

Welltower Inc. (WELL)

\$45.13 (As of 05/18/20)

Price Target (6-12 Months): **\$48.00**

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: C

Summary

Welltower's senior housing operating (SHO) portfolio was severely impacted by the coronavirus pandemic in the first quarter. The portfolio has been witnessing a decline in occupancy and elevated operating expenses. This will impact the company's near-term cash flow, which prompted management to slash dividends by 30% and withdraw the 2020 guidance. Also, Welltower's shares have underperformed its industry over the past year. Nonetheless, the company has been taking steps to bolster its liquidity and solidify the balance sheet. This along with a diversified portfolio will support Welltower in these 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. Efforts to expand the outpatient medical portfolio look encouraging.

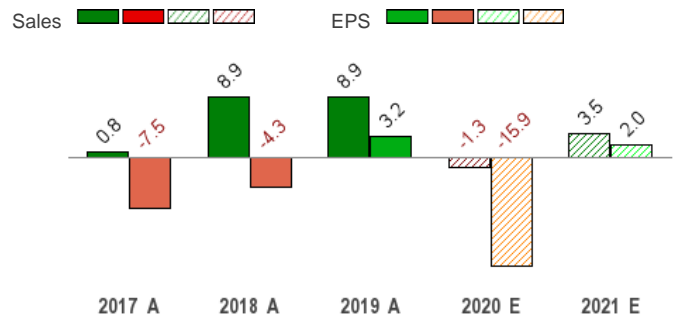
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.17 - \$24.27
20 Day Average Volume (sh)	4,803,943
Market Cap	\$18.8 B
YTD Price Change	-44.8%
Beta	0.86
Dividend / Div Yld	\$2.44 / 5.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 31% (78 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	-7.3%
Expected Report Date	07/29/2020
Earnings ESP	-0.2%
P/E TTM	10.8
P/E F1	12.9
PEG F1	2.7
P/S TTM	3.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,272 E	1,295 E	1,318 E	1,342 E	5,231 E
2020	1,259 A	1,249 E	1,251 E	1,254 E	5,054 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	\$0.89 E	\$0.92 E	\$0.95 E	\$0.97 E	\$3.57 E
2020	\$1.02 A	\$0.91 E	\$0.90 E	\$0.90 E	\$3.50 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 05/18/2020. The reports text is as of 05/19/2020.

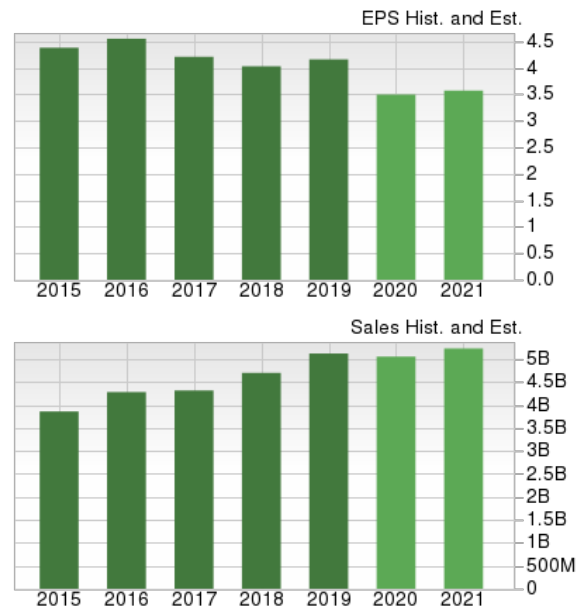
Overview

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.
- ▲ 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. Specifically, as of the first-quarter end, it had \$303 million of cash and cash equivalents, and \$2.2 billion of available borrowing capacity under its unsecured credit facility. Moreover, in light of the coronavirus pandemic, the company has been taking steps to solidify the balance sheet and bolster its near-term available liquidity to \$3.5 billion. During the first quarter, the company garnered proceeds of about \$603 million under its ATM and DRIP programs. 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.

Diversified portfolio, strategic repositioning efforts and strong balance sheet place Welltower well to gain 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, stable 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, it anticipates a continual increase in expenses until the pandemic subsides. 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 had \$2.7 billion of dispositions in 2019. Further, it completed \$791 million of pro-rata dispositions through Apr 30, 2020, and expects an additional \$312 million of disposition proceeds through 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. Further, amid the COVID-19 pandemic, the company's ability to sell its healthcare properties has been limited.
- ▼ Welltower's shares have tanked 43% in the trailing 12 months, while its industry has lost 12%. 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 7.2% 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 intense competition are pressing concerns. Moreover, the adverse impact on the company's senior housing portfolio amid the coronavirus pandemic is a concern.

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 Withdraws 2020 Guidance Amid Coronavirus Crisis – Apr 17, 2020

Welltower withdrew its 2020 guidance, and updated on its operating and liquidity measures in light of the coronavirus pandemic.

The company had earlier projected 2020 normalized FFO per share at \$4.20-\$4.30. In addition, the company expected its 2020 average blended same-store NOI to be up 1.5-2.5%.

The senior housing operating portfolio, which generates a significant portion of the company's net operating income, has witnessed a further decline in occupancy since Apr 1, 2020 due to the intensification of move-in criteria, and screening in states like New York, New Jersey, Massachusetts, and Washington. Occupancy level fell from 85.4% in Mar 27 to 84.8% as of Apr 3 to 84.2% as of Apr 10. This declining trend is likely to prevail, given the move-in restrictions, further expanding to additional markets.

In addition, the company has witnessed a rise in operating expenses, of late. This amounted to about \$7 million in March 2020, due to higher labor costs and procurement costs of PPE. Though the reduction in occupancy in the senior housing portfolio might result in some variable cost savings, the company predicts a 5% rise in senior housing portfolio expenses than the earlier projections.

Nevertheless, the company has been taking steps to bolster its liquidity and has announced measures to solidify the balance sheet. Welltower has \$3.5 billion of near-term available liquidity, with no significant unsecured debt maturities till 2023.

The company has also been making dispositions and concluded \$781 million worth of such activities on a pro rata basis since the beginning of the year through Apr 17. Welltower also noted that it has concluded pro rata acquisitions and joint ventures of about \$400 million, at a year one blended rate of 5.6%.

Dividend Update

On May 4, 2020, Welltower announced a cash dividend of 61 cents per share for the first quarter. The dividend will be 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 43% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 12% and 18.9%, over the past year, respectively.

The S&P 500 Index is up 3.9% over the past year.

The stock is currently trading at 12.80X forward 12-month FFO, which compares with the 16.93X for the Zacks sub-industry, 15.4X for the Zacks sector and 21.52X 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 15.62X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$48 price target reflects 13.54X FFO.

The table below shows summary valuation data for WELL.

Valuation Multiples - WELL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.80	16.93	15.40	21.52
	5-Year High	21.51	18.10	16.18	21.52
	5-Year Low	7.82	14.32	11.58	15.23
	5-Year Median	15.62	16.08	13.94	17.49
P/S F12M	Current	3.68	7.39	5.81	3.34
	5-Year High	7.07	8.14	6.70	3.44
	5-Year Low	2.64	5.91	4.99	2.53
	5-Year Median	5.81	6.88	6.05	3.01
P/B TTM	Current	1.09	2.11	2.36	4.03
	5-Year High	2.35	3.01	2.90	4.56
	5-Year Low	0.82	1.80	1.71	2.83
	5-Year Median	1.77	2.51	2.53	3.65

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 254)



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	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	-	-	C	D	D
Market Cap	18.84 B	1.79 B	20.09 B	6.69 B	12.95 B	12.04 B
# of Analysts	9	4	14	5	8	9
Dividend Yield	5.41%	4.74%	2.1%	9.09%	6.15%	9.83%
Value Score	D	-	-	D	D	C
Cash/Price	0.02	0.08	0.07	0.06	0.08	0.28
EV/EBITDA	15.13	13.32	12.13	13.82	19.10	12.46
PEG Ratio	2.69	3.48	2.72	5.42	13.09	3.56
Price/Book (P/B)	1.09	1.14	2.75	1.59	1.56	1.12
Price/Cash Flow (P/CF)	8.04	9.46	10.86	9.96	16.21	8.05
P/E (F1)	13.05	13.45	20.10	9.64	14.53	10.69
Price/Sales (P/S)	3.69	4.21	2.05	6.98	6.03	3.05
Earnings Yield	7.76%	7.22%	4.77%	10.38%	6.90%	9.36%
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	D
Hist. EPS Growth (3-5 yrs)	-1.85%	2.02%	10.87%	-0.66%	-14.44%	-3.31%
Proj. EPS Growth (F1/F0)	-15.94%	-2.83%	-10.31%	-0.46%	-5.89%	-21.62%
Curr. Cash Flow Growth	28.20%	3.36%	5.51%	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	1.74	1.28	3.93	1.40	2.86
Debt/Capital	45.75%	48.38%	44.46%	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%	3.94%	16.29%	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)	-1.31%	0.00%	-2.49%	8.75%	7.76%	-0.70%
Momentum Score	C	-	-	B	B	D
Daily Price Chg	11.02%	7.77%	5.21%	12.01%	9.66%	15.34%
1 Week Price Chg	-8.75%	-10.78%	-4.56%	-4.60%	-9.53%	-7.08%
4 Week Price Chg	-0.55%	0.46%	4.12%	-2.13%	-5.24%	12.60%
12 Week Price Chg	-47.91%	-31.00%	-16.39%	-34.44%	-35.15%	-48.83%
52 Week Price Chg	-43.04%	-25.06%	-5.84%	-19.50%	-22.44%	-49.68%
20 Day Average Volume	4,803,943	813,214	2,651,378	2,782,453	4,175,555	4,005,550
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-7.30%	-1.74%	-4.48%	3.41%	-3.07%	-4.73%
(F1) EPS Est 12 week change	-18.17%	-5.31%	-16.39%	-2.91%	-8.33%	-18.83%
(Q1) EPS Est Mthly Chg	-5.05%	-2.78%	-9.90%	3.53%	-2.33%	-6.46%

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	C
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.

Disclosures

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