent escalators of 2.2%, the company will likely enjoy revenue and cash-flow growth.

Separately, the company has announced additional gross investment volume of $885 million, relating to four outpatient medical transactions for 30 properties, covering 2 million square feet of space. These transactions are currently under contract, with a blended year one cash cap rate of 5.4%. The company will also receive exclusive development rights through these transactions. This will offer significant value-creation opportunities.

Notably, in its third-quarter earnings release, the company announced year-to-date pro rata acquisition volume of $3 billion. Post the recently-reported quarter, the company has announced three acquisitions worth $594 million. This includes a portfolio of six Class-A senior living communities in Oakmont, two senior living communities in the Frontier region, and an off-market transaction for the purchase of 18 properties. This apart, Welltower has additional outpatient medical acquisitions worth $885 million under contract.

With these transactions, the company has announced $3.5 billion of outpatient medical acquisitions and pro rata total investment activity of $5.2 billion in the year so far.

The MOB acquisitions will add 450 properties, spanning 8 million square feet, to the company's asset portfolio. Moreover, per management, the Hammes transaction highlights the company's ability to fund and execute high-quality buyouts from best-in-class developers and operators.

Dividend Update

On Oct 28, Welltower announced a cash dividend of 87 cents per share for the third quarter. This dividend was paid out on Nov 21 to stockholders of record as on Nov 13, 2019. This marks the company's 194th consecutive quarterly cash dividend payout.

Valuation

Welltower's shares have been up 18.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 18.3% and 14.4%, over the past year, respectively.

The S&P 500 Index has been up 25.6% over the past year.

The stock is currently trading at 19.44X forward 12-month FFO, which compares to 17.78X for the Zacks sub-industry, 14.88X for the Zacks sector and 18.88X 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 15.8X. Our neutral recommendation indicates that the stock will perform in line with the market. Our $89 price target reflects 20.58X FFO.

The table below shows summary valuation data for WELL.

Valuation Multiples - WELL

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.44	17.78	14.88	18.88
	5-Year High	21.51	18.94	16.21	19.34
	5-Year Low	11.58	14.29	12.01	15.17
	5-Year Median	15.8	16.11	13.98	17.44
P/S F12M	Current	6.58	8.06	6.53	3.5
	5-Year High	7.6	8.06	6.61	3.5
	5-Year Low	4.15	5.9	5.2	2.54
	5-Year Median	5.9	6.88	6.04	3
P/B TTM	Current	2.1	2.77	2.82	4.46
	5-Year High	2.35	2.92	2.89	4.47
	5-Year Low	1.3	2.06	1.83	2.85
	5-Year Median	1.77	2.52	2.5	3.61

As of 01/13/2020

Industry Analysis **Zacks Industry Rank:** Bottom 31% (174 out of 254)

Top Peers

Healthcare Realty Trust Incorporated **(HR)**	Neutral
Healthcare Trust of America, Inc. **(HTA)**	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	F	-	-	D	F	F
Market Cap	34.07 B	2.96 B	24.31 B	9.43 B	17.49 B	21.39 B
# of Analysts	8	4	13	6	9	8
Dividend Yield	4.14%	4.14%	1.76%	6.21%	4.19%	5.52%
Value Score	F	-	-	D	D	D
Cash/Price	0.01	0.03	0.04	0.00	0.01	0.01
EV/EBITDA	24.70	17.48	14.12	18.02	12.57	19.15
PEG Ratio	3.97	3.61	2.05	5.26	6.67	6.49
Price/Book (P/B)	2.10	1.66	3.34	2.31	2.68	1.97
Price/Cash Flow (P/CF)	17.79	14.41	13.66	15.44	10.24	15.53
P/E (F1)	19.26	15.49	18.82	13.21	19.54	15.30
Price/Sales (P/S)	6.68	6.84	2.64	10.46	9.17	5.63
Earnings Yield	5.14%	6.46%	5.29%	7.57%	5.12%	6.53%
Debt/Equity	0.84	0.88	0.72	1.13	1.01	1.11
Cash Flow ($/share)	4.73	2.27	6.94	2.80	3.45	3.70
Growth Score	D	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	-1.29%	3.10%	10.56%	1.31%	-14.47%	-3.27%
Proj. EPS Growth (F1/F0)	3.72%	3.96%	7.49%	6.87%	3.04%	-2.25%
Curr. Cash Flow Growth	21.46%	13.18%	14.83%	41.76%	67.91%	-13.49%
Hist. Cash Flow Growth (3-5 yrs)	10.27%	18.05%	9.00%	13.82%	3.55%	1.44%
Current Ratio	1.85	1.27	1.23	3.00	0.81	0.72
Debt/Capital	46.60%	46.68%	42.99%	53.08%	50.29%	52.66%
Net Margin	21.98%	13.72%	11.08%	38.12%	43.66%	12.73%
Return on Equity	7.58%	4.54%	17.16%	8.76%	12.78%	4.59%
Sales/Assets	0.16	0.13	0.55	0.10	0.14	0.16
Proj. Sales Growth (F1/F0)	1.47%	4.64%	4.23%	12.26%	10.95%	2.56%
Momentum Score	F	-	-	A	F	F
Daily Price Chg	1.53%	1.05%	0.73%	1.91%	1.15%	0.74%
1 Week Price Chg	1.53%	-0.04%	0.39%	0.64%	1.75%	-0.18%
4 Week Price Chg	6.86%	2.24%	1.84%	4.91%	8.94%	1.99%
12 Week Price Chg	-8.83%	-0.41%	6.48%	-2.77%	-5.96%	-21.05%
52 Week Price Chg	18.13%	15.04%	23.15%	17.02%	21.95%	-4.48%
20 Day Average Volume	1,840,881	529,213	1,578,594	1,474,484	2,723,388	1,820,691
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.01%	-0.37%	-0.65%
(F1) EPS Est 4 week change	-0.35%	0.00%	0.00%	1.01%	-0.25%	-0.21%
(F1) EPS Est 12 week change	-0.69%	-0.44%	-0.48%	1.08%	-0.56%	-4.74%
(Q1) EPS Est Mthly Chg	-0.57%	0.00%	0.00%	1.30%	-0.64%	-0.64%

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	F
Growth Score	D
Momentum Score	F
VGM Score	F

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.

Disclosures

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