Equity Report [2/18/2022]

Welltower Inc.

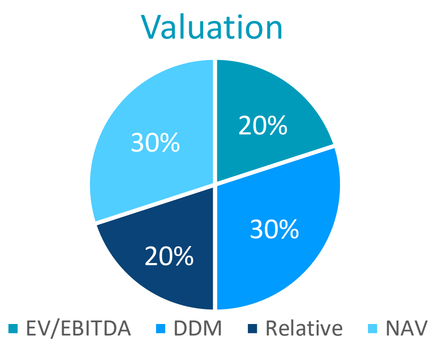
Real Estate Investment Trust

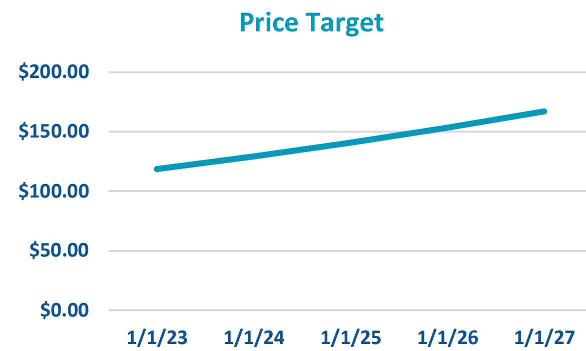
NASDAQ Symbol: WELL

Recommendation: BUY

Covering Analyst: Sarina Grant

Intrinsic Value:





Capital Structure	
Equity	68.2%
Debt	31.8%
CAPM Presumptions	
Beta	1.50
Risk Premium	4.70%
Risk-Free Rate	1.90%
Terminal Growth Rate	3.00%
WACC Presumptions	
Cost of Equity	8.9%
Cost of Debt	3.7%
Cost of Capital	7.2%

Intrinsic Value	Margin of safety
$93.96	**15.8%**

Source: Company Data, Group Estimates

Source: The Motley Fool

Executive Summary

This equity report provides an analysis and evaluation of the current and future performance of Welltower Inc. over a future period of five years. My methods of analysis include the discounted cash flows model, comparable model, net asset value model, and dividend discount model, as well as various ratios including P/FFO, ROA, ROE, and profitability ratios.
Results of data analyzed show that the company is fundamentally sound. Welltower has generated increasing revenue in the years leading to the pandemic and strengthened their liquidity ratios and balance sheet during the pandemic even when revenues were down. They have maintained a solid cash position and capital to invest in new properties over the next decade.

My report finds that the prospects of Welltower in its current position are **very positive**. The primary catalysts for long-term growth include:

- A rapidly aging population set to overtake those aged 18-years and below by 2035
- A shift in values towards care & higher healthcare expenditure
- Technological innovation
- New relationships and strong acquisition strategies
- Occupancy trending upwards

I conclude that Welltower's stock is attractively **undervalued**, resulting in a margin of safety of 15.8**%**. Reasons that the market has placed this stock at value include:

- Investor sentiment during the pandemic was very low as seniors moved out of living communities due to fears of COVID.
- The market fails to recognize Welltower's strong global and regional positioning
- The market fails to take into account unbalanced supply-demand following decreased occupancy during the pandemic
- Investor sentiment is low with the Feds expected to raise interest rates
- The market fails to project future revenues generated by new acquisitions and construction

Key Stock Statistics:

52-Wk Range ($)	60.15-89.80	Dividend Yield	3.03%	Book Value/Share (mrq)	38.74
Beta	1.50	Diluted EPS (ttm)	1.03	Operating Margin (ttm)	15.73%
Market Capitalization ($BN)	36.50	P/E (ttm)	75.24	S&P Credit Rating	Baa1
Forward Annual Dividend	3.02%	P/B (mrq)	2.14	Institutional Ownership	93.23%

Source: Yahoo! Finance

Business Description

Welltower Inc. is a diversified healthcare real estate investment trust (to be referred to hereon out as REIT) focused on senior housing, post-acute care and high-impact rehabilitation centers, and outpatient medical centers. An REIT is defined as a corporation, trust, or association:

- Which is managed by one or more trustees or directors
- The beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest
- Which would be taxable as a domestic corporation but for the U.S. federal income tax law relating to REITs
- Which is neither a financial institution nor an insurance company
- The beneficial ownership of which is held by 100 or more persons in each taxable year of the REIT
- Not more than 50% in value of the outstanding stock of which is owned during the last half of each taxable year by or for five or fewer individuals
- Which meets certain income and asset tests.

REITs are must further give 90% of pre-tax earnings back to shareholders through dividends, and in exchange they pay zero or next to zero corporate taxes.

Founded in 1970, Welltower has worked to position themselves as a leader in luxury senior living and premiere medical centers. As of today, they have successfully built a portfolio of over 1,700 properties, making them the largest health and wellness real estate platform. With properties in the US, Canada, and the UK, they are a global leader in the healthcare REIT industry. Their business model is different than many other REIT's in the industry. While many REITs function as landlords, Welltower functions as a partner to the companies that rent out their properties, which is why they do not receive the majority of their money from rental income, but rather resident fees and services that they provide to their partners.

Revenue Drivers

Welltower has two primary segments contributing to revenue, these being rental income and then resident fees and services. Within the rental income is three additional subsegments: senior living, post-acute care, and outpatient medical centers. The resident fees and services are the primary driver of revenue, with rental income coming in second, and then interest income and other income making up the last bit. Due to reduced occupancy at the start of the pandemic, their rental income as well as resident fees and services have been decreased, though they still have managed a nearly 20% growth in revenue from Q3 of 2020 to Q3 of 2021. This is still a decrease from the same time in 2019, though the increase does represent a return to normal occupancy levels throughout their properties.

Regionality is not a large segmentation point, given their position in US, Canadian, and British markets where they consistently have a large portion of market share.

Resident Fees & Services – 70% of FY21 Revenue

For FY21, resident fees and services brought in $2.417bn as of Q3, representing 58.5% of their overall revenue. They have experienced a three-year CAGR of 6.2% (before FY2020 when the pandemic hit) within this segment. The majority of revenue from this segment comes from the United States, centered in New York and Los Angeles, with Canada representing the second largest contributing region to revenue in this segment.

Rental Income – 28% of FY21 Revenue

Their rental income makes up the second largest contributing segment to revenue, at about one-third of the total revenue for FY21. Within this segment they have 3 primary types of properties within their portfolio, these being senior living, post-acute care, and outpatient medical centers. The remaining properties include hospital systems and chains. Their rental income for FY21 contributed $1.015bn to revenue, with the majority of this once again coming from the United States. Their core markets within the rental income segment come from Southern California contributing 11% to revenue, Greater London contributing 8.3%, Northern California contributing 7.3%, and New York contributing 5.4%. Contributing portfolio segments are outlined below.

Senior Living Portfolio – 69% of NOI

Within their senior housing portion of this segment, FY2021 brought in $2.251bn, posting occupancy rates at about 74.2%. Compared to FY2020, the average occupancy rate has gone up by about 1.3%.

Total Portfolio Performance[1]	4Q20	1Q21	2Q21	3Q21	4Q21
Properties	607	608	630	736	755
Units	58,370	58,185	59,670	71,721	76,105
Total occupancy	76.0 %	72.7 %	73.0 %	74.9 %	76.3 %
Total revenues	$ 703,039	$ 711,118	$ 728,235	$ 812,096	$ 877,564
Operating expenses	539,465	539,058	584,484	644,241	698,601
NOI	$ 163,574	$ 172,060	$ 143,751	$ 167,855	$ 178,963
Recurring cap-ex	$ 14,356	$ 7,255	$ 14,448	$ 15,395	$ 28,057
Other cap-ex	$ 27,728	$ 13,413	$ 31,794	$ 35,588	$ 51,168

Source: Welltower Annual Report

Outpatient Medical Portfolio – 17% of NOI

Within their outpatient medical portfolio, FY2021 brought in a total revenue of $477million, with the addition of 9 new outpatient medical centers in the US. Their occupancy rates have remained consistent within this segment of operation, leading to consistent revenue from FY20 to FY21.

Total Portfolio Performance	4Q20	1Q21	2Q21	3Q21	4Q21
Properties	357	357	360	366	375
Square feet	17,315,776	16,917,791	17,291,495	17,383,040	17,572,561
Occupancy	94.5 %	94.4 %	94.8 %	94.7 %	94.8 %
Total revenues	$ 166,679	$ 157,162	$ 160,514	$ 160,003	$ 161,022
Operating expenses	50,231	47,764	46,184	48,796	47,254
NOI	$ 116,448	$ 109,398	$ 114,330	$ 111,207	$ 113,768
NOI margin	69.9 %	69.6 %	71.2 %	69.5 %	70.7 %
Revenues per square foot	$ 38.50	$ 37.16	$ 37.13	$ 36.82	$ 36.65
NOI per square foot	$ 26.90	$ 25.87	$ 26.45	$ 25.59	$ 25.90
Recurring cap-ex	$ 7,278	$ 4,178	$ 5,978	$ 7,327	$ 18,287
Other cap-ex	$ 6,169	$ 2,376	$ 2,014	$ 2,064	$ 4,738

Source: Welltower Annual Report

Post-Acute Living Portfolio – 13% of NOI

Within their post-acute living portfolio, they have maintained a 73.5% occupancy rate, but posted a (1.0)% change in net operating income from this segment. It contributed to 5.4% of the overall rental income revenue, representing the smallest contributing portfolio to revenue. Even so, it brought in $95 million in Q3 of FY21, a figure that has stayed consistent throughout the pandemic.

Products or Services

Welltower is a real estate investment trust focused on seniors housing and health care real estate. They build and operate properties within these realms that other companies can rent out and work in. Their seniors housing properties include senior apartments, independent living communities, independent supportive living, continuing care retirement communities, assisted living, care homes with and without nursing, and Alzheimer's/dementia care.

Seniors Apartments: Senior apartments refer to age-restricted multi-unit housing with self-contained living units for adults aged 55+ and are able to care for themselves.

Independent Living & Supportive Living: Independent living and independent supportive living is restricted to Canada, and refers to age-restricted, multifamily properties with central dining that provides resident access to meals, housekeeping, linen services, transportation, and recreational activities.

Continuing Care Community: Their continuing care retirement communities include a combination of detached homes and properties offering assisted and independent living, as well as long-term post-acute care services. These communities are designed so residents do not need to relocate should health and medical needs change.

Assisted Living: Their Assisted living community refers to state-regulated properties that provide supportive care from trained employees to residents who require assistant with daily activities including medication management, bathing, dressing, and eating.

Alzheimer's/Dementia Care: Their dementia care refers to state-regulated properties that provide supportive care exclusively to residents with memory loss, Alzheimer's, and other types of dementia. Amenities typically vary at these properties, but include enhanced security and specialized design features, as well as memory-enhancing therapy.

Care Homes With/Without Nursing: Their care homes with and without nursing are restricted to the U.K. and are regulated by the Care Quality Commission. The care homes without nursing essentially provide the same services as US assisted living communities. Their care homes with nursing are regulated as well, and are properties designed for individuals requiring 24-hour nursing or medical care. They do not provide post-acute care.

Welltower also invests in triple-net properties[2] that include the same services/property types listed above as well as post-acute care. They invest in these properties through acquisitions and joint venture partnerships, and the key feature of these properties is the post-acute care facilities.

Post-Acute Care Facilities: Post-acute care is a new type of medical care designed to reduce health care costs and improve quality of rehabilitation for patients after severe illness or surgery, reducing hospital readmission rates. These facilities offer skilled nurses, inpatient rehabilitation, and long-term care services. These properties offer some level of rehabilitation services, with differing specialties in cardiac orthopedic, dialysis, neurological, or pulmonary rehabilitation.

The final property that Welltower invests in is outpatient medical buildings. These properties were born out of increasing demand for outpatient medical services as procedures are increasingly performed outside of the hospital setting. Welltower's outpatient centers include physician officers, ambulatory surgery centers, diagnostic facilities, outpatient services, and labs. About 92% of their outpatient medical building portfolio is affiliated with health and hospital systems, adjacent to hospital campuses.

Their primary service beyond property investments relates to service fees. Welltower creates partnerships with senior living and healthcare operators, and through that provides infrastructure for long-term health and wellness for aging populations and works to create programs that will lead to higher quality of living in old age. They offer assisted living partnerships, memory care specialized partnerships, independent living partnerships, as well as partnerships with hospital systems for outpatient care. This allows them to offer diversified services to retain growth and occupancy during times when some segments struggle, like during the pandemic.

In the coming decade, they are focused on digital innovation, virtual health, retail health, and home health services to add to their current service offerings. This will allow them to compete against technology-based companies like Amazon and Walmart which are entering into the digital and home delivery health sphere. These competitors keep potential residents out of care homes longer, so if Welltower wants to continue to capture market share, they must adapt and add their own offerings. In 2019, they entered a strategic joint venture with ProMedica, which allowed them to begin expansion into the home health services, providing coverage to 600k people and 2,700 providers. They also entered into a partnership with Anthem, which provides them with access to Medicare patients who are more likely to opt for virtual or home health services.

Partnerships

Their partnerships are the key to their services and portfolio, and their biggest ones come from Sunrise Senior Living, Atria Senior Living, and Revera. They enter into exclusive partnerships with companies, providing the property so that companies can keep capital low and focus on innovation and quality healthcare rather than building costs and expansion. Welltower builds and develops new properties for their partners to expand into and offers support and senior living and care experts for their partners. This has proved to be an exceptionally successful business model, as they are now the world's largest healthcare real estate investment trust and have the largest number of partnerships and clients.

Partners	Properties[3]	Pro Rata Units[3]	Welltower Ownership %[4]
Sunrise Senior Living	166	13,065	98.0 %
Atria Senior Living	93	11,296	100.0 %
Revera	85	8,351	75.0 %
Belmont Village	21	2,804	95.0 %
Senior Resource Group	24	3,268	61.3 %
Brandywine Living	29	2,791	99.6 %
Cogir	23	3,242	89.2 %
Chartwell Retirement Residences	42	4,479	49.9 %
Clover Management	33	3,630	90.1 %
Sagora Senior Living	14	1,483	98.2 %
Frontier Management	64	3,731	94.5 %
Oakmont Senior Living	15	1,437	100.0 %
Balfour Senior Living	7	675	95.0 %
Signature Senior Lifestyle	11	758	75.0 %
Remaining	108	10,665	
Total	735	71,675	

Source: Welltower Annual Report

Prices and Fee Structure

Welltower makes money from its partnerships and rental income that comes with it, their investments in property, and their resident services and fees. Their investments in properties are done primarily through master leases and triple-net leases, in which they are able to sustain long-term revenue from rental income and lower the expenses associated with operating the properties. Their resident fees and services make up the bulk of their revenue and relate to the many amenities and specialized services they offer in different types of properties.

Their investment portfolio is comprised primarily of master leases and triple-net leases, which allows them to minimize risk and operating expenses. Master leases is a lease of multiple properties to one tenant under a single lease agreement. The tenant is required to make one monthly payment that represents rent on all the properties, and it is important to Welltower's strategy because it prevents tenants from limiting purchase or renewal to the best performing properties and terminating leases with the worst performing one, hence spreading Welltower's risk among an entire group of portfolios. Their triple-net leases require tenants to pay all operating costs associated with the property, including interest, insurance, and maintenance. They also utilize long-term operating leases, which provides a stable stream of rental income from their tenants. Within these leases, they include construction which allows Welltower to further expand their investment portfolio. Overall, these investment properties provide Welltower with rental income, which makes up about one-third of their overall revenue. The majority of rental income comes from Los Angeles, New York, and Greater London. While the individual terms on leases and new property agreements are generally not public, they do report yields of 6.2% to 8.4% per average investment property, and reportedly generate a high single-digit unlevered internal rate of return (IRR). For acquisitions, which make up the other keyway they obtain new investments, the average deal execution is $20.5 million per property.

Their primary way they make income is through resident fees and services, which comprises of all of the extra amenities and healthcare services they offer at their different properties. While they do not provide many numbers for the breakdown of their resident fees and services, they have increased resident fees by 2.5% over the past year which helped them achieve record top line performance. Total investment and revenues breakdown can be found in the figure below, which shows seniors housing making up the majority of annualized revenues, with triple-net leases taking up second and outpatient medical following close in third.

Property Location	Seniors Housing Operating			Triple-net			Outpatient Medical		
	Number of Properties	Total Investment	Annualized Revenues[1]	Number of Properties	Total Investment	Annualized Revenues[1]	Number of Properties	Total Investment	Annualized Revenues[1]
Alabama	2	$ 15,547	$ 5,955	2	$ 19,186	$ 2,562	2	$ 34,636	$ 4,626
Arkansas	—	—	—	—	—	—	1	23,932	3,619
Arizona	7	88,797	27,276	—	—	—	7	81,371	8,904
California	78	2,828,278	578,066	23	455,370	64,088	39	943,263	73,657
Colorado	12	440,994	82,385	11	276,364	29,041	3	32,331	5,464
Connecticut	3	69,392	14,888	8	114,188	15,169	—	—	—
District Of Columbia	2	81,008	9,534	—	—	—	—	—	—
Delaware	3	67,202	21,516	7	111,356	12,184	—	51,372	1,548
Florida	7	351,736	58,586	51	567,485	57,614	24	228,424	42,292
Georgia	9	127,428	33,200	3	39,834	2,715	12	222,174	27,456
Iowa	3	47,758	17,434	7	55,982	6,184	—	—	—
Idaho	1	20,512	3,631	—	—	—	2	52,930	3,433
Illinois	16	441,293	94,750	25	347,417	32,780	7	115,858	14,600
Indiana	3	90,732	8,086	27	334,689	50,198	—	—	—
Kansas	3	67,391	13,979	27	240,888	30,101	—	—	—
Kentucky	2	36,324	11,374	6	57,010	7,042	—	—	—
Louisiana	3	49,884	13,295	1	7,785	840	—	—	—
Massachusetts	13	346,901	62,062	8	96,521	16,031	7	108,729	12,847
Maryland	8	404,791	79,794	21	273,062	14,989	11	246,339	27,273
Maine	1	23,988	11,866	—	—	—	—	—	—
Michigan	6	179,491	27,958	29	267,661	27,330	5	79,400	7,568
Minnesota	3	81,102	11,252	11	227,346	27,666	7	150,504	29,941
Missouri	3	68,961	11,294	1	11,752	69	12	197,889	23,962
Mississippi	2	15,910	8,694	1	10,453	—	1	36,417	2,265
Montana	1	5,749	4,451	—	—	—	—	—	—
North Carolina	3	111,536	18,502	51	384,336	56,361	24	410,779	32,576
Nebraska	—	—	—	4	28,806	4,728	2	31,536	4,406
New Hampshire	—	—	—	4	45,892	6,803	—	—	—
New Jersey	28	709,757	177,237	40	734,164	58,934	13	340,111	48,302
New Mexico	1	13,230	774	—	—	—	—	—	—
Nevada	6	105,538	24,727	1	18,154	3,327	9	144,490	10,057
New York	29	598,244	114,782	4	40,469	3,525	15	431,649	26,950
Ohio	20	391,987	47,786	34	310,810	44,716	5	88,341	8,944
Oklahoma	2	28,900	1,781	20	213,073	25,723	1	14,354	2,085
Oregon	8	88,469	15,034	1	2,671	818	1	44,609	2,730
Pennsylvania	15	223,050	59,129	70	743,994	112,934	4	75,136	6,966
South Carolina	1	4,029	4,697	8	36,765	3,181	2	10,364	1,570
Tennessee	2	46,751	13,832	4	36,721	3,985	5	130,646	13,381
Texas	47	1,169,494	231,006	24	323,695	48,740	55	1,112,114	113,178
Utah	3	68,458	15,628	1	22,993	2,103	—	—	—
Virginia	5	274,569	72,707	26	272,615	34,368	6	114,942	13,617
Washington	23	498,147	101,953	7	91,264	10,254	9	207,224	28,552
Wisconsin	2	19,298	4,816	4	68,135	8,905	5	91,270	9,367
West Virginia	—	—	—	3	35,159	4,648	—	—	—
Total domestic	386	10,302,626	2,115,717	575	6,924,065	830,656	296	5,853,134	612,136
Canada	106	2,137,818	426,383	6	144,937	10,192	—	—	—
United Kingdom	64	2,107,965	342,293	60	831,038	110,363	—	173,364	11,667
Total international	170	4,245,783	768,676	66	975,975	120,555	—	173,364	11,667
Grand total	556	$14,548,409	$2,884,393	641	$7,900,040	$951,211	296	$6,026,498	$623,803

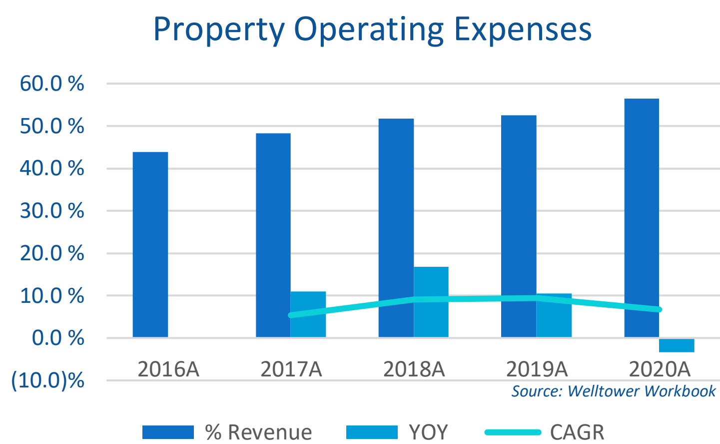
Source: Welltower Annual Report

Cost Drivers

The largest cost drivers for Welltower property operating expenses, general & administrative expenses, and interest expense. The property operating expenses, or COGS, as a percentage of revenue has stayed relatively consistent hovering in the 45-55% range, though it has experienced consistent growth as a percentage of revenue in the past five years, reaching 56.4% in FY2020. This will likely continue to increase slightly as a percentage of revenue as they add new properties to their portfolio and continue to acquire various properties. Their general & administrative expenses have stayed very consistent at about 2.8%, experiencing a YoY growth of 1.7% on average. They are able to keep these expenses very low due to them not employing the workers for their properties, but rather letting their partners due all of the hiring and maintaining of employees for their individual properties. Finally, their interest expense is a large portion of their cost as well, due in large part from the high debt required to finance the acquisition and building of new properties which sustains their revenue growth.

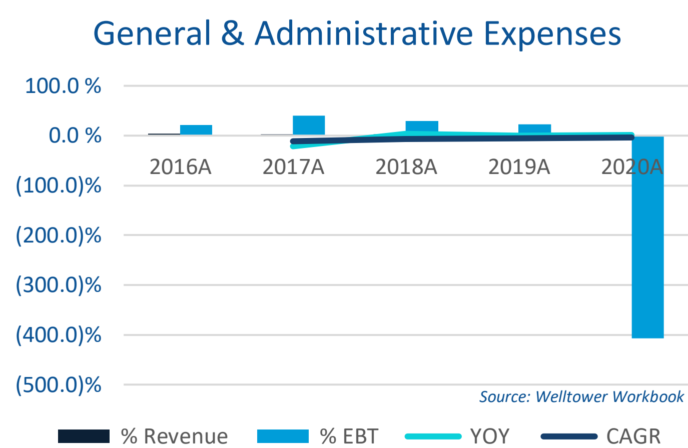
Property Operating Expenses

Property operating expenses are the largest portion of Welltower's total expenses, and historically takes up the largest portion of Welltower's revenue. Because they have minimal other expenses due to them being able to pass most of their costs onto their partners and renters, their largest costs come from operating and maintaining their properties. This expense, as a percentage of revenue has consistently increased over the past five years, fueled in large part by a strong acquisition strategy and new construction. This expense did have a much-accelerated rate of growth as a percent of revenue from FY19 to FY20, led by tenants being unable to pay rent in some cases as occupancy reached new lows, and increased need for maintenance of properties when renters could not make their payments. However, as the effects of the pandemic fade away, this number is expected to decrease slightly as a percent of revenue.



General and Administrative Expenses

Welltower does not have to pay salaries for all of the employees across it's vast portfolio, rather the tenants pay all salaries and related general expenses. That keeps the general and administrative expenses relatively low compared to many companies, at just about 2.8% of revenue on average. As of 2020, they have 423 employees, down 20 employees from 2019, which is represented in a small decrease in CAGR in historical growth rates. However, given that their employees have stayed consistent as well as their general & administrative expenses, it is unlikely there will be any major increases or decreases to this figure as a portion of revenue coming out of the pandemic.



Income Interest

Welltower's third largest expense is their interest expense, which represents interest payable on their borrowings. Given their status as a real estate investment trust, they have large levels of debt, which comes with high interest payments that they must pay. Due to this, it is their second highest expenses by % of revenue, at 11.2% in FY20.

Business Strategy

Welltower's current business strategy is to create a "wellness infrastructure company", where Welltower will help build close relationships between large health systems and senior living communities. In other words, they aim to fully integrate healthcare systems into senior living communities. To do this, they are focusing on a strong acquisition-based approach, investing billions into new housing communities as well as outpatient medical centers which will serve as points of integration. In Q2 of FY2021 alone, Welltower invested $1.4 billion in their portfolio, and before that they had large acquisition of 86 new properties for $1.58 billion. With these acquisitions, and the partnerships with operators that come with them, they are positioning themselves for a high-growth future that will put them at the forefront of senior care, rather than just senior living.

In addition to a strong acquisition approach, they have also have been selling off under-performing assets, mainly non-core senior housing units. They sold $3.3 billion worth of senior housing assets in FY2017, which reduced leverage on their balance sheet and increased its proforma private-pay revenue mix to 92%, up from 89%. The selling of assets and reduction of leverage has been an ongoing strategy for Welltower to improve their credit rating and improve capitalization.

Industry Overview

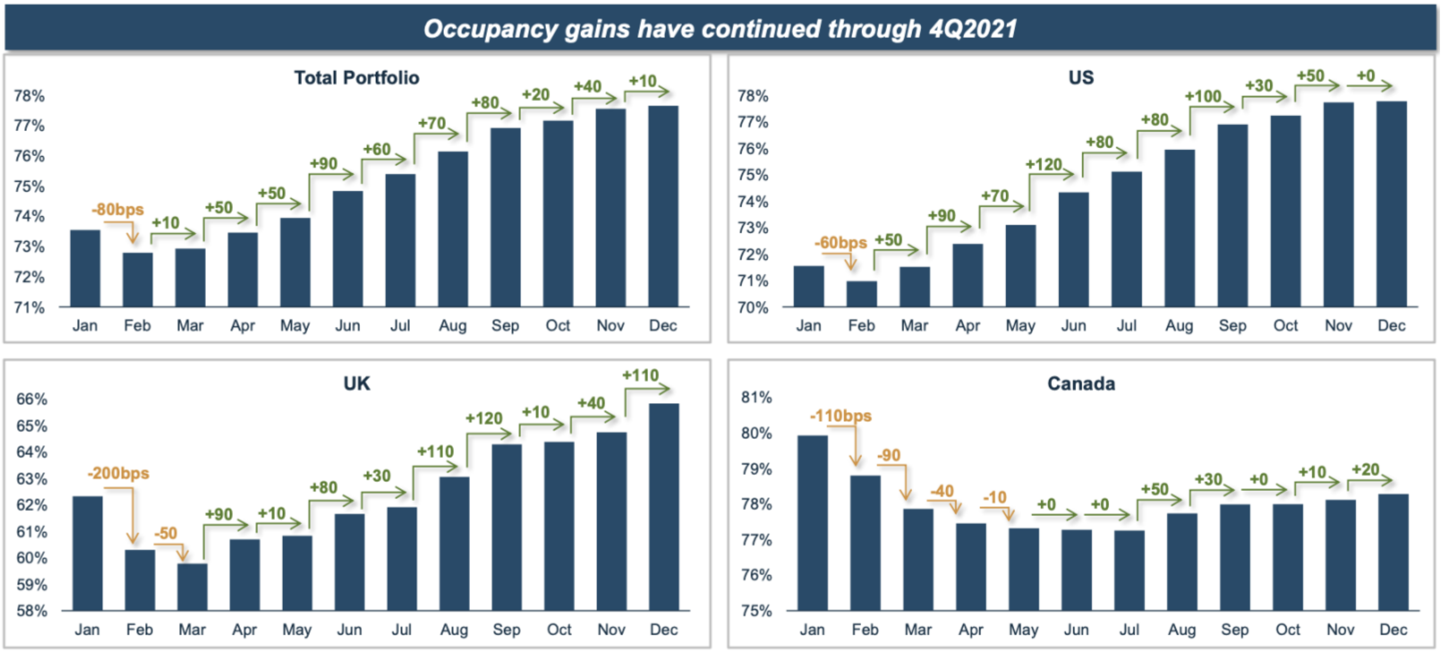
Welltower is a global leader in the healthcare and senior living real estate investment trust (REIT) industry. They focus on senior living, post-acute care, and outpatient medical properties in the United States, Canada, and the United Kingdom. The industry is large but primarily occupied by a few key competitors that collectively hold the majority of market share. The industry is set to experience high single-digit growth in the next few years relating to aging populations globally and increased healthcare spending, but faces increasing risk of disruptions due to technology and labour shortages. Luckily, most of the disruptions are expected to lessen as the greater effects of the pandemic wears off.

Industry Growth

The healthcare real estate investment industry is set to experience a CAGR of 2.5% over the next five years, and an expected market size growth of 5.9% in the US to reach a size of $214 billion by 2026. The United States market is the largest of the three markets that Welltower targets, these being the U.S., Canada, and the U.K. The growth in this industry is largely due to a rapidly aging population, a shift in values towards health care, and occupancy gains throughout the past several years.

Occupancy Trends relating to Industry Growth

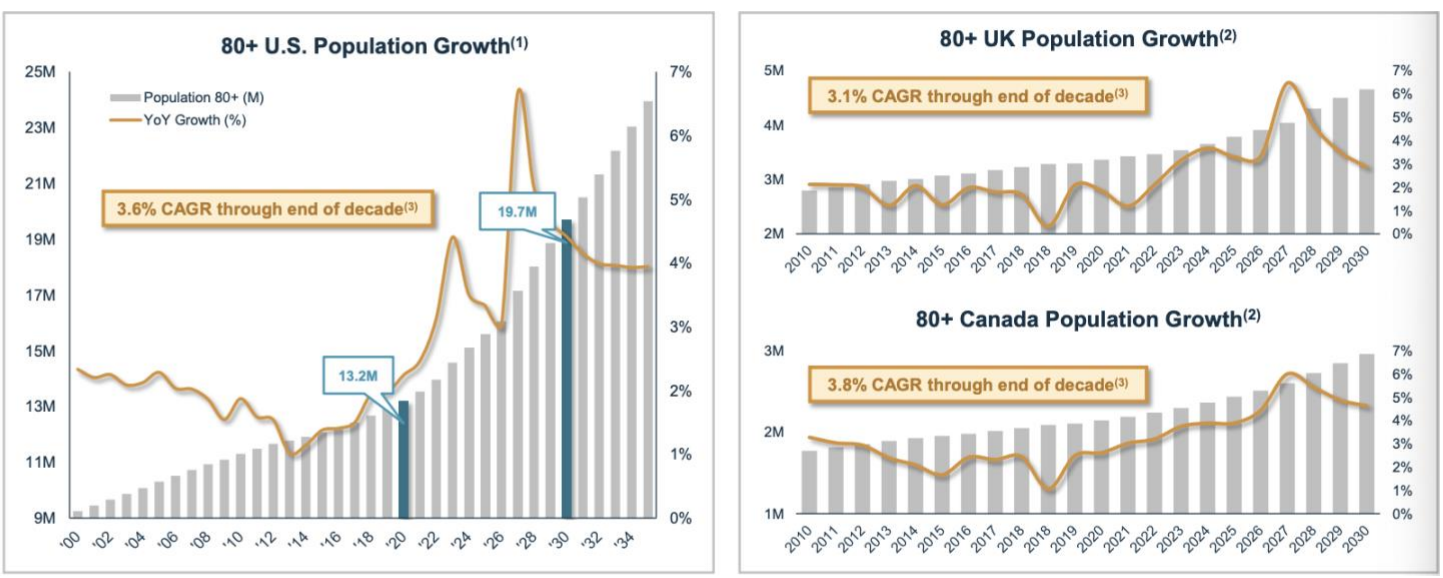
The occupancy rates for Welltower, as well as the rest of the healthcare REIT industry, have begun greatly accelerating within the past year. The U.K and the U.S have sustained the most growth in occupancy rates over the past year, with Canada trailing behind. This sustained growth is predicted to continue through 2022 until a return to normalcy by late-year 2023. In Q3 of FY2021, their first property returned to a 90% occupancy rate, which was a large milestone as the pandemic forced occupancy rates to take a large hit. Average occupancy for Welltower decreased from 87.9% to 70%, which hurt total revenue and NOI margins. However, as of September of FY2021, Welltower has maintained an average occupancy rate of 76.7%, up from 72.7% in March. This average was across all of their portfolios in all geographical regions occupied. Their U.K. portfolio has returned to higher levels of occupancy faster as many of the variants hit the U.K. before the U.S., and as a result also went away quicker. With further recovery from the pandemic expected from Q4 of 2021 and throughout 2022, Welltower expects occupancy to return to normal by end of year 2022. Another factor influencing occupancy trends is overproduction; the supply-demand balance of senior housing units was tilted in the past two years, as construction and acquisitions continued, but demand dried up due to a mix of pandemic-related effects, there was a surplus of housing units and properties which caused an overall downtrend in occupancy across the industry. With the effects of the pandemic wearing off however, and construction costs skyrocketing, the supply-demand balance is expected to fix itself and occupancy is expected to return to normal.



Source: Welltower Annual Report

Rapidly Aging Populations relating to Industry Growth

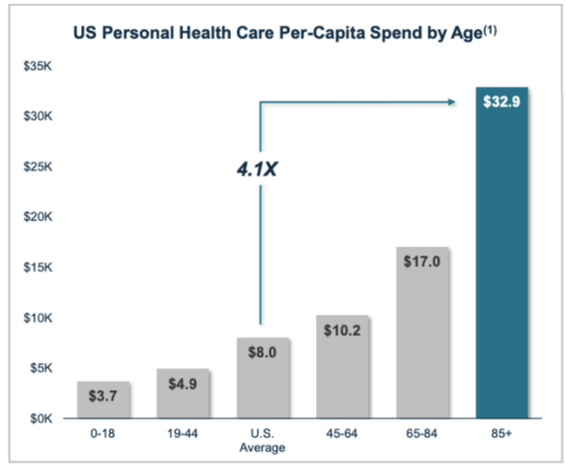
Another key trend relating to projected industry growth is a rapidly aging population. The amount of people living past the age of 80 years is accelerating globally, and with a focus on the three regions where Welltower operates there is a projected growth in population over the age of 80 of 3.5% by 2030. The baby boomers began turning 65 in 2011, and by 2030 the remainder will reach age 65 and account for approximately 21% of the US population. By 2050, this 65-plus age group is estimated to exceed 85.6 million, which is over a 50% increase from it's 2020 population. Additionally, by 2035, the 65-plus age group is estimated to be larger than the population under age 18, which will contribute to a significant need for senior living communities. Driving the increase in aging populations is a consistent improvement in survivorship rates, which now shows that every 1 out of 4 65-year old's will live to be 90, and every 1 out of 10 are estimated to live past 95 years of age. This will significantly drive the demand for senior living properties and communities, driving up the market value for the senior living REIT industry. As the populations Welltower targets increases, their serviceable obtainable market will increase, allowing them to have an opportunity to capture market share and increase profit margins as well.



Source: Welltower Annual Report

Shifting Focus to Value-based Care & Healthcare Spending relating to Industry Growth

The third key industry growth factor is a shifting focus to value-based care within the demographics Welltower serves. Currently, aging populations outspend all other cohorts on healthcare, and while the U.S. spends the most per capita on healthcare, they achieve significantly lower health outcomes than many other developed nations. This is causing a shift in values for aging populations, leading them to focus on quality and availability of care. The significant spending on healthcare by the demographics Welltower and other senior housing REITs target, coupled with the shift to value-based, quality care is creating a large demand for well-rounded senior living communities. Seniors identified health & medical care, exercise & activities, accessibility, food security & nutrition, community & socialization, and hygiene & personal care to be the top things they look for in a senior living property or community, which creates a large opportunity for Welltower to capitalize on and focus their services towards.



Source: Welltower Annual Report

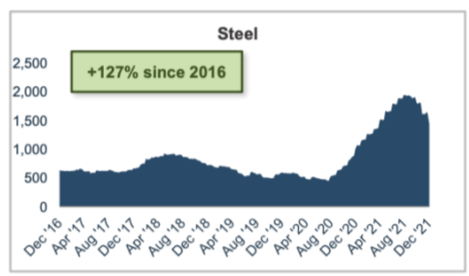
In addition to this shift in values, there is also a significant rise in healthcare spending over the past several years. Healthcare is expected to account for 19.4% of the United States GDP by year 2027, which sets Welltower and other senior living REITs up for long term growth and success.

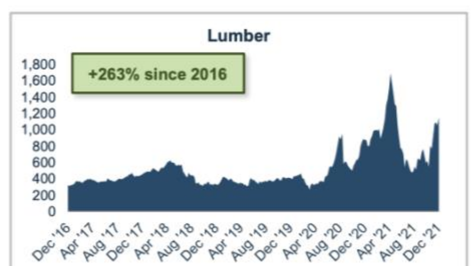
Industry Disruptors

There are not many industry disrupters within the healthcare REIT industry, as it is a well-saturated industry with a few companies holding the majority of the market share and Welltower leading the way. This being said, there are some key disruptors affecting the healthcare REIT industry, these including labour shortages, availability of resources, and technology-based healthcare delivery services.

Availability of Resources

This being said, there are some key disruptions that Welltower is facing, the first being availability of building materials. Construction on new properties has reached an all-time low for Welltower, with them breaking ground on just 3 properties this year. Currently, contractors for Welltower are facing a shortage of at least one key material, with 62% of contractors reporting less availability of building products. In addition to the shortage of materials, Welltower is also facing skyrocketing prices of lumber, cement, copper, aluminum, and steel. To top off the construction issues that Welltower has faced, 92% of their contractors are reporting moderate to high levels of difficulty finding skilled workers. These issues are not restricted to just Welltower but are ones affecting the entire REIT industry. The disruptions in construction have been affecting Welltower's expansion timeline and process, though they are working to minimize the effects of this through increasing wages for contractors to attract skilled workers.





Source: Welltower Investor Relations

Labour Shortages

Another disruption facing the healthcare REIT industry is labor shortages. The labour market is highly competitive, and hourly earned wages for assisted living employees have been growing at a CAGR of 6.2%. This, paired with rent growth staying at levels of 2.5%-3.0% annually has and will continue to complicate senior living companies' bottom lines, putting pressure on NOI. Providers are having continued trouble recruiting workers, and all of this is leading to smaller NOI margins, higher minimum wages, and higher wage rates. Due to the labour shortages and high turnover rates of staff, many providers are turning to contractual employees, which require higher wages as well as lost time and resources for training. This is further harming senior housing providers' bottom lines and lowering overall NOI.

92% of contractors report moderate to high levels of difficulty finding skilled workers.

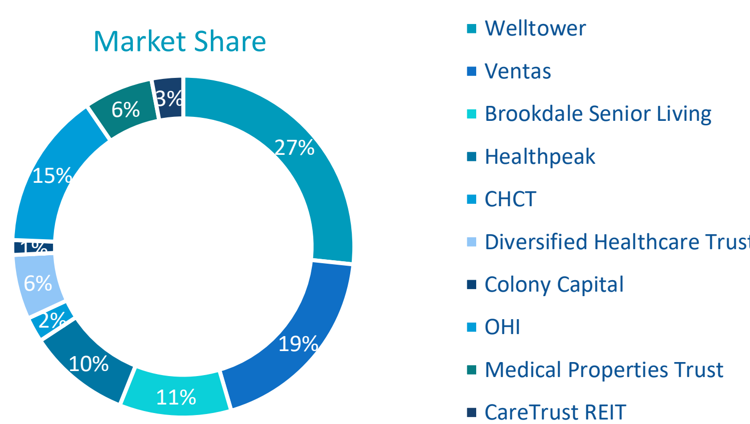
In addition to difficulty finding employees to work within the senior living properties, providers and contractors are also reporting significant difficulty in finding skilled employees for construction, which is disrupting many REITs construction and expansion timelines, including Welltower's. The lack of skilled construction workers is also putting partnerships with providers on the line, as both parties are finding it increasingly difficult to fulfill the terms of leases. However, there are signs pointing to a return to normalcy within the labour market, and Welltower has stated that they expect this issue to be largely dissipated by the end of 2022.

Technology

The final key disruption facing the healthcare REIT industry is technology, specifically online delivery services like Uber and Amazon which are pivoting to healthcare delivery services which can make many of the services offered in senior living communities obsolete. The result of this is prospective residents can now live in their homes for longer, which would be a large disruption for the senior living REIT market and would force providers to rethink their strategies. One way that providers are beginning to think about this disruption is offering alternatives to live in senior housing, and instead branching into technology-driven, at-home services as the lower end of their product/service offerings. However, this is not currently being done and remains to be seen if any companies will attempt this.

Market Share

Welltower's exact market share is hard to pin down, but amongst the top ten senior housing owners, they have 27% of the market share by number of properties. The second largest company by property number is Ventas Inc. followed by Brookdale Senior Living and Healthpeak Properties. Welltower is considered the largest healthcare/senior living REIT in the world, with over 1,700 properties, over 30% more than the next closest competitor. In Canada and the U.K., they also maintain a majority market share over the competitors, due to their aggressive acquisition and expansion strategy.



Competitive Analysis

I analyzed Welltower's competitive positioning by constructing a SWOT analysis and a Porters' analysis. These allowed me to map the company's success within the market and against peers in a qualitative capacity. It also allowed me to analyze Welltower's likely profitability within the industry through analysis of factors that influence major forces impacting profits.

SWOT Analysis

Strengths

- Strong Data Analytics Platform: Welltower has invested heavily in data analytics, using predictive analytics and artificial intelligence to drive micro-market capital allocation decisions, and minimize risk with new investments.
- Strong brand portfolio and social media presence. They have strong followings and brand recognition on their social media platforms, with high levels of customer engagement and low customer response times.
- Welltower has invested heavily in their acquisition strategy, allowing them to rapidly expand into new markets and develop strong partnerships and maintain high market share.

Weaknesses

- Lack of strong investment into new technologies. Given the scale of expansion Welltower is planning, they need to invest more into R&D to integrate their processes across their portfolios.
- The company currently has low levels of current assets compared to current liabilities, which can create liquidity problems for it in operations.
- High employee turnover rate is a large weakness within the senior living industry, and this is no exception for Welltower. They face high employee turnover rates in a period where hiring rates have reached record lows and wage demands are increasing, which is hurting their profit margins and slowing operations.

Opportunities

- New environmental policies will be favourable for Welltower who has worked to maintain its status as an environmental leader and has invested significantly in sustainable processes and sustainable construction.
- Increasing spending on healthcare by key demographics presents the opportunity for Welltower to improve its top line and capture more market share.
- Technological developments – specifically with delivered healthcare services – present Welltower an opportunity to invest in technology and compete with services like Walmart and Amazon and capture potential residents who do not yet need to live in a senior living community but still need consistent healthcare services. Technological development also presents an opportunity to reduce operation costs and collect better data.

Threats

- Demand for increasing wages can further exasperate Welltower's hiring and labour difficulties, and lead to serious pressure on the profitability of Welltower.
- Rising raw material costs can pose a threat to Welltower's profitability. This has been a slowly ongoing threat but was severely affected by COVID-19 as supply chain issues persisted, which caused increases in certain materials by over 150%.
- A lack of innovation throughout the industry increases the risk of losing market share to new competitors or losing potential residents to new healthcare delivery services.

Porter's Five Forces

Porter's Five Forces allows Welltower and investors to understand how different factors under each of the five forces affect profitability of the industry. A strong force means lower profitability, while a weaker force means greater profitability. With this knowledge, a judgement of Welltower's and the industry's profitability can be made and used to analyze their financial future.

Rivalry Amongst Sellers | Moderate

Rivalry amongst existing firms is moderate as there are few competitors, and the few competitors there are have captured the majority of the market share, with Welltower taking the lead. Because all of Welltower's competitors are well-established and large in size, there is less risk of competitors trying to gain extensive market share and position. That being said, competitors are still working to innovate and develop their services in order to improve on quality, which would capture buyers and increase rivalry. The issue for this though is there is already strong differentiation amongst peers, which lowers rivalry. This industry also requires companies to increase capacity by large volumes in order to minimize expenses, and with that it makes the industry prone to disruptions in the supply-demand balance which can lead to overproduction. When this occurs, the companies must lower prices or find ways to differentiate more to ensure they can still meet occupancy needs and fill their properties. This makes rivalry amongst existing firms stronger. In order to combat this rivalry, Welltower can focus on new customers as a new wave of aging seniors enters their target market, rather than focusing on taking customers from existing companies. Welltower can also spend more time conducting research to prevent overproduction within their properties, which will minimize overproduction and disruptions to their strategy.

Threat of Substitutes | Low

The threat of substitutes is moderate to low. Due to the sheer size and scale that Welltower operates at, there are very few substitutes that offer all of the different senior care and living properties with all of the different services that Welltower does. Additionally, the substitutes that are available are very centered in a few geographical locations, with no competitors reaching the level of expansion that Welltower has geographically. The substitutes available are also either more expensive than Welltower which limits the population that can afford them, or they are lower priced but at the cost of quality, and many buyers are unwilling to sacrifice their quality of living for a lower price. Since this is most often where these seniors will be living out their final years, they want a good experience where they will be taken care of, and because of that quality is what matters most which is where Welltower dominates. This means threat of substitutes is low. The only way for Welltower to make threat of substitutes lower is to continue to improve their quality of care and living, which would further capture buyers. They are currently investing in properties that they will be able to offer at a lower cost to seniors on programs such as Medicare while still maintaining high quality, and this will reduce the threat of substitutes even more.

Pressure from Supplier Bargaining Power | High

The bargaining power of suppliers has increased over the years as the number of suppliers has decreased. The pandemic accelerated the pressure from supplier bargaining power, as costs of resources rose and raw materials became scarce, suppliers were able to have more bargaining power as it limited the options for Welltower to choose from. Before this, the products and materials suppliers provided were fairly standardized, but with supply chain issues Welltower can no longer afford to be choosey, and in order to stay within their timeline for construction must allot suppliers more bargaining power. This is driving up Welltower’s expenses and decreasing NOI margins. There is not much Welltower can do to lower the pressure from supplier bargaining power, however as the effects of the pandemic on the supply chain lessen and material prices return to normal, the pressure will ease and Welltower will be able to have their choice once again in suppliers and decrease expenses relating to this. One other thing Welltower can incorporate is maintaining different suppliers within the supply chain in different geographical regions. Having multiple suppliers and different supply chains for each geographical location can improve efficiency and lower the pressure from supplier bargaining power.

Threat of New Entrants | Low

The threat of new entries to the healthcare REIT industry is low, as economies of scale is very difficult to achieve. Those with large portfolios have a significant cost advantage, and makes production costlier for new entrants, making this a weaker force. In addition to this, product differentiation is strong; REITs differentiate based on services offered at different types of senior care communities and properties and cater to different demographics which limits the number of gaps that new entries can fill in the industry. Finally, government restriction on the industry is incredibly high, with strict licensing and legal requirements that need to be fulfilled before a company can qualify as an REIT, which further hinders new entries into this industry. For Welltower to fully take advantage of the low threat of new entries and prevent any threat on this front, they can focus on innovation to further differentiate their service offerings which will make it more difficult for new companies to enter the space and take market share.

Pressure from Buyer Bargaining Power | Low

The bargaining power of buyers is fairly low for just REITs, as Welltower maintains the majority of market share and there are few quality companies to choose from. That being said, there is some pressure from buyer bargaining power if we include for profit care homes and non-profit care homes. Even with these included however, the pressure is still fairly low as product differentiation within the industry is high and the services provided by Welltower are unique. Welltower has kept care to ensure their key services and products are protected with extensive intellectual property, whether that is patents or trade secrets, and as a result of this there is little room for similar competitors and services which keeps buyer power to a minimum. Additionally, the quality of healthcare is important to buyers, which means buyers are less price sensitive and instead focused on the care provided, willing to pay more for a better quality of living. Once again, this makes the bargaining power of buyers a weaker force. Welltower does well to keep buyer power to a minimum with their intellectual property, but they can invest in innovation and R&D more heavily to further differentiate and keep buyer power to minimum once patents reach maturity.

Financial Analysis

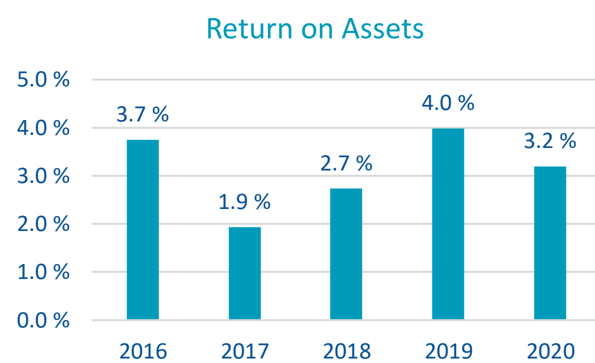
The financial analysis involved usage of DCF (discounted cash flow), the relative model, and the dividend discount model. Within the DCF, the EV/EBITDA model was used to capture Welltower's property operating costs, as the majority of REIT's expenses come from these costs, and EV/Sales is not applicable as their revenue comes from rental income and there are no sales. The relative model was used to capture Welltower's financial strength with a focus on Funds for Operations per price. The dividend discount model was used as Welltower's status as a REIT requires them to give 90% of their earnings back to shareholders through dividends.

DuPont Analysis

A DuPont analysis involves breaking down ROA, ROE, and ROIC into granular components for detailed analysis. As Welltower is not a financial institution, note that ROE is less relevant than ROIC and ROA in analyzing company performance.

Return on Assets (ROA)

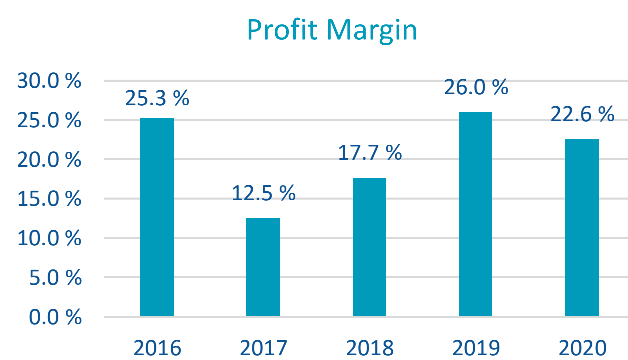
Welltower's ROA has been volatile over the past 5 years, growing consistently from FY2017 to FY2019, but then experiencing a decrease in 2020 correlating with the start of the pandemic decreasing net income as occupancy rates and rental income fell. However, this was just a small decline of (0.8%) which should correct itself as occupancy rates return to normal as we enter the endemic phase of the coronavirus.



Source: Welltower Workbook

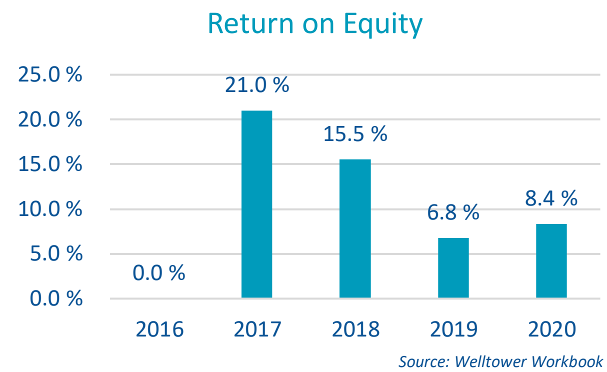
- ### Profit Margin

  Welltower's profit margins can be calculated by dividing it's net income by revenue. This is an important ratio to analyze as it is calculated after all property operating expenses have been taken out, as well as interest and other expenses and taxes have been considered. Revenue has been steadily increased from FY2016 to FY2019 but fell over the past year by 10% as the pandemic resulted in lowered occupancy rates and resource shortages which decreased new construction for Welltower. Welltower did experience a reduction in their profit margin in FY2017 as well as FY2020. The reduction in FY2020 was a result of the aforementioned pandemic, but the reduction in FY2017 was the result of a decrease in net income. This coincided with a significant increase in property operating expenses, which was



Source: Welltower Workbook

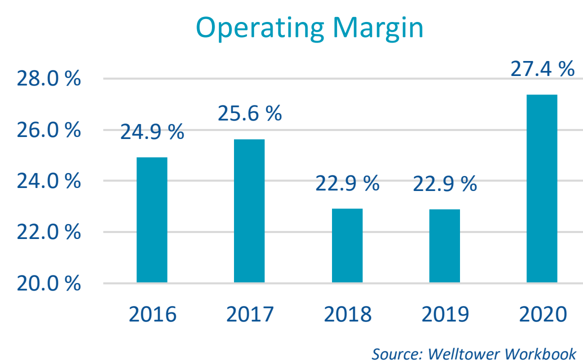
due to new construction and properties opening, which allowed them to then increase revenue in the following years for larger profit margins.



Return on Equity (ROE)

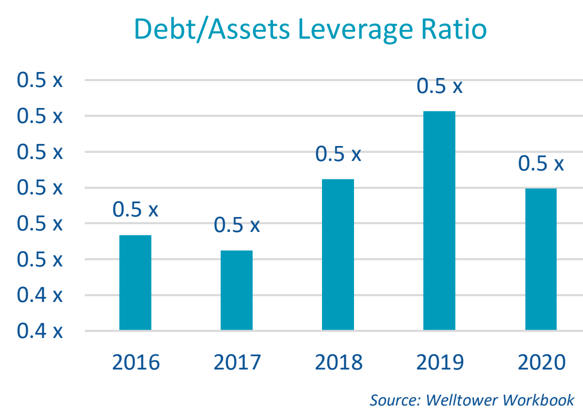
Return on equity (ROE) was calculated with the DuPont method, breaking down the calculation into five separate ratios, with the product of those being return on equity. Welltower's ROE has decreased from FY2017 to FY2019, then experienced a 1.6% increase from FY2019 to FY2020. While the ROE did experience a downward trend between FY17-FY19, the average ROE for the healthcare REIT sector is between 6.8% to 10.9%, which puts Welltower in the middle and in a good position, even at its lowest point in FY2019. Their 1.6% increase in ROE is a good sign as well, especially during the start of the pandemic.

- ### Operating Profit Margin



Welltower's operating margin has been fairly consistent, between 22.9% and 27.4% between FY2016 and FY2020. They experienced their largest jump in operating margin in 2020, which can be attributed to a decrease in their property operating expense due to decreased need for resident services when occupancy rates fell because of the pandemic. The property operating expenses should increase however beginning in 2022 and beyond as new construction is able to pick back up and occupancy rates return to normal, which will stabilize their operating margin. Welltower's operating profit margin is also almost double on average than the current average operating profit margin for global healthcare REITs, which signifies their financial strength compared to competitors.

- ### Leverage Ratio



The leverage ratio was calculated by dividing total liabilities and debt by total assets. This allows for an analysis of Welltower's overall risk and determination of whether it's a good investment to make. They have a very consistent debt/asset ratio around 0.5, meaning that they hold almost equal debt and assets. Because they are a real estate investment company, they hold higher amounts of long-term debt than other companies do in different industries, and their ratio is standard for the REIT industry. Due to this, it is not worrisome that they hold high amounts of debt, as they need to in order to invest in property and construction. The debt/equity leverage ratio is the other important leverage ratio to look at when assessing the financial health of an REIT, and Welltower has experienced very stable debt to equity ratios between 0.8x and 1.0x. This is standard for an REIT, with the average debt to equity ratio for healthcare REITs equaling 0.81x over the past 10 years. Overall, this reaffirms Welltower's strong position within the REIT industry.

Return on Invested Capital (ROIC)

Return on invested capital, ROIC, is calculated through the DuPont method. NOPAT to total revenues and total revenues to invested capital are used to produce ROIC, which helps to determine Welltower's ability to use invested capital to generate future cash flows. Welltower has once again stayed steady in this metric, hovering around 3.5% between FY2017 to FY2019, though they experienced a significant decrease in FY2020. However, if we use McKinsey's method of valuing ROIC for REITs, then taking (NOI – Depreciation)/Invested Capital equals a much higher return on invested capital at 41% for FY2020, which shows a much more stable financial status for Welltower. The reason we cannot use traditional ROIC calculations is because the NOPAT for REITs is not accurate due to the traditional lack of corporate tax. REITs avoid paying any corporate tax and instead return 90% of their earnings to investors through dividends, which makes a calculation like NOPAT irrelevant, which in turn messes up our calculations for ROIC.

Other Financial Ratios

The other important financial ratios for valuing REITs include Funds from Operations per share, and adjusted funds from operations. Both of these ratios are measurements of financial performance specific to REITs and are more accurate representations of the cash flow generated from core business operations. The reason FFO is preferred to net income for REITs is because FFO excludes depreciation, which is important because property tends to appreciate in value, rather than depreciate. This makes REITs different than most businesses, where depreciation is an expense that is allocated as part of the investment cost. Welltower has a Price to Funds from Operations ratio of 26.3x, much higher than many other healthcare REITs that are publicly traded today.

Valuation

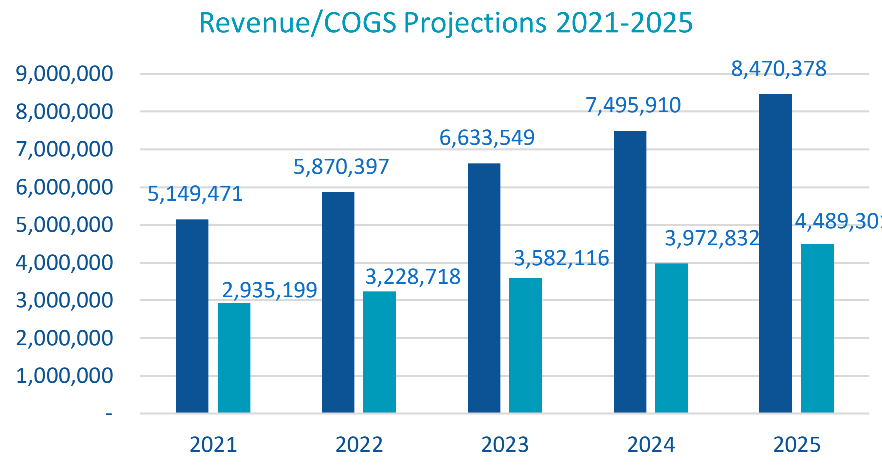
My valuation is the result of a combination of three methods. These methods offer value-added exposure to multiple levels of analysis. They include the discounted cash flow model: EV/EBITDA, the comparable model, and the dividend discount model. To come to a final intrinsic value, each model was given a weighting based on my analysis of each method's applicability to Welltower's past, present, and future.

Discounted Cash Flow (DCF)

A company's ability to generate future cash flow is forecasted through the DCF. I chose to employ this model and forecast it into FY 2026 to capture growth trends and account for new construction Welltower is likely to begin in the next year. I chose to utilize EV/EBITDA to capture Welltower's profitability. This model gave an intrinsic value of $175.27, with a high margin of safety. While this showed the stock as very undervalued, it wasn't a completely accurate representation of Welltower's profitability and future cash flows, as there is a lot of uncertainty within the industry, and it is impossible to forecast out change in non-cash working capital since there is no inventory. Due to this, I gave the EV/EBITDA model a 20% weighting in the overall valuation to reflect the business model.

Revenue

Revenue was predicted using a compound annualized percentage growth rate, projecting at an increasing rate. It is projected to increase over the next five years in part due to the pandemic's negative effect on revenue. Resident fees and services, which makes up the bulk of Welltower's revenue is beginning to bounce back as occupancy rates within their properties return to normalcy, and residents need medical services from Welltower once more, and feel confident returning to communal living properties. This is reflected in my jump of a revenue growth of 14.0% in FY2022 from 11.8% in FY2021 from management guidance. The jump to 7.00% revenue growth in FY2021 is also large compared to a (10.1)% YoY decline in revenue from FY2019 to FY2020. The pandemic resulted in many people leaving communal senior living properties for fear of contracting the virus, which caused significant losses in resident fees and services which make up 2/3s of Welltower's revenue. In addition to occupancy rates returning to normal and bringing back up the revenue growth, Welltower is also beginning new construction, and over the past year has invested heavily in acquisitions of various senior living and triple-net properties, which will further increase both their rental income and the income from resident fees and services, both of which will have a large effect on total revenue throughout FY2022 and into FY2023. For FY 2022, The revenue growth of 11.0% was found through determining the expected growth for individual portfolios, then averaging them to find overall expected revenue growth. For FY2023, revenue growth was brought down to 13.0% due to stabilization within the senior housing market, and the likely completed transition into an endemic phase of coronavirus. I am predicting that with more construction and new properties and communities, Welltower will further improve their market share in key regions, which will provide catalysts for strong revenue growth in the coming years after the industry has recovered from the full effects of the pandemic.



Source: Welltower Workbook

Property Operating Expenses (COGS)

I projected COGS, which is listed as property operating expenses, as a percentage of revenue, in line with management guidance. It was projected out slightly higher than it has been at 57.0% in FY2021, up from a historical average of 53.6%. I projected this higher to account for new construction that Welltower is investing in, which will increase their property operating expenses. In FY2020, Welltower experienced a jump in property operating expenses, which resulted from some tenants in triple-net agreements being unable to pay property operating expenses themselves due to lost income from falling occupancy. I predicted this to continue through 2021, hence the higher property operating expense in FY2021. I then predicted that as occupancy returns to normal, tenants will no longer be unable to pay for property operating expenses, which will cause a gradual decrease to 55.0% in FY2022, eventually going back towards the historical average at 53.0%.

Depreciation and Amortization

Welltower is a real estate investment trust, meaning that depreciation does not affect it as it would a normal company. This is because property tends to appreciate in value, rather than depreciate. D&A has stayed very consistent historically, so D&A was projected in line with current values, hovering at 20.9%.

Operating Expenses

Welltower's two main operating expenses are property operating expenses and general & administrative (G&A). Property operating expenses were projected as a % of revenue because it has historically grown in line with Welltower's revenues. These expenses make up a large portion of revenue, typically over 50% as they account for all expenses relating to running and managing properties. Because they consistently represent a large amount of revenue, I predicted them all above 50%. For FY2021, I projected them at 57% due to some providers and operators being unable to pay the property management expenses to Welltower due to pandemic related effects on occupancy and rental income, so Welltower has increase their expenses in order to keep properties maintained and running. However, I then project these as slowly decreasing as operators are able to recover fully in the coming years, which will allow Welltower to lower the expenses they've had to pay to keep properties running through their triple-net leases. For G&A expenses, these typically represent a very low percentage of revenue as Welltower does not have many administrative or general expenses, as most expenses fall under their property operating expenses. Welltower has had to lay off some staff through the pandemic, and are now working on rehiring, so I projected out the first two years as slightly higher percentages of revenue than the historical averages. Wage demands are high currently, which also pushes this number up for new hires. However, after they are back to full staffing capacity, I forecasted this number down a bit towards historical averages.

Capital Expenditures
Capital expenditures were projected at management guidance in the near-term, and then was reverted slightly higher than historical averages. Welltower has been focused on upgrading properties to better fit their sustainable portfolio, and they are working to better integrate technology into their properties in order to improve on quality and better serve their customers. Management has not given any expected numbers for Capex, nor do they give any real guidance for years beyond 2022, so I am staying close to the historical average while still projecting slightly higher than normal to account for renovations.

Beta
Beta was estimated by performing a regression of Welltower's historical returns against the S&P500. I used three periods for the regression: 5-year monthly returns, 5-year weekly returns, and 5-year daily returns. Of these three regressions, I selected the one with the highest R-squared value, which was the 2-year monthly beta at 63.5% for the R-squared value. This gave me a corresponding beta of 1.50. This beta is higher than Yahoo Finance's 5-year monthly beta at 0.98, however I believe my beta is a better measure of risk associated with Welltower. Yahoo Finance automatically uses the 5-year monthly beta, which had an R-squared value of 54.4%, so while it is not an extremely low correlation, it is still lower than the 2-year monthly beta. Additionally, while Welltower is in a strong position posed for long-term growth, they healthcare REIT industry is still in an uncertain period, which makes a higher beta a better measurement of true risk. Finally, as a side note – a lower beta results in a higher intrinsic value for the DCF, so using a higher one is a more conservative approach and still leads me to a 'buy' recommendation, signaling the stock is undervalued.

Capital Asset Pricing Model (CAPM) & Weighted Average Cost of Capital (WACC) Presumptions
In calculating Welltower's cost of equity, I used the capital asset pricing model (CAPM). I employed the United States' equity risk premium of 4.7%, along with the risk-free rate data from the 30-year treasury bond at 1.9%, which resulted in an 8.9% cost of equity. Welltower carries long-term debt, so the cost of debt was determined based on the current yield for Baa1 bonds. The WACC equated to a final cost of capital of 7.2%.

Net Asset Value Model
The net asset value model estimates the current market value of an REIT's properties, net of other non-real estate assets and liabilities. NAV is often preferred over other metrics such as book value of assets because the book value does not account for the changes in the underlying land and properties built on that land, nor does it consider the future earnings potential of the properties or the REIT assets. Investors tend to bypass book value in favour of providing a more accurate value of the market value of holdings of an REIT, hence why I chose to include it within my valuations. To calculate the net asset value, I used the formula: Net Asset Value = Net Operating Income x Cap Rate / Mortgage Liabilities. The cap rate was provided in Welltower's annual report by management, as were many of the adjusted balance sheet values and net operating income. This model required me to adjust the fair market value to include values for assets that are not generating NOI, then subtracting out total debt. All of this can be seen through the workbook formulas for a more detailed process. In my NAV model, I calculated an intrinsic value of $73.65, and found a range of values of equity and real estate operations for different cap rates, as Welltower

expects to have an adjusted cap rate throughout FY2022. The Net Asset Value model is generally preferred over the DCF for investors valuing REITs, because in a DCF you often cannot accurately project past 24 months for an REIT which makes it difficult to come up with accurate intrinsic values. Because of this, I weighted this model at 30%.

To find the Cap Rate, I got a rate of 4.90% from management guidance, as they expect this rate to stay at 4.90% through FY2022. I calculated the NOI margin by taking NOI divided by Revenue, and found 5-, 4-, and 3-year averages for the NOI margins to get a historical look. I also completed a sensitivity analysis for Cap Rate, Value of Real Estate Operations, Value of Equity, and Value per Share. This gives insight into how much the intrinsic value will be if the cap rate changes during the year, and how a changing cap rate will affect values of real estate operations and equity. Cap Rate, or capitalization rate, is a representation of the yield of a property over a one-year time horizon assuming that the property is purchased on cash. In other words, it indicates an estimate of how long it will take for the company to recover the initial investment in the property.

Sensitivity Analysis			
Cap Rate	Value of Real Estate Operations	Value of Equity	Value per Share
4.70%	$45,662,190.48	$33,301,414.48	$78.55
4.75%	$45,124,988.24	$32,764,212.24	$77.28
4.80%	$44,600,279.07	$32,239,503.07	$76.04
4.90%	$43,586,636.36	$31,225,860.36	$73.65
5.00%	$42,618,044.44	$30,257,268.44	$71.37
5.05%	$42,149,714.29	$29,788,938.29	$70.26
5.10%	$41,691,565.22	$29,330,789.22	$69.18

Dividend Discount Model

The dividend discount model calculated the compound annual growth rate of dividends paid since Welltower has offered dividends for over 20 years, as its status as an REIT requires it to pay back 90% of its pre-tax earnings to shareholders in the form of a dividend. Because of the significance of dividends to REITs, it was important to include this model to value their overall financial health. Welltower has an annual dividend yield of about 3.05% and pays quarterly dividends. They maintain a high payout ratio of above 100%, which they have been able to maintain for over two decades. The reason they have a high payout ratio is due to their REIT status, so while this number seems too high at first, it is standard among REITs. I used the OSIG standard terminal growth rate assumption of 3.0%, and this yielded me an intrinsic value of $75.84 for Welltower. While this shows a slight overvaluation on the stock, I believe that their qualitative factors and the market growth sets Welltower up for long-term growth and success. Overall, I weighted this model at 30%.

Comparable Model

The comparable analysis was used as a method for valuing Welltower. I weighted 4 companies in this model, these being Ventas (VTR), Healthpeak Properties (PEAK), Healthcare Trust of America (HTA), and Omega Healthcare Investors (OHI). These four companies are closest to Welltower in terms of portfolio makeup, geographical occupation, and multiples used. I opted to use a custom metric, P/FFO because it is a much more accurate representation of REIT performance than other metrics. Most real estate investments increase in value over time, and thus should not be depreciated like other types of assets. Many metrics charge depreciation as an expense, whereas FFO does not account for depreciation, but adds back the depreciation value to the net income. This makes other metrics not appropriate measures of an REIT financial position and puts P/FFO as one of the best measures of REIT performance, which is why I weighted this multiple at 40% in the valuation.

The next multiple I weighted was debt/EBITDA. REITs rely heavily on debt to acquire and invest in properties, and because of this knowing their debt-to-equity ratio is important in valuing their overall financial health. Taking on too much debt results in a risk of being unable to pay it off, so this multiple is not only a measure of profitability but also of risk from debt. The ideal range for a debt-to-EBITDA ratio is 4.0-6.0x, and Welltower's is just outside of that range at 7x. However, they are on par with their peers, which is a good comparative representation of their financial health. Coming out of the pandemic, many REITs' debt-to-EBITDA ratios increased, so it is to be expected that many of them are slightly or even significantly outside of the ideal range right now. What is important is that Welltower has been taking steps to pay off debt and set themselves up for a profitable future that allows them to pay off debt as it matures. Overall, I weighted this multiple at 30% because of its importance in measuring REIT risk and overall debt.

I also weighted EV/EBITDA, which represents a proxy for free cash flow. EV/EBITDA is typically a good representation of a company's profitability, but because of the inclusion of depreciation, it makes it a little less accurate for valuing REITs, which is why I included it at just 30%.

Overall, Welltower had multiples above many of their competitors, including in P/FFO, EV/EBITDA, and P/BV. Metrics like P/E and EV/Sales were not applicable to REITs, so I did not consider them in the weightings at all. I included three custom ratios, these being P/FFO, Debt/EBITDA, and interest coverage ratio. These multiples allow for better representations of REIT financial health, and account for the differences in real estate with depreciation and capital gains that other types of companies do not need to consider. This model generated an undervaluation of Welltower's stock price, suggesting that Welltower should be valued at $70.29 with a margin of safety of (13.4)%.

Catalysts for Long-Term Growth

In my research, I have identified several catalysts for long-term **growth**:

- A rapidly aging population
- Occupancy trending upwards
- A shift in values towards care & higher healthcare expenditure
- Technological innovation
- New relationships and strong acquisitions

Aging Populations

Currently, Welltower's key demographic is seniors aged 55-years and above. In the United States, this makes up 29.1% of the total population as of the 2019 census. By 2035, the number of seniors aged 65-years and above is expected to overtake those aged 18 and below, which will cause a large demographic shift and open up opportunities for Welltower to capture new buyers and increases their market share. It will also provide a long-term catalyst for growth, as baby boomers fade out and new generations take their place. With Welltower laying the foundation through improving quality of care and focusing on innovation, they are posed to capture a significant portion of aging senior populations as they come.

Occupancy Trends

In the short-term, occupancy is expected to return to pre-pandemic levels by the end of FY2022, which will improve their total revenues and ultimately NOI. In the long-term, as overproduction ceases and the supply-demand balance is restored as construction and acquisitions slow and rivalry amongst existing firms lowers, Welltower is expecting to see their occupancy rates increase as buyers no longer have an oversupply of properties to choose from. With increased occupancy rates, rental income will not be affected a great amount, but resident fees and services will be impacted significantly, and as this makes up approximately two-thirds of their total revenues this will provide them with a much larger NOI, especially as they do not need to increase property operating expenses since they will not be adding new properties to influence the occupancy trends.

Shifting Values & Increased Spending on Healthcare

A shift in values towards care-based living services, and increased expenditure on healthcare by seniors will serve as large long-term catalysts for growth for Welltower. 80% of an individual's health and wellness is influenced by social determinants, which is where Welltower's 6-pronged strategy come into play. Welltower focuses on:

1. Expert-led health & medical care through the connection of outpatient medical centers and post-acute care centers to their senior living communities.
2. Exercise & activities to promote long-term health and quality of living.
3. Safety & accessibility to meet the diverse needs of their key demographics.
4. Food security & nutrition to ensure a well-rounded approach to health and meet the needs of the seniors.
5. Community & socialization as research shows that many seniors suffer from isolation which causes adverse health effects and can lead to early mortality.
6. Hygiene & personal care to ensure that seniors are offered the highest quality of living.

These six pillars of Welltower's living properties and services are what will allow them to capture new buyers as their key demographic shifts to a focus on quality of care and living, as many senior living communities have a poor track record of meeting the full range of diverse needs of seniors. The increased spending on healthcare by this demographic will also allow Welltower to meet their revenue needs and improve NOI margins.

Technological Innovation

Technological innovation is driving a migration to outpatient medical centers as seniors no longer need to go to the hospital or ER when emergencies happen but can get the same level of treatment at outpatient centers due to expanding technological advances. For many years hospitals had superior technology that allowed them to have higher success rates with surgeries and hospital stays, so many patients opted to go to the hospital in-patient rather than to clinics. However, as new technological innovation stalls, old models of equipment are being constantly improved upon and are no longer restricted to in-patient use, which is allowing for the outpatient market to flourish. Outpatient centers are typically cheaper and more convenient, and with the same success rates for surgeries and the same level of expertise from doctors, there is the start of a large migration to outpatient centers by seniors and younger demographics alike. Welltower has begun investing heavily in outpatient medical centers over the past 10 years, developing partnerships with hospital systems to ensure equal success and expertise levels, which will allow them to capitalize on this opportunity and experience long-term growth in their outpatient portfolio from it.

New Partnerships & Acquisitions

Welltower currently has the opportunity to deploy in excess of $15 billion across all asset classes over the next decade, which will drive significant growth in their portfolio. During the past year alone, they have formed 17 new partnerships with senior living and hospital systems and companies, which will allow them to create significant long-term capital deployment opportunities, once again driving long-term overall growth. They expect an average annual capital deployment of $1.5 billion from newly formed exclusive ventures with partners and have many investments and deals in their pipeline. Among their newly established partnerships is NNN/SHO which was the acquisition of five recently developed communities and the establishment of a strategic long-term exclusive development agreement which will see Welltower exclusively developing properties for this partnership. This was a $172 million investment. In addition to this, they have 22 more properties in their construction pipeline through the formation of new partnerships, which they anticipate will return high single-digit IRRs.

As of September 30, 2021, Welltower entered into definitive agreements to acquire $1.3 billion worth of assets, with a $119 million acquisition of three senior housing properties, a $172 million acquisition of five class 'A' senior housing properties, a $475 million acquisition of 9 senior apartment communities, and a $580 million acquisition of 14 senior housing properties portfolio, which is comprised of 8 rental communities and 6 entrance fee communities. All of these acquisitions are expected to generate high single-digit IRR within the next 10 years and provide an opportunity for sustainable long-term growth. To see a full breakdown of FY2021 investments, see Appendix pages 27-29.

	Transaction	Segment	Properties	Investment[1]	Commentary
Opportunistic Investments Executed at Significant Discounts to Estimated Replacement Cost	**Watermark**	SHO	14	$580M	• Portfolio comprised of eight rental and six entrance fee communities located in attractive markets across the US • **Price represents a 40% discount to estimated replacement cost** • **Anticipated unlevered IRR in high single-digit range**
	New Perspective	SHO	3	$119M	• Newly-developed communities in fast-growing micro markets in the Midwest with densification opportunities • New Perspective to assume operations under strongly aligned RIDEA 3.0 contract • **Anticipated unlevered IRR in high single-digit range**
	Atria	SHO	85	$1.6B	• Acquisition of 85 properties at a significant discount to estimated replacement cost, operated by Atria Senior Living • **Anticipated unlevered IRR in low-to mid- teens range**
	HRA	SHNNN	8	$132M	• Portfolio of seniors housing communities across the Southeast under a new triple net lease with HRA, a regional seniors housing operator/developer • **Anticipated unlevered IRR of 10%+**
	Pathway + Frontier	SHO	22 + 7	$150M	• Portfolio of seniors housing communities across the Midwest. Operations will be transitioned to Pathway Senior Living and Frontier Management, regional seniors housing operators • **Anticipated unlevered IRR in low-double digit range**
Newly Established and Growing Relationships	**New Welltower Relationship**	NNN/ SHO	5 + pipeline	$172M	• Acquisition of five recently developed Class A communities across the Mid-Atlantic and Southeastern US • Best-in-class operator and developer will be retained to manage the properties • **Agreed to strategic long-term exclusive development agreement**
	Existing Welltower Relationship	SHO	9	$475M	• Class A portfolio of 100% private pay communities in highly attractive markets • Existing Welltower operator to assume operations • **Anticipated unlevered IRR in high single-digit range**
	Aspect Health	MOB	7 + pipeline	$98M	• Formed strategic joint venture including the acquisition of seven Class A medical office buildings and properties under construction • **Ten-year exclusivity agreement on future development opportunities in NYC metro area**
	StoryPoint	SHO & SHNNN	14 + pipeline	$390M	• **SHO:** Expanded relationship with StoryPoint through the acquisition of four purpose-built, Class A seniors housing communities, with an average age of 2 years, in the Midwest at historical development cost basis • **NNN:** Acquisition of ten properties across the Midwest. All properties transitioned operators to StoryPoint Senior Living • **Anticipated unlevered IRRs in high single digit range**
	Oakmont	SHO	1 + pipeline	$35M	• New **long-term exclusive development agreement** to build, own and operate Class A communities • Expanded relationship through purchase of an AL/MC property in a highly-desirable sub-market in SoCaL • **Anticipated unlevered IRR of approximately 10%**

Source: Welltower Annual Report

Risks to Projections and Expectations

While I have identified catalysts for growth, there are risks to my assumptions that could affect Welltower's ability to provide returns in line with my projections and market expectations.

- Tenant financial risks – the insolvency or bankruptcy of their tenants, operators, or other obligors may adversely affect their business.
- Failure of acquisitions to meet expectations – they may encounter unanticipated expenses relating to acquired property including contingent liabilities, additional operational expenditures, or additional maintenance or construction that needs to be finished. These expenditures can negatively affect operations, and their bottom line.
- Oversupply – currently the supply-demand balance for senior housing is tipped into surplus, with overproduction resulting in high competitive rivalry to minimize prices while keeping quality high in order to maintain occupancy rates. If Welltower cannot adapt to this successively, then they will lose resident fees and service revenue which will harm NOI margins.
- They are very dependent on ProMedica Health System and Genesis Healthcare for a significant portion of their revenue – Failure or inability by them to satisfy obligations under their lease agreements could adversely affect them.
- Rising Interest Rates – when interest rates are rising, REITs typically tend to perform worse at the beginning. If this happens when the Feds raise interest rates this year, then it could scare investors and result in a lower stock price.

Tenant financial risks were a large issue during the height of the pandemic, when occupancy rates were falling and operators could not afford to pay rent in some cases or keep occupancy and fees at a sustainable level. Due to this, Welltower had to raise expenses significantly in order to keep their portfolio afloat and prevent operators from bankruptcy. Coming out the pandemic and as we enter an endemic phase, Welltower expects for occupancy rates to return to normal, and numbers from FY 2021 show that occupancy is rising quickly across the bulk of their portfolio, reducing the risk of bankruptcy from this. However, many operators are still reporting negative or small positive margins and will take at least through FY2022 to recover financially, which continues to make this a risk for Welltower.

Failure of Acquisitions to meet Expectations is another risk I have identified for Welltower. They have expanded rapidly throughout FY2021, spending over $1.5 billion on acquisitions, and more on new construction. With each acquisition comes the risk that they may encounter additional expenses that they did not account for, and since they rely heavily on these acquisitions to increase profits, this can severely lower their profitability by increasing expenses. This is something that Welltower's management has identified as a key risk through 2030 as they have over $6 billion to deploy in the next decade.

Oversupply/Overproduction is the third key risk that Welltower faces. In 2017, construction across the healthcare REIT industry reached its peak, and since then there has been an issue of overproduction, where there is a surplus of housing and a lack of demand to fill it. With the pandemic and a loss of occupancy throughout the industry, this surplus only grew, and oversupply reached a new level. Operators are having to find ways to decrease fees whilst keeping quality high for residents in order to capture back potential residents coming out of the pandemic. This is resulting in lower revenues and profits for REITs and is an issue that must be resolved in the coming years or competitive rivalry will remain high.

Finally, rising interest rates is the last key risk to projections. In a recent research study by Michael Orzano, head of equity indices at S&P Dow Jones Indices, he found that there is no causation, or even correlation, between rising interest rates and poor REIT performance in the market. Although it is a common concern about how REITs will perform when interest rates rise, it is actually a misconception that REITs will underperform when interest rates rise. When you examine the historical record of REITs, you find that REITs actually outperform the S&P 500 over half of the time interest rates rise. Since 1970, there have been six periods when the 10-year U.S. treasury bond yields rose significantly, and REITs outperformed the S&P 500 four out of the six periods. While rising interest rates do pose a challenge for REITs with decreasing value of properties and increasing borrowing costs, it has not been seen that their performance suffers as a result. However, it is still a very common misconception among inexperienced investors that raising interest rates will hurt REIT performance, and due to this Welltower faces the risk that their stock price will suffer if investor sentiment is negative when interest rates rise.

All in all, Welltower is a very strong company with a highly recognizable name brand which allows them to maintain high levels of market share compared to peers. While there are risks to my projections largely relating to tenant factors and interest rates, I am confident in their ability to mitigate these risks, and management has already listed out several ways they work to minimize risks in operations relating to tenant ability to not pay. During the pandemic they had tenants unable to pay the full rental income, and unable to maintain high occupancy rates, and even with these they were able to maintain positive margins, further increasing my confidence in their ability to mitigate these risks I have outlined.

Corporate Governance

The Board of Directors of Welltower currently consists of eleven board members. Ten of the board members are independent, with one of them being Shankh Mitra, the current CEO of Welltower.

Executive Members

- Shankh Mitra: CEO & Chief Investment Officer
- Timothy McHugh: CFO
- John Burkart: COO
- Matthew McQueen: General Counsel & Corporate Security
- Ayesha Menon: Senior VP Wellness Housing and Development
- Joshua Fieweger: Chief Accounting Officer

Executive members received a total of $20,427,591 in salaried compensation. The CEO Shankh Mitra received the largest salary of $9,557,434 or 46.8% of total salaried compensation.

Independent Members

- Kenneth Bacon: co-founder of Railfield Realty Partners
- Karen Desalvo: current Physician Executive & Chief Health Officer of Google Health
- Jeffrey Donahue: former President and CEO of Enterprise Community Investment
- Philip Hawkins: current Executive Chairman of Link Logistics Real Estate (Blackstone's real estate portfolio company)
- Dennis Lopez: former CEO of QuadReal Property Group
- Ade Patton: current Executive VP and CFO of HBO/HBO Max
- Diana Reid: former Executive VP of the PNC Financial Services Group
- Segio Rivera: former CEO of SeaWorld Entertainment
- Johnese Spisso: former CEO of UCLA Hospital System
- Kathryn Sullivan: former CEO of UnitedHealthcare Employer and Individual

	Kenneth J. Bacon	Karen B. DeSalvo	Jeffery H. Donahue	Philip L. Hawkins	Dennis G. Lopez	Shankh Mitra	Sharon M. Oster	Ade J. Patton	Diana W. Reid	Sergio D. Rivera	Johnese M. Spisso	Kathryn M. Sullivan
Board	◉	●	●	●	●	●	●	●	●	●	●	●
Audit				●					●	●		◉
Compensation		●	◉				●			●	●	
Executive	◉		●			●	●			●		●
Investment	●		●	●						◉		
Nominating/ Corporate Governance		●					◉		●		●	

Source: Welltower Annual Report

Environmental, Social, and Governance (ESG) Observations

Environmental:

They strive to reduce environmental impact through increasing energy and water efficiency, reducing greenhouse has emissions, and focusing on environmental impacts of their supply chain. Their outpatient medical portfolio is benchmarked in EPA energy star portfolio manager, and they regularly launch and update new environmental goals that provide a more inclusive representation of their portfolio. In 2019, they outlined a plan to reduce greenhouse emissions by 10%, as well as energy and water usage by 10% compared to their 2018 baseline. As of 2020, they had reduced greenhouse gas emissions by 8.5%, energy consumption by 2.1%, and water consumption by 5%. Focusing on their operations sustainability, they have developed a Supplier ESG survey that allows them to analyze and leverage for compliance and opportunity engagement with suppliers. Within construction and office supplies, they focus on working with partners who are either Forest Stewardship council or sustainable forestry initiative certified. Finally, Welltower is the first U.S. healthcare rEIT to successfully complete a public green bond offering, which allows them to add sustainable value across their portfolio. Use of the funds goes towards green buildings, improving water efficiency across already built properties, and improving energy efficiency across their portfolio.

Social:

Welltower has a number of social initiatives in place, beginning with their Welltower Charitable Foundation which has donated over $40 million to initiatives relating to aging, health care, education, and the arts over the past 6 years. Their largest initiative of those named relates to aging, where they focus on addressing isolation, homelessness, and access to care amongst senior citizens. In 2020, they launched welltowerLIVING, a wellness focused housing concept for those aged 55+ which caters to moderate and low income seniors who are Medicare eligible.

They also aim to maintain a diversified employee base through their Diversity Council and mandatory training for all employees. Currently, 47% of their new hires are female, and 53% are male, with 18% of new hires being from a minority group. Their board is a 50/50 split between male and female, though their executive hires are primarily male, with just 18% being female. They also aim to make total compensation fair between groups, though women are still paid 0.80-0.94c for each dollar, depending on their level of seniority.

Governance:

Their governance policies include risk management team, which is focused on reviewing operational, strategic, financial, legal, and regulatory risks to develop new policies and trainings, an ESG team which focuses on creating ESG goals that flow down to all employees to span organization wide ESG engagement, and a management team designed to assess security risks with industry practices and review cybersecurity capabilities and preparedeness. Their anti-corruption policy provides the business conduct they expect from employees, and the General Counsel provides oversight for the code of business conduct and anti-corruption policy. Their employee ethics trainings are designed to facilitate employee awareness and understanding of ethics policies, anti-corruption laws and regulations, and to clarify behavioural expectations when coducting business.

Investment Summary

My analysis leads me to conclude that Welltower Inc. is attractively undervalued. The effects of the pandemic hit the entire healthcare/senior living REIT industry hard resulting in low investor sentiment throughout, but Welltower has worked through the pandemic to ensure they are posed for strong growth in the future. They have built a strong brand image of quality, and garnered loyalty and respect from many operators and hospital systems, allowing them to pursue strong acquisition strategies and capture large portions of the market. Welltower is not only taking steps to mitigate the effects of the pandemic, but they are investing heavily to establish a dominant future positioning and achieve their strategic goals. Aging populations, along with shifting values in the key demographics Welltower targets towards quality healthcare is setting them up for long-term growth, and this paired with exponential growth in healthcare expenditure by these demographics will ensure strong top-line performance for years to come. Their six-pronged strategy to a wellness & quality-based approach in senior living has and will continue to distinguish them from competitors for years to come. My valuation methods of DCF, comparable, and dividend discount models suggest that the company's current stock price is not an adequate reflection of its future prospective. With a target price of **$93.96**, I have calculated Welltower to be undervalued by **15.8%** based on its market price of $81.16. As Welltower continues to generate better NOI margins, acquire new portfolios, and expand into new markets, and the industry experiences trends towards growth, the company should begin trading closer to its intrinsic value. Shankh Mitra took the reins in 2020, and since then has been pushing Welltower towards a secure and increasingly profitable future. This is a company we can hold confidently, therefore, I recommend a strong buy for Welltower.

Disclosure*: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.*

I wrote this report ourselves, and it expresses our own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this equity report. This report is written explicitly for the Oregon State Investment Group; however, we hold the right to distribute this document to potential employers or for other educational purposes as a sample of my work.

Signed:

Sarina Grant

[2/8/2022]

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Appendix

Gross Investment Activity

	Year-To-Date 2021						
	Properties	Beds / Units / Square Feet		Investment Per Bed / Unit / SqFt		Pro Rata Amount	Yield
Acquisitions and Loan Funding[(1)]							
Seniors Housing Operating	151	18,452	units	$	158,606	$ 2,855,991	
Seniors Housing Triple-net	33	3,476	units		243,409	837,988	
Outpatient Medical	19	818,812	sf		488	382,755	
Health System	2	96	units		322,917	24,800	
Loan funding						1,002,621	
Total acquisitions and loan funding[(2)]	205					5,104,155	6.5%
Development Funding[(3)]							
Development projects:							
Seniors Housing Operating	44	6,898	units			400,249	
Seniors Housing Triple-net	8	718	units			81,076	
Outpatient Medical	8	376,127	sf			54,661	
Total development projects	60					535,986	
Expansion projects:							
Seniors Housing Operating	2	120	units			5,151	
Outpatient Medical	2	49,004	sf			5,292	
Total expansion projects	4					10,443	
Total development funding	64					546,429	7.4%
Total gross investments						5,650,584	6.6%
Dispositions and Loan Payoffs[(4)]							
Seniors Housing Operating	12	1,103	units		96,939	88,693	
Seniors Housing Triple-net	3	256	units		117,954	30,196	
Outpatient Medical	11	799,380	sf		411	292,118	
Health System	21	2,623	units		57,489	120,635	
Long-Term/Post-Acute Care	27	3,388	beds		135,084	457,664	
Loan payoffs						456,148	
Total dispositions and loan payoffs[(5)]	74					1,445,454	6.9%
Net investments (dispositions)						$ 4,205,130	

Property Acquisitions Detail

Operator	Units	Location				MSA
Seniors Housing Operating						
Barrington Group Inc.	309	19600 Floridian Club Drive	Venice	FL	US	Sarasota
New Perspective Senior Living	179	689 Pro-Med Lane	Carmel	IN	US	Indianapolis
New Perspective Senior Living	130	200 South Arbor Lane	Danville	IN	US	Indianapolis
New Perspective Senior Living	132	4400 Terrace Drive	New Palestine	IN	US	Indianapolis
Quality Senior Living	100	4015 2nd Avenue	Summerville	SC	US	Charleston
Watermark Retirement Communities	216	5100 Fillmore Avenue	Alexandria	VA	US	Washington D.C.
Watermark Retirement Communities	155	919 109th Avenue North East	Bellevue	WA	US	Seattle
Watermark Retirement Communities	211	965 North Brighton Circle West	Crystal Lake	IL	US	Chicago
Watermark Retirement Communities	141	25411 Sea Bluffs Drive	Dana Point	CA	US	Los Angeles
Watermark Retirement Communities	199	2100 Swope Drive	Independence	MO	US	Kansas City
Watermark Retirement Communities	225	1700 Bronson Way	Kalamazoo	MI	US	Kalamazoo-Portage, MI
Watermark Retirement Communities	164	79 Flint Road	Millbrook	NY	US	New York
Watermark Retirement Communities	243	1404 North West 122nd Street	Oklahoma City	OK	US	Oklahoma City
Watermark Retirement Communities	256	41-505 Carlotta Drive	Palm Desert	CA	US	Riverside
Watermark Retirement Communities	610	1255 Pasadena Avenue South	St. Petersburg	FL	US	Tampa
Watermark Retirement Communities	399	3260 Lake Pointe Boulevard	Sarasota	FL	US	Sarasota
Watermark Retirement Communities	186	200 Trade Street	Tarboro	NC	US	Rocky Mount, NC
Watermark Retirement Communities	412	2001 West Rudasill Road	Tucson	AZ	US	Tucson
Watermark Retirement Communities	126	1 Rivervue Place	Tuckahoe	NY	US	New York
Total	4,393					
Seniors Housing Triple-net						
HC-One Ltd.	71	Shifnal Road	Telford	UKG	UK	No MSA
Legend Senior Living	91	8600 North Riverside Drive	Fort Worth	TX	US	Dallas
Legend Senior Living	94	220 South Crutcher Crossing	McKinney	TX	US	No MSA
Legend Senior Living	91	12600 Lowell Boulevard	Broomfield	CO	US	Denver
Legend Senior Living	83	6043 Lower Macungie Road	Macungie	PA	US	Allentown
Legend Senior Living	72	2500 North Walnut Creek	Mansfield	TX	US	Dallas
Monarch Communities	85	3 Essex Street	Beverly	MA	US	Boston
Quality Senior Living	119	2000 Blake Boulevard	Bossier City	LA	US	Shreveport-Bossier City, LA
Quality Senior Living	118	250 Nichols Court	Charlottesville	VA	US	Charlottesville, VA
Quality Senior Living	118	7904 Jefferson Highway	Harahan	LA	US	New Orleans
Quality Senior Living	118	915 Holston Hills Drive	Kingsport	TN	US	Kingsport, TN
Wingate Healthcare	64	10 Residences Way	Haverhill	MA	US	Boston
Wingate Healthcare	143	235 Gould Street	Needham	MA	US	Boston
Total	1,267					
Outpatient Medical	Sq. Ft					
Texas Health Resources	17,051	2001 West Rosedale Street	Fort Worth	TX	US	Dallas
Trinity Health	71,144	4350 Jackson Road	Ann Arbor	MI	US	Ann Arbor, MI
Trinity Health	35,683	49650 Cherry Hill Road	Canton	MI	US	Detroit
Trinity Health	21,975	870 East Arkona Road	Milan	MI	US	Monroe, MI
Trinity Health	11,098	202 West Highland Road	Howell	MI	US	Detroit
Trinity Health	7,033	11775 Tecumseh-Clinton Highway	Clinton	MI	US	Adrian, MI
Trinity Health	13,170	10200 Dexter-Pinckney Road	Pinckney	MI	US	Ann Arbor, MI
Trinity Health	46,828	4200 Whitehall Drive	Ann Arbor	MI	US	Ann Arbor, MI
Trinity Health	50,028	4918, 4936, 4940, 4972, and 4990 West Clark Road	Ypsilanti	MI	US	Ann Arbor, MI
Total	274,010					

Development Funding Projections[1]

	Projects	Beds / Units / Square Feet	Projected Yields[2]	Projected Future Funding: 2022 Funding	Funding Thereafter	Total Unfunded Commitments	Committed Balances
Seniors Housing Operating	35	5,503	7.4 %	$ 560,307	$ 243,282	$ 803,589	$ 1,537,500
Seniors Housing Triple-net	6	551	7.2 %	119,027	29,706	148,733	258,870
Outpatient Medical	3	169,084	6.2 %	48,574	—	48,574	74,573
Total	44		7.3 %	$ 727,908	$ 272,988	$ 1,000,896	$ 1,870,943

Development Project Conversion Estimates[1]

Quarterly Conversions

	Amount	Projected Yields[2]
1Q21 actual	$ 173,792	6.2 %
2Q21 actual	195,806	8.7 %
3Q21 actual	66,129	8.1 %
4Q21 actual	188,897	7.8 %
1Q22 estimate	337,578	7.7 %
2Q22 estimate	79,520	6.3 %
3Q22 estimate	169,924	7.4 %
4Q22 estimate	410,053	6.4 %
1Q23 estimate	24,211	8.7 %
2Q23 estimate	314,892	7.7 %
3Q23 estimate	142,803	8.3 %
4Q23 estimate	16,385	6.1 %
1Q24 estimate	92,378	6.3 %
2Q24 estimate	156,194	8.7 %
4Q24 estimate	65,569	6.1 %
1Q25 estimate	61,436	6.4 %
Total	$ 2,495,567	7.4 %

Annual Conversions

	Amount	Projected Yields[2]
2021 actual	$ 624,624	7.7 %
2022 estimate	997,075	7.0 %
2023 estimate	498,291	7.9 %
2024 estimate	314,141	7.5 %
2025 estimate	61,436	6.4 %
Total	$ 2,495,567	7.4 %

Unstabilized Properties

	9/30/2021 Properties	Stabilizations	Construction Conversions[3]	Acquisitions/ Dispositions	12/31/2021 Properties	Beds / Units
Seniors Housing Operating	32	(4)	3	2	33	4,913
Seniors Housing Triple-net	20	—	—	4	24	2,554
Total	52	(4)	3	6	57	7,467

Occupancy	9/30/2021 Properties	Stabilizations	Construction Conversions[3]	Acquisitions/ Dispositions	Progressions	12/31/2021 Properties
0% - 50%	26	(1)	3	5	—	33
50% - 70%	14	—	—	1	2	17
70% +	8	(3)	—	—	2	7
Total	48	(4)	3	6	4	57

Occupancy	12/31/2021 Properties	Months In Operation	Revenues	% of Total Revenues[4]	Gross Investment Balance	% of Total Gross Investment
0% - 50%	33	8	$ 40,890	0.8 %	$ 993,946	2.5 %
50% - 70%	17	12	65,146	1.3 %	508,277	1.3 %
70% +	7	19	28,342	0.6 %	293,859	0.7 %
Total	57	11	$ 134,378	2.7 %	$ 1,796,082	4.5 %

Notes:
(1) Includes development projects (construction in progress, development loans and in-substance real estate) and excludes expansion projects.
(2) Actual yields may vary.
(3) Includes expansion and development loan conversions.

Welltower's key property types, relationships & partners, and geographical locations for years 2018, 2019, and 2020. This gives a look into where they obtain the bulk of their NOI from, and what markets are essential to their operations.

	December 31,[1]		
	2020	2019	2018
Property mix:			
Seniors Housing Operating	38%	43%	43%
Triple-net	37%	38%	40%
Outpatient Medical	25%	19%	17%
Relationship mix:			
Sunrise Senior Living[2]	13%	14%	15%
ProMedica	11%	9%	4%
Revera[2]	5%	6%	7%
Avery Healthcare	4%	3%	3%
Sagora Senior Living	3%	3%	3%
Remaining	64%	65%	68%
Geographic mix:			
California	14%	13%	14%
United Kingdom	10%	8%	9%
Texas	9%	8%	8%
Canada	6%	7%	7%
Pennsylvania	6%	6%	5%
Remaining	55%	58%	57%

(1) Excludes our share of investments in unconsolidated entities and non-segment/corporate NOI. Entities in which we have a joint venture with a minority partner are shown at 100% of the joint venture amount.

(2) Revera owns a controlling interest in Sunrise Senior Living.

Type of Property	NOI[1]	Percentage of NOI	Number of Properties
Seniors Housing Operating	$ 755,552	37.6%	556
Triple-net	748,121	37.2%	641
Outpatient Medical	505,071	25.2%	296
Totals	$2,008,744	100.0%	1,493

(1) Represents consolidated net operating income ("NOI") and excludes our share of investments in unconsolidated entities. Entities in which we have a joint venture with a minority partner are shown at 100% of the joint venture amount. See Non-GAAP Financial Measures for additional information and reconciliation.

Quarterly NOI by Segment:

(in thousands)	Three Months Ended March 31, 2020	March 31, 2019	June 30, 2020	June 30, 2019	September 30, 2020	September 30, 2019	December 31, 2020	December 31, 2019	Year Ended December 31, 2020	Year Ended December 31, 2019
Seniors Housing Operating:										
Total revenues	$851,128	$872,386	$773,650	$915,529	$742,065	$835,496	$715,020	$833,458	$3,081,863	$3,456,869
Property operating expenses	607,871	607,686	595,513	637,317	567,704	581,341	555,223	591,005	2,326,311	2,417,349
NOI	$243,257	$264,700	$178,137	$278,212	$174,361	$254,155	$159,797	$242,453	$ 755,552	$1,039,520
Triple-net:										
Total revenues	$207,729	$248,241	$233,619	$240,758	$120,928	$244,607	$239,028	$239,037	$ 801,304	$ 972,643
Property operating expenses	13,302	14,955	13,563	12,823	12,567	13,922	13,751	12,200	53,183	53,900
NOI	$194,427	$233,286	$220,056	$227,935	$108,361	$230,685	$225,277	$226,837	$ 748,121	$ 918,743
Outpatient Medical:										
Total revenues	$199,329	$149,461	$180,831	$163,365	$172,704	$185,189	$167,155	$189,813	$ 720,019	$ 687,828
Property operating expenses	60,608	48,166	51,688	50,987	52,728	60,325	49,924	59,315	214,948	218,793
NOI	$138,721	$101,295	$129,143	$112,378	$119,976	$124,864	$117,231	$130,498	$ 505,071	$ 469,035
Corporate:										
Total revenues	$ 416	$ 2,157	$ 375	$ 454	$ 1,177	$ 841	$ 813	$ 514	$ 2,781	$ 3,966
Property operating expenses	—	—	—	—	1,718	—	1,663	—	3,381	—
NOI	$ 416	$ 2,157	$ 375	$ 454	$ (541)	$ 841	$ (850)	$ 514	$ (600)	$ 3,966

Well

Welltower Inc.

Valuation

Valuation Method	Value	MoS	Weight
PGM	239.24	199.0 %	0.0 %
EV/EBITDA	190.38	138.0 %	30.0 %
EV/Sales	185.56	131.9 %	0.0 %
RIM	102.26	27.8 %	0.0 %
DDM	75.84	(5.2)%	50.0 %
GGM	46.79	(41.5)%	0.0 %
Relative	69.28	(13.4)%	20.0 %
Historical	141.65	77.1 %	0.0 %
Intrinsic Value Per Share	**108.89**	**36.1 %**	100.0 %
Market Price	80.00		
Cost of Capital	7.19 %		

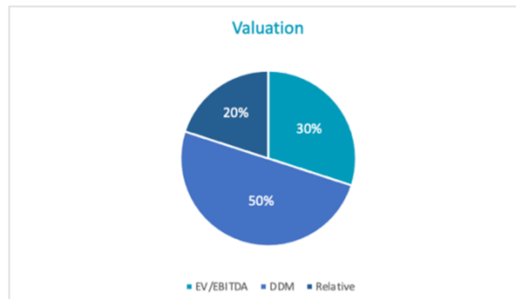
Current Price	Intrinsic Value
50.00	110.36
60.00	112.10
70.00	113.45
80.00	**113.45**
90.00	112.10
100.00	110.36
110.00	108.89

Price Target	
2/18/23	118.63
2/18/24	129.23
2/18/25	140.79
2/18/26	153.38
2/18/27	167.10

Recommendation	
Porfolio	Global
Date of Pitch	2/18/22
Analyst	
Coverage Type	Initiation
Buy/Hold/Sell	Buy
Update Frequency	
Next Earnings Date (Q?)	2/15/22

Summary

With a price target of $108.89 per share, I am recommending a Buy



Well

Welltower Inc.

Forecasts

# of Years Discounted						0.25	1.25	2.25	3.25	4.25		Underlying Assumptions				
Period Ending:	**2016A**	**2017A**	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**Growth**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 4**	**Stage 5**
Income Statement:																
Revenue	4,281,160	4,316,641	4,700,499	5,121,306	4,605,967	5,149,471	5,870,397	6,633,549	7,495,910	8,470,378	Revenue Growth	11.80 %	14.00 %	13.00 %	13.00 %	13.00 %
Property operating expenses	1,876,983	2,083,925	2,433,017	2,690,042	2,597,823	2,935,199	3,228,718	3,582,116	3,972,832	4,489,301	% of Revenue	57.00 %	55.00 %	54.00 %	53.00 %	53.00 %
Gross Profit	**2,404,177**	**2,232,716**	**2,267,482**	**2,431,264**	**2,008,144**	**2,214,273**	**2,641,679**	**3,051,432**	**3,523,078**	**3,981,078**						
General and administrative expenses	155,241	122,008	126,383	126,549	128,394	154,484	176,112	185,739	202,390	228,700		3.00 %	3.00 %	2.80 %	2.70 %	2.70 %
Other expenses	11,998	177,776	112,898	52,612	70,335	77,242	88,056	132,671	149,918	169,408		1.50 %	1.50 %	2.00 %	2.00 %	2.00 %
Total expenses	3,571,907	4,017,025	4,277,009	4,578,414	4,637,519	3,166,925	3,492,886	3,900,527	4,325,140	4,887,408						
Operating Earnings	**1,066,698**	**1,106,694**	**1,076,842**	**1,172,312**	**1,261,267**	**1,982,546**	**2,377,511**	**2,733,022**	**3,170,770**	**3,582,970**						
Provision for taxes	521,345	484,622	526,592	555,559	514,388	571,999	636,063	707,302	786,520	874,611		11.20 %	11.20 %	11.20 %	11.20 %	11.20 %
EBIT (earnings before interest and taxes)	**1,230,598**	**784,238**	**950,082**	**1,098,451**	**482,836**	**1,979,092**	**2,374,053**	**2,729,561**	**3,167,305**	**3,579,502**						
Interest expense	521,345	484,622	526,592	555,559	514,388	571,999	636,063	707,302	786,520	874,611		11.20 %	11.20 %	11.20 %	11.20 %	11.20 %
Gain (loss) on real estate dispositions, net	364046	344,250	415,575	748,041	1,088,455	1,259,342	1,457,059	1,685,817	1,950,491	2,256,718		15.70 %	15.70 %	15.70 %	15.70 %	15.70 %
Loss (gain) on derivatives and financial instruments, net	-2448	2,284	(4,016)	(4,399)	11,049	11,071	11,093	11,115	11,138	11,160		0.20 %	0.20 %	0.20 %	0.20 %	0.20 %
Foreign currency translation gain (loss)	(20,274)	26,852	(9,105)	5,310	3,451	3,454.45	3,457.91	3,461.36	3,464.82	3,468.29		0.10 %	0.10 %	0.10 %	0.10 %	0.10 %
Debt extinguishment costs	17,214	37,241	16,097	84,155	47,049	-	-	-	-	-						
Earnings from continuing operations before taxes (EBT)	**709,253**	**299,616**	**423,490**	**542,892**	**(31,552)**	**1,407,092**	**1,737,990**	**2,022,258**	**2,380,785**	**2,704,891**						
Effective Tax Rate	**2.7 %**	**(6.7)%**	**(2.0)%**	**(0.5)%**	**31.6 %**	**2.1 %**	**2.1 %**	**2.1 %**	**2.1 %**	**2.1 %**						
Income tax expense	19,128	(20,128)	(8,674)	(2,957)	(9,968)	29,127	35,976	41,861	49,282	55,991		(0.20)%	(0.20)%	(0.20)%	(0.20)%	(0.20)%
Earnings from continuing operations	718,024	540,613	829,750	1,330,410	1,038,852	1,262,205	1,539,890	1,881,746	2,307,021	2,828,407		21.50 %	22.00 %	22.20 %	22.60 %	22.60 %
Net income	**1,082,070**	**540,613**	**829,750**	**1,330,410**	**1,038,852**	**1,262,205**	**1,539,890**	**1,881,746**	**2,307,021**	**2,828,407**						
Net earnings per common share, basic	2.83	1.26	2.03	3.07	2.36											
Net earnings per common share, diluted	2.81	1.26	2.02	3.05	2.33	2.77	3.13	3.53	3.99	4.52						
Average number of shares outstanding, dilutive	360,227	369,001	375,250	403,808	417,387	454,952	492,713	533,608	577,897	625,863	% of growth	9.00 %	8.30 %	8.30 %	8.30 %	8.30 %
Balance Sheet:																
Cash and cash equivalents	419,378	243,777	215,376	284,917	1,545,046	2,060,818	1,957,777	884,915	299,986	338,985	% Total Current Assets	6.00 %	5.00 %	2.00 %	0.60 %	0.60 %
Total current assets	28,865,184	27,944,445	30,342,072	33,380,751	32,483,642	34,346,972	39,155,548	44,245,770	49,997,720	56,497,423	% Revenue	667 %	667 %	667 %	667 %	667 %
Short-term borrowings	0	0	0	0	0	0	0	0	0	0	% Total Current Liabilities	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Current portion of long-term debt	550,620	846,590	1,110,000	997,930	451,040	1,641,651	2,414,213	4,018,073	4,540,423	5,130,678	% Total Current Liabilities	10.00 %	12.90 %	19.00 %	19.00 %	19.00 %
Total current liabilities	13,185,279	12,643,799	14,331,427	16,398,247	15,258,580	16,416,514	18,714,826	21,147,753	23,896,961	27,003,566	% Revenue	318.80 %	318.80 %	318.80 %	318.80 %	318.80 %
Statement of Cashflows:																
Depreciation & Amortization	901,242	921,720	950,459	1,027,073	1,038,437	**1,035,044**	**1,226,913**	**1,386,412**	**1,566,645**	**1,770,309**	% of Revenue	20.10 %	20.90 %	20.90 %	20.90 %	20.90 %
Capital expenditures	$ (16,943)	$ (13,489)	$ (7,905)	$ (15,272)	$ (17,472)	$ (30,897)	$ (23,482)	$ (26,534)	$ (29,984)	$ (33,882)	% of Revenue	(0.60)%	(0.40)%	(0.40)%	(0.40)%	(0.40)%

DCF

FCFF:										
Sales	4,281,160	4,316,641	4,700,499	5,121,306	4,605,967	5,149,471	5,870,397	6,633,549	7,495,910	8,470,378
EBIT	1,230,598	784,238	950,082	1,098,451	482,836	1,979,092	2,374,053	2,729,561	3,167,305	3,579,502
EBITDA	2,131,840	1,705,958	1,900,541	2,125,524	1,521,273	3,014,136	3,600,966	4,115,972	4,733,950	5,349,811
Non-Cash Working Capital	15,811,147	15,903,459	16,905,269	17,695,517	16,131,056	17,511,291	20,897,158	26,231,174	30,341,195	34,285,550
Δ Non-Cash Working Capital		92,312	1,001,810	790,248	(1,564,461)	-	-	-	-	-
Cash From Operations	2,098,652	1,666,331	918,191	1,341,259	2,933,195	2,973,168	3,551,823	4,059,470	4,668,387	5,275,715
Capital Expenditures	**(16,943)**	**(13,489)**	**(7,905)**	**(15,272)**	**(17,472)**	(30,897)	(23,482)	(26,534)	(29,984)	(33,882)
Unlevered Free Cash Flow (FCFF)	**2,081,709**	**1,652,842**	**910,286**	**1,325,987**	**2,915,723**	**2,942,272**	**3,528,341**	**4,032,936**	**4,638,403**	**5,241,834**
PV of FCFF						**2,891,659**	**3,235,131**	**3,449,845**	**3,701,721**	**3,902,792**
Growth Rate						*0.9 %*	*19.9 %*	*14.3 %*	*15.0 %*	*13.0 %*

Capital Structure		
MV of Equity	*67.2 %*	33,390,960
Preferred Shares	*0.0 %*	
BV of Debt	*32.8 %*	16,313,821
Operating Leases	*4.8 %*	2,407,999
Long-term debt	*28.0 %*	13,905,822

CAPM Assumptions	*mrkt*
Beta	1.50
Equity Risk Premium	4.7 %
Risk Free Rate for Local Currency	1.9 %

WACC Assumptions	*CAPM*
Cost of Equity	8.9 %
Cost of Preferred Shares	
Cost of Debt	3.7 %
Credit Rating	Baa1
Default Spread	1.8 %
LT Credit Yield	3.7 %
Cost of Capital	***7.2 %***

Valuation	PGM	EV/EBITDA	EV/Sales
∑ of PV of Future Cash Flows	17,181,148	17,181,148	17,181,148
Terminal Tax Rate	2.1 %	2.1 %	2.1 %
Terminal Growth Rate	3.0 %	*1.9 %*	*1.8 %*
Exit Multiple	n/a	19.0 x	11.7 x
PV of Terminal Value	96,003,450	75,610,837	73,597,977
Enterprise Value	113,184,598	92,791,985	90,779,125
+ C&CE	1,545,046	1,545,046	1,545,046
+ Investments & Other	2,347,928	2,347,928	2,347,928
- Debt	16,313,821	16,313,821	16,313,821
- Minority Interests	908,853	908,853	908,853
- Preferred Shares	-	-	-
Equity Value	99,854,898	79,462,284	77,449,424
Shares Outstanding (Diluted)	417,387	417,387	417,387
Intrinsic Value Per Share	**239.24**	**190.38**	**185.56**

Well

Welltower Inc.

Relative

Relative Model Inputs	
Discount Period	0.25
Sales (ntm)	5,149,471
EPS (ntm)	3.02
Book Value (ntm)	330,598
EPS Growth (5 yr exp.)	12.670 %
EBITDA (ntm)	3,014,136
Cost of Equity	8.9 %
Cost of Capital	7.2 %
P/FFO	3
C&CE (mrq)	1,545,046
Investments & Other (mrq)	2,347,928
LT Debt (mrq)	13,905,822
Minority Interest (mrq)	908,853
Preferred shares (mrq)	-
Diluted Shares (mrq)	417,387

Relative Model

Ticker	**Well**	**VTR**	**OHI**	**PEAK**	**HTA**	**CTRE**	**CHCT**	**UHT**	**MPW**		**Multiple**	**Value**	**Discounted**	**MoS**	**Weight**
P/E (ttm)	76.2 x	95.0 x	15.9 x	289.1 x	63.1 x	26.4 x	52.4 x	34.7 x	23.2 x		115.8 x	350.06	342.64	328.30 %	
P/S (ttm)	7.8 x	5.2 x	6.5 x	10.1 x	9.3 x	10.7 x	11.6 x	9.4 x	8.7 x		7.8 x	96.08	94.04	17.55 %	
P/BV (mrq)	2.2 x	1.9 x	1.8 x	2.8 x	2.2 x	2.2 x	2.4 x	5.1 x	1.6 x		2.2 x	1.72	1.68	(97.90)%	
PEG (5 yr expected)	2.31	N/A	N/A	4.03	N/A	N/A	N/A	N/A	N/A		1.0 x	38.60	37.79	(52.77)%	
EV/EBITDA (ttm)	32.1 x	18.0 x	12.1 x	25.6 x	20.2 x	17.3 x	21.8 x	19.6 x	18.2 x		19.0 x	110.91	108.56	35.70 %	30.0 %
EV/Sales (ttm)	11.1 x	8.7 x	11.5 x	13.0 x	13.5 x	14.3 x	15.4 x	13.5 x	16.12		11.7 x	117.81	115.33	44.17 %	
P/FFO	26.3 x	18.0 x	13.5 x	21.8 x	18.2 x	14.0 x	20.0 x		16.8 x		17.9 x	53.58	52.44	(34.44)%	70.0 %
Weight		25.0 %	25.0 %	25.0 %	25.0 %						**Intrinsic Value Per Share**		**69.28**	**(13.40)%**	***100.0 %***

Additional Information

Ticker	**Well**	**VTR**	**OHI**	**PEAK**	**HTA**	**CTRE**	**CHCT**	**UHT**	**MPW**	**0**
Beta	1.50	1.26	0.94	0.73	0.63	1.11	0.56	0.79	0.6	
Debt/Equity (mrq)	90.4 %	107.3 %	124.4 %	78.1 %	103.1 %	73.8 %	58.4 %	226.4 %	126.6 %	
Return on Equity	8.4 %	1.9 %	11.2 %	1.2 %	3.5 %	8.2 %	5.0 %	14.4 %	7.2 %	
Return on Assets	1.8 %	1.5 %	4.1 %	1.4 %	1.7 %	4.4 %	2.9 %	3.7 %	3.5 %	
Market Cap ($BN):	33,391	20,370	7,170	18,510	6,970	2,021	1,103	779	13,300	

Well

Welltower Inc.

Historical

Year	2016A	2017A	2018A	2019A	2020A	2021E
Sales	4,281,160	4,316,641	4,700,499	5,121,306	4,605,967	5,149,471
EBIT	1,230,598	784,238	950,082	1,098,451	482,836	1,979,092
D&A	901,242	921,720	950,459	1,027,073	1,038,437	1,035,044
EBITDA	2,131,840	1,705,958	1,900,541	2,125,524	1,521,273	3,014,136
Minority Interests	475,079	502,305	954,265	966,183	908,853	919,713
Net Income	1,082,070	540,613	829,750	1,330,410	1,038,852	1,262,205
LT Debt	11,713,245	11,012,936	12,150,144	13,436,365	13,905,822	
C&CE	419,378	243,777	215,376	284,917	1,545,046	2,060,818
Book Value	363,071	372,449	384,465	411,005	418,691	330,598
Preferred Shares	1,006,250	718,503	718,498	-	-	-
Diluted Shares	360,227	369,001	375,250	403,808	417,387	454,952
Sales/Share	11.88	11.70	12.53	12.68	11.04	11.32
EBITDA/Share	5.92	4.62	5.06	5.26	3.64	6.63
Minority Interest/Share	1.32	1.36	2.54	2.39	2.18	2.02
EPS	3.00	1.47	2.21	3.29	2.49	2.77
LT Debt/Share	32.52	29.85	32.38	33.27	33.32	-
C&CE/Share	1.16	0.66	0.57	0.71	3.70	4.53
BV/Share	1.01	1.01	1.02	1.02	1.00	0.73
Preferred/Share	2.79	1.95	1.91	-	-	-
High Price	80.19	78.17	74.75	93.17	89.99	
P/S	6.7 x	6.7 x	6.0 x	7.3 x	8.2 x	
P/E	26.7 x	53.4 x	33.8 x	28.3 x	36.2 x	
P/B	79.6 x	77.4 x	73.0 x	91.5 x	89.7 x	
EV/Share	115.65	110.66	111.01	128.13	121.78	
EV/EBITDA	19.5 x	23.9 x	21.9 x	24.3 x	33.4 x	
EV/Sales	9.7 x	9.5 x	8.9 x	10.1 x	11.0 x	
Low Price	52.80	63.06	49.58	66.82	24.27	
P/S	4.4 x	5.4 x	4.0 x	5.3 x	2.2 x	
P/E	17.6 x	43.0 x	22.4 x	20.3 x	9.8 x	
P/B	52.4 x	62.5 x	48.4 x	65.6 x	24.2 x	
EV/Share	88.26	95.55	85.84	101.78	56.06	
EV/EBITDA	14.9 x	20.7 x	16.9 x	19.3 x	15.4 x	
EV/Sales	7.4 x	8.2 x	6.9 x	8.0 x	5.1 x	

Used in Average?	Yes	Yes				
Average Period	3 Years	5 Years	Value	Discounted	MoS	Weight
P/S	5.48	5.62	62.81	61.48	(23.15)%	
P/E	25.12	29.14	75.26	73.66	(7.92)%	
P/B	65.41	66.43	47.90	46.89	(41.39)%	
EV/EBITDA	21.89	21.04	144.72	141.65	77.07 %	100.0 %
EV/Sales	8.33	8.47	97.59	95.52	19.41 %	
			Intrinsic Value Per Share	141.65	77.07 %	*100.0 %*

DPS Calculations	
Annual Dividend (Just Paid)	2.70
Dividend Growth	*1.5 %*
Current Stock Price	80.00
Cost of Equity	*4.9 %*
Expected Dividend Growth Rate	*5.4 %*

EPS Calculations	
EPS (ttm)	2.77
Cost of Equity	8.9 %
Current Price	80.00
Expected EPS Growth Rate	*5.3 %*

Period	Years	Beta	Correlation	RSQ	Adjusted RSQ	Observations
Monthly	1	1.10	*60.6 %*	*36.7 %*		12
Monthly	2	1.50	*79.7 %*	*63.5 %*	94.6 %	24
Monthly	3	1.09	*63.6 %*	*40.4 %*	86.4 %	36
Monthly	4	0.96	*56.0 %*	*31.4 %*	82.1 %	48
Monthly	5	0.94	*54.4 %*	*29.6 %*	81.2 %	60
Weekly	1	0.68	*44.9 %*	*20.1 %*	75.5 %	52
Weekly	2	1.76	*68.7 %*	*47.2 %*	89.2 %	104
Weekly	3	1.61	*64.4 %*	*41.4 %*	86.8 %	156
Weekly	4	1.35	*59.0 %*	*34.8 %*	83.8 %	208
Weekly	5	1.31	*56.8 %*	*32.3 %*	82.6 %	260
Daily	1	0.84	*44.1 %*	*19.5 %*	75.1 %	252
Daily	2	1.35	*61.3 %*	*37.5 %*	85.1 %	504
Daily	3	1.24	*57.5 %*	*33.1 %*	83.0 %	756
Daily	4	1.09	*53.4 %*	*28.5 %*	80.6 %	1,008
Daily	5	1.07	*52.4 %*	*27.5 %*	80.0 %	1,260

Well

Welltower Inc.

DuPont

DuPont Analysis						
Period Ending	**2016A**	**2017A**	**2018A**	**2019A**	**2020A**	
NOPAT Margin	*63.8 %*	*40.2 %*	*39.8 %*	*41.1 %*	*12.7 %*	(EBIT*(1-effective tax rate))/Sales
Asset Turnover		0.2 x	0.2 x	0.0 x	0.1 x	Sales/Average Total Assets
Return on Assets	***0.0 %***	***6.1 %***	***6.4 %***	***2.0 %***	***1.8 %***	
Debt Burden		0.9 x	0.6 x	0.9 x	1.2 x	Net Income/(EBIT*(1-effective tax rate))
NOPAT Margin	63.8 %	40.2 %	39.8 %	41.1 %	12.7 %	(EBIT*(1-effective tax rate))/Sales
Asset Turnover	0.0 x	0.2 x	0.2 x	0.0 x	0.1 x	Sales/Average Total Assets
Leverage Ratio		3.8 x	3.7 x	3.9 x	3.9 x	Average Total Assets/Equity
Return on Equity	***0.0 %***	***21.0 %***	***15.5 %***	***6.8 %***	***8.4 %***	
NOPAT	1,197,410	836,923	969,542	1,104,434	330,297	EBIT*(1-effective tax rate)
Average Total Capitalization	26,994,717	25,938,388	27,736,743	29,942,992	30,787,394	Average(Long-Term Debt+Equity)
Return on Capital	***4.4 %***	***3.2 %***	***3.5 %***	***3.7 %***	***1.1 %***	

Trendlines

Profitability Ratios						
Period Ending	**2016A**	**2017A**	**2018A**	**2019A**	**2020A**	
Gross Margin	*56.2 %*	*51.7 %*	*48.2 %*	*47.5 %*	*43.6 %*	Gross Profit/Sales
Operating Margin	*24.9 %*	*25.6 %*	*22.9 %*	*22.9 %*	*27.4 %*	Operating Income/Sales
Profit Margin	*25.3 %*	*12.5 %*	*17.7 %*	*26.0 %*	*22.6 %*	Net Income/ Sales
Operating Costs to Sales	*83.4 %*	*93.1 %*	*91.0 %*	*89.4 %*	*100.7 %*	Operating Costs/Sales
Effective Tax Rate	*2.7 %*	*(6.7)%*	*(2.0)%*	*(0.5)%*	*31.6 %*	Provision for Income Tax/EBT

Leverage Ratios						
Period Ending	**2016A**	**2017A**	**2018A**	**2019A**	**2020A**	
Debt to Total Assets	*0.5 x*	*0.5 x*	*0.5 x*	*0.5 x*	*0.5 x*	Total Liabilities/Total Assets
Total Debt to Equity	*0.9 x*	*0.8 x*	*0.9 x*	*1.0 x*	*0.9 x*	Total Debt/Equity
LT Debt to Equity	*0.8 x*	*0.7 x*	*0.8 x*	*0.8 x*	*0.8 x*	LT Debt/Equity
Times Interest Earned (TIE)	*2.0 x*	*2.3 x*	*2.0 x*	*2.1 x*	*2.5 x*	Operating Income/Interest Expense
Degree of Operating Leverage	*0.0 x*	*0.5 x*	*1.4 x*	*1.5 x*	*0.9 x*	% change in profits/% change in sales

Liquidity Ratios						
Period Ending	**2016A**	**2017A**	**2018A**	**2019A**	**2020A**	
Current Ratio	2.2 x	2.2 x	2.1 x	2.0 x	2.1 x	Current Assets/Current Laiabilities
Acid Test/Quick Ratio						(Current Assets-Inventory)/Current Liabiliites
Net Working Capital to Sales	3.7 x	3.5 x	3.4 x	3.3 x	3.7 x	(Current Assets-Current Liabilities)/Sales
Payout Ratio	*114.5 %*	*237.5 %*	*157.4 %*	*105.6 %*	*108.5 %*	DPS/EPS
Plowback/Retention Ratio	(14.5)%	(137.5)%	(57.4)%	(5.6)%	(8.5)%	1-Payout Ratio
Sustainable Growth Rate	0.0 %	(28.9)%	(8.9)%	(0.4)%	(0.7)%	ROE * Plowback Ratio
EVA						NOPAT - (Cost of Capital * Total Capitalization)
Accounts Receivable Turnover						Sales/Average Accounts Recivable
Average Daily Sales	11729.2 x	11826.4 x	12878.1 x	14031.0 x	12619.1 x	Sales/365
Days' Sales Outstanding (DSO)						Average Accounts Receivable/ Average Daily Sales
Inventory Turnover						Sales/Average Total Inventory
Days' Inventory Outstanding (DIO)						365/Inventory Turnover
Accounts Payable Turnover						COGS/Average Accounts Payable
Days' Payable Outstanding (DPO)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	365/Accounts Payable Turnover
Cash Conversion Cycle	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	DIO+DSO-DPO

Well

Welltower Inc.

NOI Reconciliation

Period Ending:	2016A	2017A	2018A	2019A	2020A
Net Income	1,082,070	540,613	829,750	1,330,410	1,038,852
Loss (gain) on real estate dispositions, net	(364,046)	(344,250)	(415,575)	(748,041)	(1,088,455)
Loss (income) from unconsolidated entities	10,357	83,125	641	(42,434)	8,083
Income tax expense (benefit)	(19,128)	20,128	8,674	2,957	70,335
Other expenses	11,998	177,776	112,898	52,612	135,608
Impairment of assets	37,207	124,483	115,579	28,133	94,436
Provision for loan losses	10,215	62,966	---	18,690	47,049
Loss (gain) on extinguishment of debt, net	17,214	37,241	16,097	84,155	11,049
General and administrative expenses	155,241	122,008	126,383	126,549	128,394
Depreciation and amortization	901,242	921,720	950,459	1,027,073	1,038,437
Interest expense	521,345	484,622	526,592	555,559	514,388
Consolidated net operating income (NOI)	2,404,177	232,716	2,267,482	2,431,264	2,008,144
NOI by segment					
Seniors Housing Operating	814,114	880,026	985,022	1,039,520	755,552
Triple-net	1,208,860	967,084	900,049	918,743	748,121
Outpatient Medical	380,264	384,068	380,136	469,035	505,071
Non-segment/corporate	939	1,538	2,275	3,966	(600)
Total NOI	2,404,177	2,232,716	2,267,482	2,431,264	2,008,144

Non-GAAP Financial Measures and Results of Operations			
Adjusted EBITDA	2,153,005	2,328,202	2,048,412
Consolidated NOI	2,267,482	2,431,264	2,008,144
Ajusted interest coverage ratio	4.11x	4.14x	3.97x
Ajusted fixed charge coverage ratio	3.44x	3.78x	3.54x

Period	Years	Beta	Correlation	RSQ	Adjusted RSQ	Observations
Monthly	1	1.10	*60.6 %*	*36.7 %*		12
Monthly	2	1.50	*79.7 %*	*63.5 %*	94.6 %	24
Monthly	3	1.09	*63.6 %*	*40.4 %*	86.4 %	36
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Daily	5	1.07	*52.4 %*	*27.5 %*	80.0 %	1,260

Net Asset Value Model

Valuation		Return Metrics		Share Information	
Current Price	81.16	Return on Equity	8.4 %	Current Price	81.16
Intrinsic Value	$ 73.65	Return on Assets	1.8 %	Diluted Shares Outstanding	423,958
Price/Value	1.10	Dividend Yield	3.05%		

Revenue & Net Operating Income	
4,642,279	Revenue
41.7 %	NOI Margin
1,935,284	NOI
-$17,472	CapEx

Year	2016	2017	2018	2019	2020	2021
NOI	2,404,177	2,232,716	2,267,482	2,431,264	2,008,144	1,935,284
Revenue	4,281,160	4,316,641	4,700,499	5,121,306	4,605,967	4,642,279
NOI Margin	56.2 %	51.7 %	48.2 %	47.5 %	43.6 %	41.7 %
5 Year Average:	49.4 %					
4 Year Average:	47.8 %					
3 Year Average:	46.4 %					

Cap Rate	
4.90%	Cap Rate

Balance Sheet	
1,545,046	Cash & Cash equivalents
32,483,642	Total Assets
0	Short Term Debt
13,905,822	Long Term Debt
16,881,572	Book Value of Equity

Value per Share	
$43,586,636.36	Value of Real Estate Operations
$31,225,860.36	Value of Equity
$73.65	Value per Share

Sensitivity Analysis

Cap Rate	Value of Real Estate Operations	Value of Equity	Value per Share
4.70%	$45,662,190.48	$33,301,414.48	$78.55
4.75%	$45,124,988.24	$32,764,212.24	$77.28
4.80%	$44,600,279.07	$32,239,503.07	$76.04
4.90%	$43,586,636.36	$31,225,860.36	$73.65
5.00%	$42,618,044.44	$30,257,268.44	$71.37
5.05%	$42,149,714.29	$29,788,938.29	$70.26
5.10%	$41,691,565.22	$29,330,789.22	$69.18

Components of NAV - from Q4 2021	
Stabilized NOI	
Seniors Housing Operating	721,684
Seniors Housing Triple-net	430,476
Outpatient Medical	425,592
Health System	162,104
Long-term/Post-acute care	94,808
Total In-Place NOI	1,834,664
Incremental stabilized NOI	100,620
Total stabilized NOI	1,935,284
Obligations	
Lines of Credit and commercial paper	325,000
Senior unsecured notes	11,707,961
Secured debt	3,028,658
Financing lease liabilities	111,683
Total debt	13,173,302
Add (subtract)	
Other liabilities (assets), net	332,326
Cash & Cash equiavalents and restricte	(346,755)
Net obligations	15,158,873
Other Asssets	
Land parcels	266,206
Real estate loans receivable	1,174,610
Non real estate loans receivable	223,627
Joint venture real estate loans receivab	248,044
Other investments	9,312
Invesstments held for sale	160,689
Developed properties:	
Current balance	875,202
Unfunded commitments	1,019,226
Committed balances	1,894,428
Projected yield	7.30%
Projected NOI	138,293
Common Shares Outstanding	423,958