BofA SECURITIES

Welltower

Deep dive: A multiyear senior housing beta trade with an alpha overlay

Reiterate Rating: BUY | PO: 129.00 USD | Price: 91.86 USD

We are bullish on WELL's growth prospects

Welltower (WELL) offers a best in class operating platform. Investors, however, have long questioned its premium valuation. In this report, we offer an extensive analysis and find 1) its inexpensive given its future growth potential and (2) our analysis shows it could be worth $217/sh in 2028 (>2x Friday's closing price). Thus, we are raising our one year forward PO to $129 from $96, implying upside of 40%. Our view supports WELL's continued inclusion on Spector's Top Pick List & BofA's Global Research US1 list.

Traditional valuation metrics are misleading

The biggest pushback we hear on the company which invests in healthcare real estate is that it looks expensive. By traditional metrics we agree. However, we think investors need to take a different approach given unique factors including: (1) cyclical: WELL is still recovering from NOI lost during COVID, (2) secular: accelerating demographic demand (see note: Primer) & (3) Alpha factor: data science, operating platform & capital allocation.

Our analysis shows the company is not expensive

We take three paths to valuing WELL: (1) a multi-year PEGY analysis to screen for relative value against other high multiple REITs, (2) an earnings scenario analysis with a multiple overlay once earnings reach a new steady state, and (3) a multi-year NAV.

A premium valuation is warranted

In our view, the company deserves a premium multiple on an absolute basis. WELL has put into place several initiatives over the years that have better positioned the company to capture the demographic wave driving future SH fundamentals. (See inside for more)

Institutionalizing an asset class equals higher margins

We think the market isn't recognizing the margin expansion opportunity because: A (1) WELL's portfolio initiatives should drive significant margin expansion and (2) growing exposure to Wellness Housing (~60% margin, 55+ housing) will increase overall margins. Upside margin expansion is 48.6% on the SHOP segment (including Wellness Housing).

Estimates (Dec) (US$)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
FFO / Share (Reported)	3.33	3.64	4.10	4.89	5.65
GAAP EPS	0.30	0.66	1.28	1.94	2.56
FFO / Share Change (YoY)	3.7%	9.3%	12.6%	19.3%	15.5%
DPS	2.44	2.44	2.53	2.63	2.73
FFO / Share (Normalized)	3.33	3.64	4.10	4.89	5.65
AFFO / Share	2.82	3.11	3.55	4.35	5.11
Valuation (Dec)					
P/FFO (Reported)	27.6x	25.2x	22.4x	18.8x	16.3x
GAAP P/E	306.2x	139.2x	71.8x	47.4x	35.9x
Dividend Yield	2.7%	2.7%	2.7%	2.9%	3.0%
EV / EBITDA	33.8x	28.6x	23.1x	19.5x	16.8x
P/FFO (Normalized)	27.6x	25.2x	22.4x	18.8x	16.3x
P/AFFO	32.6x	29.5x	25.8x	21.1x	18.0x
NAV / Share	61.81	72.09	84.96	NA	NA

27 February 2024

Equity

Key Changes

(US$)	**Previous**	**Current**
Price Obj.	96.00	129.00

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REITs Team
BofAS

Stock Data

Price	91.86 USD
Price Objective	129.00 USD
Date Established	26-Feb-2024
Investment Opinion	B-1-7
52-Week Range	65.18 USD - 94.63 USD
Mrkt Val (mn) / Shares Out (mn)	50,742 USD / 552.4
Free Float	100.0%
Average Daily Value (mn)	236.72 USD
BofA Ticker / Exchange	WELL / NYS
Bloomberg / Reuters	WELL US / WELL.N
ROE (2024E)	2.8%
Net Dbt to Eqty (Dec-2023A)	53.6%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

See Key Terms for definitions of commonly used terms on page 13.

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Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Rental Revenue	5,625	6,310	7,423	8,259	9,115
Property Net Operating Income (NOI)	2,067	2,362	2,999	3,563	4,126
EBITDA (Adjusted)	2,008	2,373	2,941	3,482	4,032
Net Income (Adjusted)	**141**	**340**	**739**	**1,157**	**1,571**
Funds From Operations (FFO)	**1,549**	**1,886**	**2,369**	**2,920**	**3,469**
% Change	13.2%	21.7%	25.7%	23.2%	18.8%
Normalized Funds from Operations (FFO)	**1,549**	**1,886**	**2,369**	**2,920**	**3,469**
% Change	13.2%	21.7%	25.7%	23.2%	18.8%
Fully Diluted Shares (Year Average)	465	518	578	597	614

Cash Flow Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Funds from Operation (FFO)	1,549	1,886	2,369	2,920	3,469
Capital Expenditure	(476)	(463)	(545)	(576)	(609)
Straight Line Rent / FAS 141	NA	NA	NA	NA	NA
Adjusted FFO	1,073	1,422	1,825	2,344	2,860
Dividends	-1,265	-1,228	-1,460	-1,567	-1,677
Free Cash Flow	-192	195	364	776	1,183
Issue (Purchase) Equity	3,668	5,366	1,995	1,845	1,925
Share / Issue Repurchase	3,668	5,366	1,995	1,845	1,925
Cost of Dividends Paid	(1,265)	(1,228)	(1,460)	(1,567)	(1,677)
Change in Debt	371	855	(1350)	41	(263)

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Marketable Securities	632	1,994	66	0	0
Properties at Cost	38,922	43,799	47,271	50,482	53,841
Total Assets	**37,893**	**44,012**	**43,833**	**45,204**	**46,653**
Total Debt	14,964	16,119	14,769	14,810	14,547
Total Liabilities	**16,499**	**17,640**	**16,290**	**16,331**	**16,068**
Preferred Stock	0	0	0	0	0
Total Equity	21,394	26,372	27,543	28,873	30,585
Total Equity & Liabilities	37,893	44,012	43,833	45,204	46,653

Key Metrics (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Acquisitions	2,786	4,223	3,303	3,000	3,000
Cap Rate	*5.3%*	*7.2%*	*7.4%*	*7.4%*	*7.4%*
Developments	1,073	1,054	575	35	150
Cap Rate	*0%*	*0%*	*0%*	*0%*	*0%*
Dispositions	(126)	(652)	(950)	(400)	(400)
Cap Rate	*7.0%*	*3.0%*	*5.8%*	*5.8%*	*5.8%*
Same Store Revenue Growth	NA	NA	NA	NA	NA

Performance Metrics (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Invested Capital (ROIC)	5.3%	5.4%	6.3%	7.1%	7.7%
Operating Margin	36.7%	37.4%	40.4%	43.1%	45.3%
Interest Cover	3.8x	3.9x	5.4x	6.5x	7.5x

Company Sector

REITs

Company Description

WELL is a fully integrated and self-administered REIT invested across the full spectrum of health care real estate. WELL also offers property management and development services. WELL has ownership interests in nearly 1,400 facilities in high growth markets in the US, the UK, and Canada, across senior housing triple net, senior housing operating, skilled nursing/post-acute & medical office buildings.

Investment Rationale

Our Buy rating is driven by our view that senior housing fundamentals will continue to accelerate as the population continues to age. In addition, WELL offers a best in class operating platform, management team and data science capabilities to generate outsize returns relative to peers. Additionally, we like WELL given its strong liquidity position and forward-looking management team.

Stock Data

Average Daily Volume	2,576,957

Quarterly Earnings Estimates

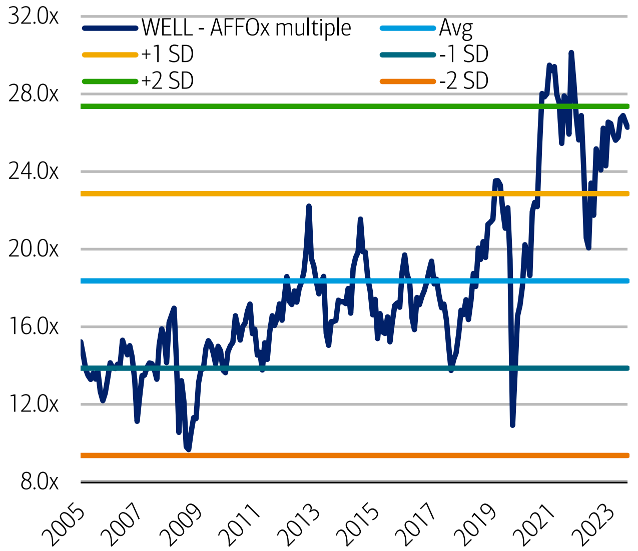
	2023	2024
Q1	0.85A	0.96E
Q2	0.90A	1.01E
Q3	0.92A	1.05E
Q4	0.96A	1.07E

Valuation - a different approach is needed

Traditional REIT valuation methods are misleading...

The two most common methods for valuing a REIT are: (1) building a one year forward NAV and backing into the market implied cap rate and (2) a multiple approach focused either on FFO or AFFO. For the latter, we believe AFFOx is the better approach Exhibit 1 show's WELL's historical AFFOx and Exhibit 2 shows WELL's historical implied cap rate.

Exhibit 1: Historical AFFOx multiple for WELL
WELL's AFFOx multiple has been trending up in 2023 YTD



Source: BofA Global Research, FactSet

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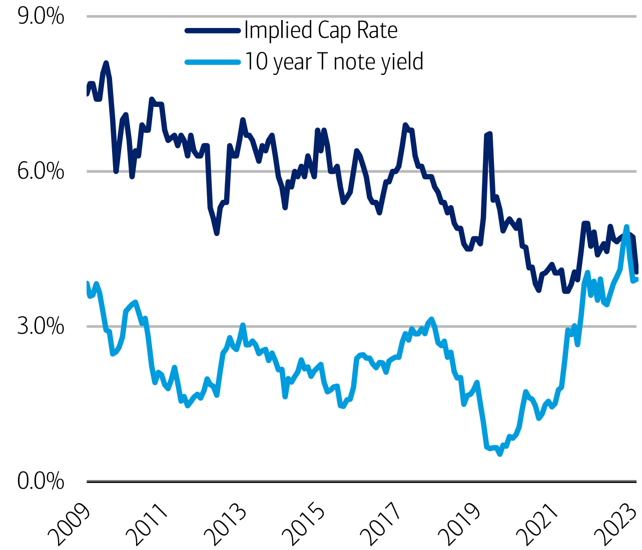
Exhibit 2: WELL implied cap rate vs. 10-year treasury
WELL's implied cap rate and 10yr spread has been narrowing since 2020



Bloomberg

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We believe this data produces a flawed analysis of WELL

Both exhibits show that, relative to their historical implied cap rates and AFFOx, WELL screens expensive. We believe that using historical one year forward implied cap rates and one year forward AFFOx as a valuation screen offers a flawed analysis for the company. There are two primary reasons this:

- **Flaw 1**: Both NOI for the cap rate analysis and AFFO (earnings) is depressed due to the effect of the COVID pandemic. As a result, both the multiple and cap rate should be lower. We note that REITs earnings are typically very stable, and do not exhibit the large peaks and troughs of more cyclical stock multiples.

- **Flaw 2**: Utilizing a historical multiple reflects: (1) historical growth rates and (2) very different underlying fundamentals. Pre-pandemic, senior housing fundamentals were negative. The senior housing industry faced weak rate growth and falling occupancy given slowing demand (poor demographics) and high supply. Cap rates and multiples should reflect the forward outlook and senior housing fundamentals now support a much stronger and accelerating growth outlook. For more on the Senior Housing fundamental backdrop, see the BofA Senior Housing Primer.

Three alternative approaches to valuation

WELL is not expensive using alternative techniques

We take three different approaches to valuing the company. First, a multi-year PEGY analysis to screen for relative value against other high multiple REITs. Second, an earnings scenario analysis with a multiple overlay once earnings reach a new steady state. Third, a multi-part NAV to bridge to a new steady state NAV.

Overview of our scenarios in our analysis

We run four scenarios and then apply the three valuation techniques to assess WELL's potential returns. We assume the company's platform initiatives, company culture and portfolio drive significant margin expansion across its SHOP portfolio in all four scenarios. Exhibit 3 shows our internal growth inputs into each scenario.

1. **Blue Sky**: Our final SHOP margin is 48.6% in this scenario. To achieve this, we think WELL will have to grow its Wellness Housing portfolio to roughly 50% of its SHOP portfolio (see more in the section called SHOP margin analysis).

2. **Bull case**: We assume significant margin expansion across its SHOP portfolio, but the mix of Wellness Housing is smaller. Our final SHOP margin is 44.6% in this scenario.

3. **Base case**: We assume the mix of AL and IL assets remains unchanged from today and SHOP margins peak at 40% in this scenario.

4. **Bear case**: We assume a much lower level of margin expansion and SHOP margins only hit 35.8%.

Exhibit 3: Scenario analysis - internal growth inputs

We run four scenarios across our valuation analysis to assess the potential growth of WELL. This table provides the key inputs we varied across scenarios

Ticker	RevPOR (5-yr CAGR)	SS Occupancy (EOP)	SS Occupancy (Δ, pp)	SS SHOP Revenue (5-yr CAGR)	SS SHOP Expense (5-yr CAGR)	SS SHOP NOI (5-yr CAGR)	SS SHOP NOI Margin (EOP)
Blue Sky Case	6.8%	97.7%	16.89	10.2%	2.1%	26.2%	48.6%
Bull Case	6.4%	94.6%	13.86	9.2%	2.6%	22.9%	44.6%
Base Case	5.8%	93.8%	13.00	8.4%	3.5%	19.4%	40.0%
Bear Case	5.5%	90.0%	9.26	7.4%	4.0%	15.7%	35.8%

Source: BofA Global Research estimates

Note: EOP is 2028; base year is 2023

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Exhibit 4 shows our external growth inputs into each scenario.

Exhibit 4: Scenario analysis - external growth assumptions

We run four scenarios across our valuation analysis to assess the potential growth of WELL. This table provides the key inputs we varied across scenarios

	2024	2025	2026	2027	2028
Acquisition - volumes ($mn)					
Blue Sky Case	4,223	4,053	4,000	4,000	4,000
Bull Case	4,223	3,753	3,600	3,600	3,600
Base Case	4,223	3,303	3,000	3,000	3,000
Bear Case	4,223	3,003	2,600	2,600	2,600
Acquisition - cap rates					
Blue Sky Case	6.5%	7.4%	7.4%	7.4%	7.4%
Bull Case	6.5%	7.4%	7.4%	7.4%	7.4%
Base Case	6.5%	7.4%	7.4%	7.4%	7.4%
Bear Case	6.5%	7.4%	7.4%	7.4%	7.4%
Disposition - volumes ($mn)					
Blue Sky Case	-652	-950	-300	-300	-300
Bull Case	-652	-950	-360	-360	-360
Base Case	-652	-950	-400	-400	-400
Bear Case	-652	-950	-600	-600	-600
Disposition - cap rates					
Blue Sky Case	4.8%	5.8%	5.8%	5.8%	5.8%
Bull Case	4.8%	5.8%	5.8%	5.8%	5.8%
Base Case	4.8%	5.8%	5.8%	5.8%	5.8%
Bear Case	4.8%	5.8%	5.8%	5.8%	5.8%

Source: BofA Global Research estimates

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Approach 1: PEGY analysis

Relative value in the context of growth & high multiple REITs

Multiples need to be examined in context of earnings growth. Our preferred metric is to look at PEG & PEGY ratios.

- **PEG ratio**: Provides investors with a way to measure how much the market is paying for earnings growth. A high ratio suggests a stock / sector is overvalued relative to its earnings potential.

- **PEGY ratio**: The PEGY ratio is very similar to the PEG ratio, but factors in dividend yield. The PEGY ratio provides investors with a way to measure how much the market is paying for earnings growth and dividend yield. A high PEGY ratio suggests a stock / sector is overvalued relative to its earnings potential and dividend yield.

In Exhibit 5, we show WELL's PEGY on a four year forward (2028 vs 2023 CAGR) basis relative to other high quality & high multiple REITs. We use AFFO growth for our "G" in this analysis.

Exhibit 5: PEG & PEGY analysis

WELL screens attractively on a PEG and PEGY basis relative to other high quality, high multiple REITs

Ticker	Price	Dividend yield	AFFOx (2024)	AFFO growth (4-year CAGR)	PEG (4-yr CAGR)	PEGY (4-yr CAGR)
WELL - Blue Sky Case	$91.86	2.7%	24.5x	22.0%	1.1	1.0
WELL - Bull Case	$91.86	2.7%	25.0x	19.6%	1.3	1.1
WELL - Base Case	$91.86	2.7%	25.8x	16.9%	1.5	1.3
WELL - Bear Case	$91.86	2.7%	26.3x	14.4%	1.8	1.5
VTR	$42.97	4.4%	17.6x	6.4%	2.8	1.6
AMT	$187.72	3.5%	17.7x	5.4%	3.3	2.0
AMH	$35.58	2.9%	22.7x	7.3%	3.1	2.2
EQIX	$877.62	2.0%	25.3x	8.8%	2.9	2.3
PLD	$132.56	2.8%	27.4x	8.3%	3.3	2.5
PSA	$278.62	4.4%	19.4x	2.6%	7.5	2.8
ELS	$65.92	2.9%	27.0x	5.5%	5.0	3.2
Average ex WELL		**3.3%**	**22.4x**	**6.3%**	**3.1**	**3.6**

Source: BofA Global Research estimates

Note: Pricing as of 02.26.2024

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Approach 2: AFFOx on earning scenarios

In this approach we run an earnings growth scenario analysis with a multiple overlay once earnings reach a new steady state. Exhibit 6 shows AFFO per share across each of these scenarios.

Exhibit 6: Scenario analysis - Earnings growth

We find robust earnings growth across all four of our scenarios

	2023	2024	2025	2026	2027	2028
Normalized FFO ($/sh)						
Blue Sky Case	$3.64	$4.29	$5.34	$6.40	$7.43	$8.55
Bull Case	$3.64	$4.22	$5.15	$6.05	$6.91	$7.88
Base Case	$3.64	$4.10	$4.89	$5.65	$6.36	$7.17
Bear Case	$3.64	$4.03	$4.72	$5.33	$5.88	$6.52
Normalized FFO (Y/Y)						
Blue Sky Case		17.9%	24.5%	19.9%	16.1%	15.1%
Bull Case		15.9%	22.1%	17.5%	14.3%	14.0%
Base Case		12.7%	19.4%	15.5%	12.6%	12.7%
Bear Case		10.9%	17.0%	13.0%	10.3%	10.9%
AFFO ($/sh)						
Blue Sky Case	$3.11	$3.75	$4.80	$5.87	$6.90	$8.02
Bull Case	$3.11	$3.67	$4.61	$5.51	$6.38	$7.34
Base Case	$3.11	$3.55	$4.35	$5.11	$5.82	$6.62
Bear Case	$3.11	$3.49	$4.17	$4.78	$5.33	$5.97
AFFO (Y/Y)						
Blue Sky Case		20.3%	28.3%	22.2%	17.5%	16.2%
Bull Case		18.0%	25.5%	19.6%	15.7%	15.0%
Base Case		14.1%	22.5%	17.4%	13.9%	13.8%
Bear Case		12.0%	19.6%	14.6%	11.4%	11.9%

Source: BofA Global Research estimates

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We then apply assumed AFFOx to each of these per share results to back into potential future share prices (Exhibit 7).

Exhibit 7: Valuation analysis

WELL has significant upside even if multiples compress

	2024	2025	2026	2027	2028
Applied AFFOx	27.0x	26.0x	25.0x	24.0x	23.0x
Potential share price					
Blue Sky Case	$101	$125	$147	$166	$185
Bull Case	$99	$120	$138	$153	$169
Base Case	$96	$113	$128	$140	$152
Bear Case	$94	$109	$120	$128	$137
Potential share price growth (Y/Y)					
Blue Sky Case		24%	18%	13%	11%
Bull Case		21%	15%	11%	10%
Base Case		18%	13%	9%	9%
Bear Case		15%	10%	7%	7%

Source: BofA Global Research estimates

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In Exhibit 8, we discount these targets back using a discount rate to gauge whether or not WELL is over or under valued today.

Exhibit 8: Valuation analysis - Potential share price (discounted) at the 10-year Treasury rate of 4.28%

Our discount analysis implies the market is under appreciating WELL's growth prospects

	2024	2025	2026	2027	2028
Blue Sky Case	$101	$120	$135	$146	$156
Bull Case	$99	$115	$127	$135	$143
Base Case	$96	$109	$117	$123	$129
Bear Case	$94	$104	$110	$113	$116

Source: BofA Global Research estimates

Priced as of 2.26.2024

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We also run an IRR analysis to assess the potential returns that the company can generate for investors over a five year hold period under each scenario (Exhibit 9).

Exhibit 9: IRR analysis

Our analysis finds that WELL can generate double digit IRRs for investors even in our Bear case

	Today	2024	2025	2026	2027	2028	IRR
Blue Sky Case	-$91.86	$2.53	$2.63	$2.73	$2.84	$187	17.2%
Bull Case	-$91.86	$2.53	$2.63	$2.73	$2.84	$172	15.3%
Base Case	-$91.86	$2.53	$2.63	$2.73	$2.84	$155	13.1%
Bear Case	-$91.86	$2.53	$2.63	$2.73	$2.84	$140	10.9%

Source: BofA Global Research estimates

Note: 2028 includes BofAe for dividends paid

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Priced as of 2.26.2024

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We think there are two key flaws to this approach:

1. **Elevate earnings growth potential beyond 2028:** The first is that earnings are likely to grow at elevated rates well beyond 2028. As we highlighted in our Senior Housing Primer, demographic trends will continue to accelerate demand for senior housing through 2050. We note the oldest Baby Boomers will hit 85 in 2031. We utilize 2028 as our end point given that this is as far out as our model goes at this time.

2. **Multiple**: The second is that we are using an AFFOx of 23x in 2028. We apply this multiple given it reflects WELL's multiple right before the COVID pandemic started. We believe this multiple is conservative but may not fully reflect: (1) future growth potential for the company beyond 2028, (2) the better positioned balance sheet today vs pre-pandemic, (3) the improvements to the portfolio and (4) the operating platform value that it has built since 2020.

In the below tables, we assume WELL continues to trade at its premium valuation through 2028 reflecting the growth outlook through 2050. Exhibit 10 shows the potential share price under this scenario included the share price discounted back.

Exhibit 10: Valuation analysis
We see even more upside to WELL assuming multiples do not compress

	2024	2025	2026	2027	2028
Applied AFFOx	27.0x	27.0x	27.0x	27.0x	27.0x
Potential share price					
Blue Sky Case	$101	$130	$159	$186	$217
Bull Case	$99	$125	$149	$172	$198
Base Case	$96	$118	$138	$157	$179
Bear Case	$94	$113	$129	$144	$161
Potential share price growth(Y/Y)					
Blue Sky Case		28%	22%	18%	16%
Bull Case		25%	20%	16%	15%
Base Case		22%	17%	14%	14%
Bear Case		20%	15%	11%	12%
Potential share price (discounted) at the 10-year Treasury rate of 4.28%					
Blue Sky Case	$101	$124	$146	$164	$183
Bull Case	$99	$119	$137	$152	$168
Base Case	$96	$113	$127	$139	$151
Bear Case	$94	$108	$119	$127	$136

Source: BofA Global Research estimates

Priced as of 2.26.2024

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In Exhibit 11, we run the IRR analysis again assuming that WELL continued to trade at a 27x AFFO multiple through 2028.

Exhibit 11: IRR analysis - Blue Sky multiple of 27x
The long term growth outlook points to even higher IRRs for investors

	Today	2024	2025	2026	2027	2028	IRR
Blue Sky Case	-$91.86	$2.53	$2.63	$2.73	$2.84	$220	20.9%
Bull Case	-$91.86	$2.53	$2.63	$2.73	$2.84	$201	18.8%
Base Case	-$91.86	$2.53	$2.63	$2.73	$2.84	$182	16.6%
Bear Case	-$91.86	$2.53	$2.63	$2.73	$2.84	$164	14.3%

Source: BofA Global Research estimates

Note: 2028 includes BofAe for dividends paid
Priced as of 2.26.2024

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Approach 3: Multi-year NAV analysis

We run a similar analysis to the earnings stress tests but on our NAV. Exhibit 12. shows our estimate of WELL's NAV under four scenarios:

1. **The path to recovery**: Our future SHOP NOI in this scenario is based on WELL's estimate of SHOP NOI once it recovers NOI lost during COVID. For more details, see WELL's February Business update (slide 19). Cumulative total cash NOI growth is 38.3% (6.7% CAGR with end period of 2028).

2. **Bear case**: We utilize the same approach in our earnings scenario. Cumulative total cash NOI growth is 64.5% (10.5% CAGR with end period of 2028).

3. **Base case**: We utilize the same approach in our earnings scenario. Cumulative total cash NOI growth is 77.7% (12.2% CAGR with end period of 2028).

4. **Bull case**: We utilize the same approach in our earnings scenario. Cumulative total cash NOI growth is 91.7% (13.9% CAGR with end period of 2028).

5. **Blue Sky**: We utilize the same approach in our earnings scenario. Cumulative total cash NOI growth is 106.3% (15.6% CAGR with end period of 2028).

Two key points from the NAV analysis

1. Healthcare REITs typically trade at a premium to their NAVs (WELL pre-COVID premium: 19%) implies a Blue Sky theoretical price of $150 and base case price of $127.

2. WELL is currently trading at a discount to its COVID recovery NAV. The Path To Recovery scenario suggests that at the very least the company calculated to be worth $100 per share.

Exhibit 12: WELL's NAV under our scenario analysis

Our multi-year NAV analysis supports significant upside in WELL's valuation in the years ahead

	Current	Path to recovery	Bear Case	Base Case	Bull Case	Blue Sky Case
NOI - non-SHOP						
Senior Housing Triple-Net	385.4	441.4	441.4	441.4	441.4	441.4
Medical Office	523.1	591.8	591.8	591.8	591.8	591.8
Post Acute Care	328.7	376.4	376.4	376.4	376.4	376.4
NOI - SHOP						
SHOP NOI @ 4Q23 (annualized)	1,219.6					
Revera & Chartwell JV Ownership Increase		37.0	37.0	37.0	37.0	37.0
4Q19 Open Property Occupancy Recovery (ex. Transitions)		76.0				
Transition properties		139.0				
Fill up properties		98.0				
Lease Up of COVID Class Acquisitions (4Q20 to 2Q23)		84.0				
Upside assuming 4Q23 Realized RevPOR		168.0				
SHOP NOI - post COVID recovery		1,821.6	2,427.5	2,750.6	3,094.7	3,455.0
Acquisition/Disposition/Developments/Seasonality		167.3	167.3	167.3	167.3	167.3
Cash NOI	2,456.8	3,398.6	4,041.4	4,364.5	4,708.7	5,069.0
Total cash NOI growth rate						
Cumulative		38.3%	64.5%	77.7%	91.7%	106.3%
CAGR		6.7%	10.5%	12.2%	13.9%	15.6%
Construction in Progress (CIP)	1,427.1	2,412.0	2,412.0	2,412.0	2,412.0	2,412.0
Estimated Yield	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
CIP NOI	102.7	173.7	173.7	173.7	173.7	173.7
Total cash NOI	**2,559.5**	**3,572.2**	**4,215.1**	**4,538.2**	**4,882.4**	**5,242.7**
Nominal cap rate	*5.2%*	*5.2%*	*5.2%*	*5.2%*	*5.2%*	*5.2%*
Market Value of Assets	**$49,386.7**	**$68,926.9**	**$81,330.6**	**$87,565.3**	**$94,206.0**	**$101,157.7**
Assets						
Cash	2,076.1	2,076.1	2,076.1	2,076.1	2,076.1	2,076.1
Land	375.9	479.7	479.7	479.7	479.7	479.7
Mortgage receivables	2,570.0	2,570.0	2,570.0	2,570.0	2,570.0	2,570.0
Assets held for sale	949.7	949.7	949.7	949.7	949.7	949.7
Gross Net Asset Value	**$55,358.3**	**$75,002.3**	**$87,406.0**	**$93,640.7**	**$100,281.4**	**$107,233.1**
Liabilities						
Wholly Owned Debt	15,735.5	17,689.5	17,689.5	17,689.5	17,689.5	17,689.5
Other Tangible Liabilities	1,521.7	1,521.7	1,521.7	1,521.7	1,521.7	1,521.7
Total Liabilities	**$17,257.2**	**$19,211.2**	**$19,211.2**	**$19,211.2**	**$19,211.2**	**$19,211.2**
Net Asset Value	38,101.1	55,791.1	68,194.8	74,429.5	81,070.2	88,021.9
Shares & Units	566.4	566.4	566.4	566.4	566.4	566.4
NAV per Share	**$67.27**	**$98.50**	**$120.39**	**$131.40**	**$143.12**	**$155.40**
Stock Price	$91.86	$91.86	$91.86	$91.86	$91.86	$91.86
Price / NAV	137%	**93%**	**76%**	**70%**	**64%**	**59%**
Implied Cap Rate	4.0%	5.5%	6.5%	7.0%	7.5%	8.0%
Debt / Asset Value	*32%*	*26%*	*22%*	*20%*	*19%*	*17%*
NAV Growth		***46.4%***	***79.0%***	***95.3%***	***112.8%***	***131.0%***

Source: BofA Global Research estimates, Company filings
Priced as of 2.26.2024

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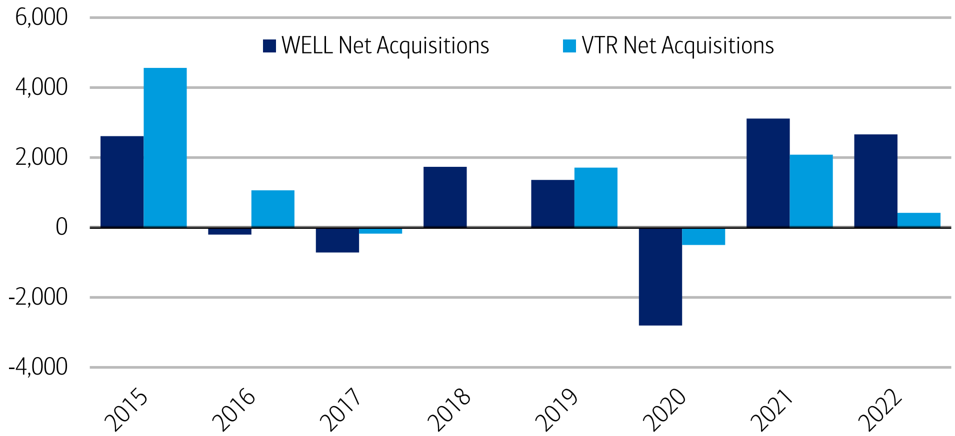
WELL's premium valuation is warranted

We believe WELL deserves a premium multiple relative to peer VTR and on an absolute basis. It has put a number of initiatives in place over the years that have better positioned the company to capture the demographic wave driving future senior housing fundamentals.

1. **Portfolio properly positioned for the future**: From 2015 through 2020, WELL only acquired 1.1x the number of properties it sold during this time period. It was a net seller in 3 of the 6 years. Meanwhile, VTR acquired 3.2x what it sold over the same time period.

Exhibit 13: WELL and VTR Net Acquisitions (Millions)
WELL was a bigger capital recycler than VTR from 2015 through 2020



Company filings

BofA GLOBAL RESEARCH

2. **A key part of their strategy is driving scale in markets**: As WELL's CEO said on their 4Q23 earnings call, "our partner and geographic strategy remains to go deep instead of going broad." We believe this reflects their focus on building local economies of scale and market position to drive better outcomes. Their scale in markets should drive better results in the long term. An example of this is that WELL owns 3 out of the 4 high end senior housing assets in Manhattan.

3. **WELL has reduced or eliminated the principal agent problem with its operators**: During the COVID pandemic, the company's senior housing operators were in technical default of their management agreements. WELL used this as an opportunity to re-negotiate all of these contracts. The outcome is that WELL has 100% of its management agreements with operators based on NOI for both the base management fee and performance promotes. This alignment of interest between WELL shareholders and operators should drive better outcomes for the company.

4. **Attracting the best talent**: Three things have stood out on the personnel front: (1) hiring outsiders to bring their perspective to an un-institutionalized asset class, (2) focus on hiring of Ph.Ds rather than MBAs, and (3) the company's culture.

    a. **Hiring outsiders**: As WELL's CEO said at our conference, "We all came from outside this business. I'm a fundamental believer. This company's industry standards are too low, so I didn't keep people from this industry." For example, the company hired two former C-suite Apartment REIT executives (John Burkart formerly of ESS & Jerry Davis formerly of UDR) who were viewed as best-in-class Apartment operators and thought leaders.

b. **Recruiting program:** We have followed WELL's hiring on LinkedIn and noticed two patterns. First, it runs a robust hiring process at the University level and then puts new hires through rotational programs. Second, it hires "more stat PhDs than MBAs."

c. **Culture:** Our interactions with WELL is why we have high confidence that it is the most entrepreneurial and driven of all the REITs we cover. We know a number of employees who have risen through the ranks to reach the highest levels of the organization. We believe this reflects the entrepreneurial culture. Speaking of the company's drive, the CEO said at our Global Real Estate conference: Our culture is one of "continuous improvement. A culture that we can be our best in this business and we've got to strive for every day to remain in pole position because there's going to be another company who is hungry like we were eight years ago, that will come from behind and overtake us."

5. **Platform initiatives**: We think REITs should be viewed as a platform rather than a collection of assets. In our view, the platform overlay varies considerably across REITs. We believe WELL is building one of the best (if not best) platforms in the industry. Beginning in 2024, we should start to see the results of their platform initiatives hit the P&L this year. Management on the 2Q23 earnings call flagged "we're at the beginning of multi-year double-digit NOI growth cycle for our business resulting from a long runway of occupancy gains, rate growth, and operating margin expansions." They also noted: "We continue to make substantial progress on our platform and the related rollout." WELL's initial 2024 guidance supports our thesis.

6. **Data science capabilities:** We recently met with the head of WELL's data science team to learn more about their capabilities. Overall, we were impressed by the depth and breadth of the group. We came away with a better understanding of how data science drives capital allocation and operating decisions and we believe WELL has built a best-in-class operating platform driven by data science.

We think the above factors create a powerful flywheel effect that will propel the growth of WELL ahead of its peer VTR and most REITs in the future. Thus, we believe this warrants a premium multiple for WELL going forward.

SHOP margin analysis

Institutionalizing an asset class equals higher margins

We believe that senior housing margins will increase in the future as WELL institutionalizes the asset class. REITs have a long history of driving margin expansion in their asset class. We believe Senior Housing is on the cusp of a similar experience. Exhibit 14 highlights how Apartments, Student Housing and Storage all saw significant margin expansion as the asset class became more institutionalized. In other words, operations become more corporate and backed by strong analytical capabilities rather than gut feel.

Wellness Housing is a higher margin business, will grow as a share of SHOP

WELL announced a significant expansion of its Wellness Housing segment with 4Q23 results by acquiring 25 active adult communities operated by Affinity. Management flagged that the portfolio operates with a near-60% operating margin and a low capex burden. We note the margin on Wellness Housing is significantly higher than AL margins (mid-30s normalized) and IL (mid-40s normalized). For more on Wellness Housing see our note: Texas Tour recap note, which is the result of visiting one of WELL's existing properties outside of Austin, Texas, in September 2023. With time we expect the company can drive incremental margin growth across its Wellness Housing assets.

We believe the market under appreciates the margin expansion opportunity
Our bull case scenario assumes WELL's margins hit 44.6% and our Blue Sky Scenario assumes the SHOP margins hit 48.6% The latter reflects growing exposure to Wellness housing. We ultimately expect WELL to hit these margins levels but have lower confidence levels on the timeline. We note that this is why these scenarios are not our base case.

Exhibit 14: Margin expansion across select property types
History suggests significant margin expansion across property types

	Latest	Historical
Apartments	68.3%	63.7%
Storage	76.8%	63.0%
Student Housing	62.7%	46.0%

Source: Company filings
Notes: Historical margins: Apartments is the average of AVB, CPT, ESS, MAA in 4Q03; Storage is the average of CUBE, PSA in 4Q03, Student Housing is the average of ACC, EDR in 4Q03 & 1Q05 respectively

BofA GLOBAL RESEARCH

Key terms:

ABL: Asset based lending

EBITDAR: earnings before interest, taxes, depreciation, amortization, and rent

EBITDARM: earnings before interest, taxes, depreciation, amortization, rent and management fees.

ExPOR: Expense per occupied bed

FFOAA: Funds from operations as adjusted

HC: Healthcare

MOB: Medical office building

NOI: Net Operating Income

LS: Life Science

REVPOR: Revenue per occupied bed

RIDEA: REIT Investment Diversification and Empowerment

SHOP: senior housing operating portfolio

SS: same store

SH: senior housing

SHOP: Senior housing operating portfolios

SNF: skilled nursing facilities

US: United States

Price objective basis & risk

Welltower (WELL)

Our $129 price objective for WELL is now derived by running a 5 year forward analysis of WELL's growth prospects under various scenarios. Our base case implies a share price of $152 in 2028. Then we discount that share price back using a discount rate of 4.28% (the 10-year Treasury rate as of 02.26.2024) to back into our PO of $129. Upside risks to our PO are better-than-expected senior housing or medical office building performance, higher-than-forecast dividend growth and lower interest rates. Downside risks to our PO are further public-pay reimbursement cuts, a more competitive acquisitions environment, weaker-than-expected senior housing fundamentals, increased tenant credit risk, and rising interest rates.

Analyst Certification

I, Joshua Dennerlein, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Agree Realty Corp	ADC	ADC US	Joshua Dennerlein
	Alexandria Real Estate Equities	ARE	ARE US	Joshua Dennerlein
	American Homes 4 Rent	AMH	AMH US	Jeffrey Spector
	Americold Realty Trust	COLD	COLD US	Joshua Dennerlein
	AvalonBay Communities Inc	AVB	AVB US	Joshua Dennerlein
	Boston Properties	BXP	BXP US	Jeffrey Spector
	Brixmor Property Group	BRX	BRX US	Jeffrey Spector
	COPT Defense Properties	CDP	CDP US	Camille Bonnel
	Cousins Properties Inc.	CUZ	CUZ US	Camille Bonnel
	EastGroup Properties	EGP	EGP US	Jeffrey Spector
	Empire State Realty Trust	ESRT	ESRT US	Camille Bonnel
	Equity Residential	EQR	EQR US	Jeffrey Spector
	Essential Properties	EPRT	EPRT US	Joshua Dennerlein
	Federal Realty	FRT	FRT US	Jeffrey Spector
	Invitation Homes Inc	INVH	INVH US	Joshua Dennerlein
	Kimco Realty	KIM	KIM US	Jeffrey Spector
	Kite Realty Group	KRG	KRG US	Jeffrey Spector
	Phillips Edison & Company	PECO	PECO US	Jeffrey Spector
	Prologis, Inc.	PLD	PLD US	Camille Bonnel
	Public Storage, Inc.	PSA	PSA US	Jeffrey Spector
	Regency	REG	REG US	Jeffrey Spector
	Rexford Industrial Realty	REXR	REXR US	Camille Bonnel
	Sabra Health Care	SBRA	SBRA US	Joshua Dennerlein
	Simon Property	SPG	SPG US	Jeffrey Spector
	Ventas, Inc.	VTR	VTR US	Jeffrey Spector
	Welltower	WELL	WELL US	Joshua Dennerlein
NEUTRAL				
	Acadia Realty Trust	AKR	AKR US	Jeffrey Spector
	CubeSmart	CUBE	CUBE US	Jeffrey Spector
	EPR Properties	EPR	EPR US	Joshua Dennerlein
	Equity LifeStyle Properties	ELS	ELS US	Jeffrey Spector
	Essex Property Trust, Inc.	ESS	ESS US	Joshua Dennerlein
	Extra Space Storage, Inc.	EXR	EXR US	Jeffrey Spector
	Getty Realty Corp.	GTY	GTY US	Joshua Dennerlein
	Highwoods Properties	HIW	HIW US	Camille Bonnel
	InvenTrust Properties	IVT	IVT US	Jeffrey Spector
	Kilroy Realty Corporation	KRC	KRC US	Camille Bonnel
	Macerich	MAC	MAC US	Jeffrey Spector
	OMEGA Healthcare	OHI	OHI US	Joshua Dennerlein

US - REITs Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Realty Income	O	O US	Jeffrey Spector
	Retail Opportunity Investments Corp.	ROIC	ROIC US	Jeffrey Spector
	SL Green Realty	SLG	SLG US	Camille Bonnel
	Sun Communities	SUI	SUI US	Joshua Dennerlein
	UDR, Inc.	UDR	UDR US	Joshua Dennerlein
	Veris Residential Inc	VRE	VRE US	Joshua Dennerlein
	Vornado Realty	VNO	VNO US	Camille Bonnel
UNDERPERFORM				
	American Assets Trust	AAT	AAT US	Camille Bonnel
	Armada Hoffler Properties	AHH	AHH US	Camille Bonnel
	Camden Property Trust	CPT	CPT US	Joshua Dennerlein
	Douglas Emmett	DEI	DEI US	Camille Bonnel
	Healthpeak Properties, Inc.	PEAK	PEAK US	Joshua Dennerlein
	Hudson Pacific Properties, Inc.	HPP	HPP US	Camille Bonnel
	Kennedy Wilson	KW	KW US	Joshua Dennerlein
	LXP Industrial Trust	LXP	LXP US	Camille Bonnel
	Medical Properties Trust, Inc.	MPW	MPW US	Joshua Dennerlein
	Mid-America Apartment Communities, Inc.	MAA	MAA US	Joshua Dennerlein
	National Storage Affiliates Trust	NSA	NSA US	Jeffrey Spector
	NetSTREIT	NTST	NTST US	Joshua Dennerlein
	NNN REIT Inc	NNN	NNN US	Joshua Dennerlein
	Paramount Group	PGRE	PGRE US	Camille Bonnel
	Peakstone Realty Trust	PKST	PKST US	Joshua Dennerlein
	STAG Industrial	STAG	STAG US	Camille Bonnel
	Tanger Inc	SKT	SKT US	Jeffrey Spector
	WP Carey	WPC	WPC US	Joshua Dennerlein

*iQ*method[SM] Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod[SM] is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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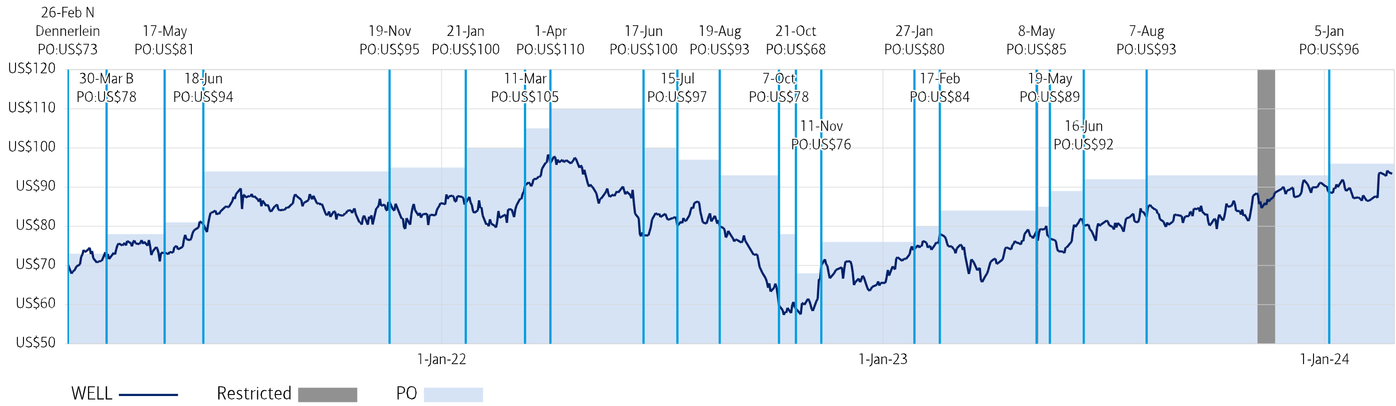
Disclosures

Important Disclosures

Welltower (WELL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: REITs (Real Estate Investment Trusts) Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	40	46.51%	Buy	33	82.50%
Hold	27	31.40%	Hold	21	77.78%
Sell	19	22.09%	Sell	16	84.21%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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