

Welltower Inc. (WELL)

\$56.75 (As of 08/14/20)

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

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:F

Value: D

Growth: D

Momentum: F

Summary

Welltower reported better-than-expected results in the second quarter. Yet, year-over-year declines in second-quarter revenues and normalized FFO per share were a result of lower occupancy and elevated expenses at seniors housing properties. Notably, the company's diversified portfolio of healthcare assets is poised to gain from rising healthcare spending. Also, given the growing need for value-based care, it is strengthening its outpatient medical assets' footprint. Further, a strong balance sheet and ample liquidity will aid it to navigate the ongoing challenges. However, the operating environment for seniors housing is challenging, with move-outs outpacing move-ins. This is expected to continue to affect NOI at the company's seniors housing properties. Also, shares of Welltower have underperformed its industry in the past year.

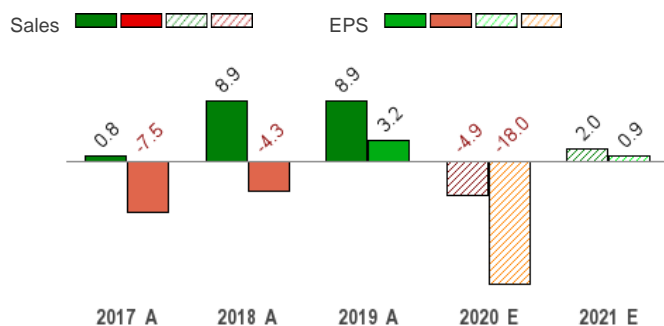
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.17 - \$24.27
20 Day Average Volume (sh)	2,566,849
Market Cap	\$23.7 B
YTD Price Change	-30.6%
Beta	0.83
Dividend / Div Yld	\$2.44 / 4.3%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 16% (211 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.6%
Last Sales Surprise	-3.4%
EPS F1 Est- 4 week change	-1.8%
Expected Report Date	NA
Earnings ESP	-0.3%
P/E TTM	14.3
P/E F1	16.6
PEG F1	3.4
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,204 E	1,223 E	1,244 E	1,266 E	4,965 E
2020	1,259 A	1,188 A	1,193 E	1,184 E	4,870 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	\$0.82 E	\$0.86 E	\$0.92 E	\$0.93 E	\$3.44 E
2020	\$1.02 A	\$0.86 A	\$0.83 E	\$0.83 E	\$3.41 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.

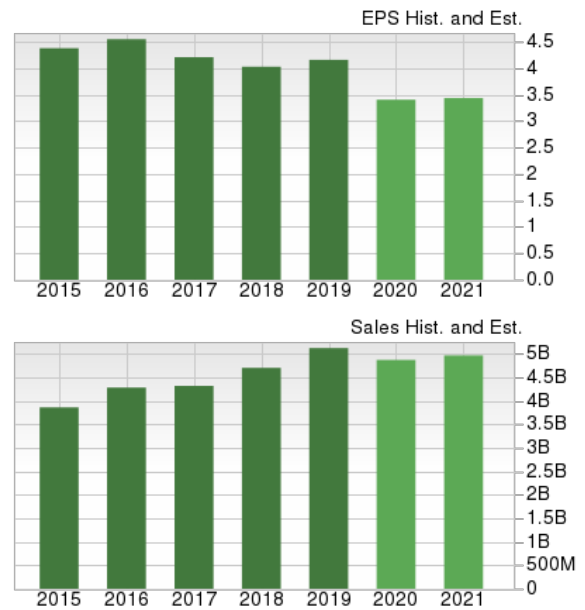
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/14/2020. The reports text is as of 08/17/2020.

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. 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 operating segments — triple-net, seniors housing operating or SHO (operated through RIDEA structures) and outpatient medical (OM) facilities. For the period ended Jun 30, 2020, 33.8% of the company's net operating income (NOI) came from SHO assets (526 properties), 41.7% from triple-net assets (653 properties) and 24.5% from OM facilities (347 properties).

The company's SHO properties include seniors apartments, independent living/continuing care retirement communities, assisted living, independent supportive living communities in Canada, and care homes, with and without nursing in the U.K. Moreover, triple-net properties include the property types mentioned earlier along with long-term/post-acute care facilities. Under the triple-net segment, properties are primarily leased under triple-net leases and the company is not involved in the management of the property. Welltower's OM properties are leased to multiple tenants.



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. Its pro-rata gross investments in the second quarter totaled \$124 million. This included \$6 million in acquisitions and \$115 million in development funding. Further, development spend in the second half of 2020 is likely to be \$346 million. 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.
- ▲ Historically, there has been a favorable outpatient visits trend compared with in-patient admissions. Banking on this, the company is optimizing its OM 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 OM investments at a 5.6% yield and \$155 million in development funding with a 6.4% yield. The acquisition efforts continued in first-half 2020. The company is experiencing decent NOI margin growth in this segment. Given the favorable secular trends and growing need for value-based care, the company's efforts to strengthen its OM footprint will boost long-term growth. Moreover, significant renewal activity drove retention rate of 87.7% 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 third 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-billion disposition of healthcare assets to Kayne Anderson Real Estate, it bolstered its near-term available liquidity to \$4.3 billion as of Jul 31, 2020. This consisted of cash and cash equivalents of \$1.3 billion, and \$3 billion of undrawn capacity in its revolving credit facility. Also, Welltower has no significant unsecured debt maturities until 2023. Hence, ready availability of significant liquidity, with no short-term debt maturities bodes well for the company in the testing times. Further, despite a decline in EBITDA, it improved net debt to adjusted EBITDA to 6.36X at the second-quarter end from 5.93X at the end of March quarter. Finally, as of the second-quarter end, the company 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:

- ▼ The operating environment for senior housing and post-acute care properties remains challenging. During the second quarter, move-out activity surpassed move-ins at Welltower's SHO portfolio, resulting in approximately a 500 basis points (bps) decline in total SHO portfolio occupancy to 80.1%. This trend is expected to continue in third quarter as well, with occupancy projected to sequentially decline 125-175 bps. Moreover, the recent rise in the coronavirus positive cases across the nation may result in a near-term increase in bans on admissions. Further, the company's total SHO portfolio incurred around \$37 million of pro-rata pandemic-related property level expenses in the second quarter. Expenses are anticipated to remain elevated during the pandemic. These expected occupancy loss and elevated expenses are likely to result in NOI erosions in the near term.
- ▼ Apart from the coronavirus outbreak-led occupancy woes, the seniors housing market has been reeling with high-supply conditions in certain markets and rising labor costs. This is a concern for Welltower because elevated supply usually curtails landlords' pricing power and limits growth in occupancy level.
- ▼ Solid dividend payouts remain the biggest attraction for REIT investors and Welltower remained committed to that. However, in May, the company made a 30% sequential reduction in quarterly dividend to 61 cents per share. The company paid out a quarterly cash dividend of 87 cents per share prior to the dividend cut.
- ▼ As part of its portfolio-repositioning and liquidity-enhancing efforts, Welltower is disposing its assets. The company completed \$1.7 billion in pro-rata dispositions through second-quarter 2020. 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 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.
- ▼ Shares of Welltower have plunged 36.5% compared with the industry's decline of 7.9% over the past year. Moreover, the trend in estimate revisions of 2020 FFO per share does not indicate a favorable outlook for the company as estimates have been revised 1.7% downward over the past month. Hence, given the above-mentioned concerns and downward estimate revision, the stock has limited upside potential for the upcoming period.

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 Q2 FFO Surpass Estimates, Revenues Miss

Welltower reported normalized FFO per share of 86 cents in second-quarter 2020, which surpassed the Zacks Consensus Estimate of 83 cents. However, the reported figure compared unfavorably with the year-ago quarter's figure of \$1.05.

The company's SHO portfolio was severely impacted by the coronavirus pandemic. In fact, the segment witnessed \$37 million of property-level expenses in the second quarter related to the virus outbreak. This impacted the company's normalized FFO per share.

Moreover, the company generated revenues of \$1.19 billion, which missed the Zacks Consensus Estimate of \$1.23 billion. The top line also compared unfavorably with the year-earlier quarter's reported figure of \$1.32 billion.

Quarter Ending **06/2020**

Report Date	Aug 05, 2020
Sales Surprise	-3.35%
EPS Surprise	3.61%
Quarterly EPS	0.86
Annual EPS (TTM)	3.98

Quarter in Detail

Welltower's pro-rata gross investments in the second quarter totaled \$124 million. This included \$6 million in acquisitions and \$115 million in development funding.

Apart from this, the company completed property dispositions of \$949 million.

It exited the quarter with \$1.7 billion of cash and cash equivalents, up from \$268.7 million recorded at 2019 end. In addition, as of Jun 30, 2020, it had \$3 billion of available borrowing capacity under its unsecured credit facility.

Share Repurchase

In May, the company's board of directors authorized a share repurchase program of up to \$1 billion of common stock through Dec 31, 2021. During the six months ended Jun 30, 2020, the company repurchased 201,947 shares at an average price of \$37.89 per share.

COVID-19 Update

During the second quarter, move-out activity surpassed move-ins at the company's SHO portfolio, resulting in spot occupancy declines throughout the quarter. This continued in July, with spot occupancy witnessing a sequential decline of 70 bps to 79.4%. In the third quarter, occupancy is expected to decline 125-175 bps.

Moreover, Welltower collected 98% and 97% of second-quarter and July rents, respectively, from its triple-net lease operators.

In its OM segment, the company either collected or approved short-term deferrals for more than 99% of second-quarter rents. This consists of 87% cash collections and 12% of short-term deferrals. For July, cash collections improved to more than 95%, with a total of 98% of OM rent due in July either collected or approved for short-term deferral.

Recent News

Welltower Sells Portfolio of 27 MOBs & Seven Seniors Housing Communities – Aug 5, 2020

Welltower completed the disposition of a large healthcare portfolio consisting of medical office buildings (MOBs) and seniors housing assets for a gross price of nearly \$1 billion to Kayne Anderson Real Estate — the real estate private equity arm of Kayne Anderson Capital Advisors, L.P.

The portfolio of 34 properties comprises of 27 MOBS across the nation and seven seniors housing communities situated in Florida.

Notably, the sale was made in a time when the ability of senior housing properties to withstand the havoc caused by the pandemic was questionable. Per management, the transaction demonstrates the robust demand for high-quality healthcare assets.

Moreover, the sale enabled the company to improve its liquidity profile. This will likely provide it with higher financial flexibility to navigate the ongoing challenges and allow prospects to consider opportunistic capital deployment.

Dividend Update

On Aug 5, Welltower announced a cash dividend of 61 cents per share for the second quarter. The dividend will be paid out on Aug 27 to stockholders of record as of Aug 18. This marks the company's 197th consecutive quarterly cash dividend payout.

Valuation

Welltower's shares have been down 36.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have declined 8% and 6.7% in the past year, respectively.

The S&P 500 Index is up 15.4% in the past year.

The stock is currently trading at 16.97X forward 12-month FFO, which compares to 19.25X for the Zacks sub-industry, 16.84X for the Zacks sector and 22.87X 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 15.65X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$60 price target reflects 17.52X FFO.

The table below shows summary valuation data for WELL.

Valuation Multiples - WELL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.57	19.25	16.84	22.87
	5-Year High	21.51	19.28	16.84	22.87
	5-Year Low	7.82	14.32	11.59	15.25
	5-Year Median	15.65	16.11	14.26	17.58
P/S F12M	Current	4.80	8.34	6.22	3.70
	5-Year High	7.08	8.37	6.66	3.70
	5-Year Low	2.64	5.97	4.96	2.53
	5-Year Median	5.74	7.00	6.06	3.05
P/B TTM	Current	1.40	2.23	2.47	4.70
	5-Year High	2.35	3.03	2.91	4.71
	5-Year Low	0.82	1.81	1.72	2.83
	5-Year Median	1.76	2.51	2.53	3.74

As of 08/14/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (211 out of 252)



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	3
Medical Properties Trust, Inc. (MPW)	Neutral	4
Omega Healthcare Investors, Inc. (OHI)	Neutral	2
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	-	-	2	3	3
VGM Score	F	-	-	C	D	C
Market Cap	23.68 B	2.05 B	23.68 B	7.07 B	14.54 B	15.15 B
# of Analysts	9	4	14	5	8	6
Dividend Yield	4.30%	3.83%	1.68%	8.60%	5.48%	4.43%
Value Score	D	-	-	C	D	C
Cash/Price	0.08	0.06	0.07	0.01	0.05	0.07
EV/EBITDA	16.95	14.24	13.36	14.29	21.15	14.24
PEG Ratio	3.39	4.16	2.99	5.70	4.14	4.25
Price/Book (P/B)	1.40	1.33	3.22	1.70	1.90	1.46
Price/Cash Flow (P/CF)	10.11	10.89	12.82	10.54	18.20	10.13
P/E (F1)	16.44	15.45	22.06	10.15	16.66	12.75
Price/Sales (P/S)	4.76	4.89	2.51	7.15	6.48	3.85
Earnings Yield	6.01%	5.89%	4.30%	9.85%	6.00%	7.83%
Debt/Equity	0.85	0.92	0.77	1.25	0.88	1.20
Cash Flow (\$/share)	5.62	2.05	6.94	2.96	1.48	4.01
Growth Score	D	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	-2.32%	0.73%	10.41%	-1.29%	-13.98%	-3.35%
Proj. EPS Growth (F1/F0)	-18.13%	-2.05%	-6.32%	0.00%	-7.88%	-17.32%
Curr. Cash Flow Growth	28.20%	3.36%	5.20%	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	3.32	1.62	1.33	3.35	1.37	1.53
Debt/Capital	46.57%	48.09%	44.59%	55.63%	46.74%	54.65%
Net Margin	26.20%	10.49%	10.13%	39.17%	14.60%	10.49%
Return on Equity	8.64%	3.32%	14.51%	9.22%	4.57%	3.88%
Sales/Assets	0.15	0.13	0.51	0.10	0.15	0.16
Proj. Sales Growth (F1/F0)	-4.90%	0.00%	-1.43%	8.34%	22.34%	-0.45%
Momentum Score	F	-	-	A	C	B
Daily Price Chg	1.36%	-0.03%	0.12%	-2.14%	-1.53%	1.78%
1 Week Price Chg	6.76%	2.69%	2.30%	2.69%	4.84%	8.24%
4 Week Price Chg	13.77%	4.85%	4.41%	4.42%	2.93%	15.21%
12 Week Price Chg	22.25%	10.20%	13.66%	4.84%	11.52%	23.29%
52 Week Price Chg	-35.72%	-19.03%	5.80%	-18.62%	-21.25%	-44.29%
20 Day Average Volume	2,566,849	642,525	1,984,154	1,343,108	3,298,788	2,858,164
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.15%	0.00%
(F1) EPS Est 4 week change	-1.83%	0.00%	2.08%	0.08%	-2.19%	2.16%
(F1) EPS Est 12 week change	-2.61%	-0.53%	2.66%	0.74%	-2.11%	6.45%
(Q1) EPS Est Mthly Chg	-3.86%	-0.05%	0.94%	1.67%	-3.24%	0.68%

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	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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