

American Healthcare REIT Inc.

A cheaper way to play the senior housing beta trade

Initiating Coverage: BUY | PO: 15.00 USD | Price: 13.68 USD

Initiating coverage with a Buy rating & a \$15 PO

We initiate coverage on American Healthcare REIT (AHR) with a Buy and a \$15 price objective (PO). AHR has a diversified portfolio of healthcare assets dominated by senior housing and skilled nursing facilities. We think the company stands to benefit from senior housing population trends (Exhibit 8).

Significant growth potential from the aging of America

As we show in our [Senior Housing Primer](#), demographic trends bode well for demand for such housing. The 82+ population targeted by senior living operators is estimated to grow about six times faster than the overall US population. 40 years. AHR is well positioned to capture this demand and drive earnings growth via its RIDEA exposure in senior housing operating assets (SHOP) (8.1% of NOI) and Trilogy (40.4% of NOI).

AHR owns a unique healthcare real estate asset

AHR's owns a unique type of healthcare property; Integrated Senior Health Campuses (ISHC) in a RIDEA structure. These are operated by Trilogy Health Services. Trilogy represents 40.4% of AHR's pro-rata NOI. We view such campuses as a mix of traditional senior housing and skilled nursing facilities. The bed mix is 43% SH and 57% SNF.

In a RIDEA structure, we see opportunities for AHR

Having the ISHC in a RIDEA allows AHR to participate in the upside and the downside of the facilities. We believe Trilogy has carved out a unique niche and we note we were impressed with the Trilogy management team. As a result, we have a positive bias.

We see upside of 9.6%; Risks include Trilogy reliance

Our price objective (~9.6% upside) is derived using an AFFO multiple. We apply a 14x AFFO multiple to our 2024 AFFO estimate of \$1.05. Our multiple is based on AHR's relative mix of healthcare real estate exposure and our view on its portfolio quality relative to publicly traded peers. We note the AFFOx is a discount to peers Ventas and Welltower (both Buy rated). Risks include: AHR's reliance on Trilogy & govt reimbursement risk via SNF exposure.

| Estimates (Dec) (US\$) | 2021 | 2022 | 2023E | 2024E | 2025E |
|--------------------------|------|------|--------|--------|--------|
| FFO / Share (Reported) | NA | NA | 1.27 | 0.82 | 0.94 |
| GAAP EPS | NA | NA | (1.08) | (0.66) | (0.41) |
| FFO / Share Change (YoY) | NA | NA | NA | -35.4% | 14.6% |
| DPS | NA | NA | 1.15 | 1.04 | 1.07 |
| FFO / Share (Normalized) | NA | NA | 1.27 | 0.82 | 0.94 |
| AFFO / Share | NA | NA | 0.72 | 0.55 | 0.67 |
| Valuation (Dec) | | | | | |
| P/FFO (Reported) | NA | NA | 10.8x | 16.7x | 14.6x |
| GAAP P/E | NA | NA | -12.7x | -20.7x | -33.4x |
| Dividend Yield | NA | NA | 8.4% | 7.6% | 7.9% |
| EV / EBITDA | NA | NA | 13.5x | 11.9x | 10.8x |
| P/FFO (Normalized) | NA | NA | 10.8x | 16.7x | 14.6x |
| P/AFFO | NA | NA | 19.0x | 24.9x | 20.4x |

04 March 2024

Equity

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REITs Team

BofAS

Stock Data

| | |
|---------------------------------|-----------------------|
| Price | 13.68 USD |
| Price Objective | 15.00 USD |
| Date Established | 4-Mar-2024 |
| Investment Opinion | C-1-7 |
| 52-Week Range | 12.63 USD - 14.56 USD |
| Mrkt Val (mn) / Shares Out (mn) | 881 USD / 64.4 |
| Free Float | 98.7% |
| Average Daily Value (mn) | NA |
| BofA Ticker / Exchange | AHR / NYS |
| Bloomberg / Reuters | AHR US / AHR.N |
| ROE (2023E) | NA |
| Net Dbt to Eqty (Dec-2022A) | 0% |

See Key terms on page 10.

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Timestamp: 04 March 2024 06:00AM EST

iQprofileSM American Healthcare REIT Inc.

Income Statement Data (Dec)

| (US\$ Millions) | 2021 | 2022 | 2023E | 2024E | 2025E |
|---|-----------|-----------|-------------|-------------|-------------|
| Rental Revenue | NA | NA | 1,853 | 2,041 | 2,152 |
| Property Net Operating Income (NOI) | NA | NA | 1,853 | 2,041 | 2,152 |
| EBITDA (Adjusted) | NA | NA | 288 | 327 | 361 |
| Net Income (Adjusted) | NA | NA | (87) | (88) | (58) |
| Funds From Operations (FFO) | NA | NA | 84 | 99 | 123 |
| % Change | NA | NA | NA | 18.4% | 24.4% |
| Normalized Funds from Operations (FFO) | NA | NA | 84 | 99 | 123 |
| % Change | NA | NA | NA | 18.4% | 24.4% |
| Fully Diluted Shares (Year Average) | NA | NA | 66 | 122 | 131 |

Cash Flow Statement Data (Dec)

| (US\$ Millions) | 2021 | 2022 | 2023E | 2024E | 2025E |
|------------------------------|------|------|-------|-------|-------|
| Funds from Operation (FFO) | NA | NA | 84 | 99 | 123 |
| Capital Expenditure | NA | NA | (74) | 0 | 0 |
| Straight Line Rent / FAS 141 | NA | NA | NA | NA | NA |
| Adjusted FFO | NA | NA | 9 | 99 | 123 |
| Dividends | NA | NA | -76 | -126 | -140 |
| Free Cash Flow | NA | NA | -67 | -27 | -17 |
| Issue (Purchase) Equity | NA | NA | 0 | 773 | 0 |
| Share / Issue Repurchase | NA | NA | 0 | 773 | 0 |
| Cost of Dividends Paid | NA | NA | (76) | (126) | (140) |
| Change in Debt | NA | NA | (14) | (216) | (361) |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2021 | 2022 | 2023E | 2024E | 2025E |
|------------------------------|-----------|-----------|--------------|--------------|--------------|
| Cash & Marketable Securities | NA | NA | 0 | 0 | 0 |
| Properties at Cost | NA | NA | 3,431 | 3,431 | 3,431 |
| Total Assets | NA | NA | 4,507 | 4,318 | 4,129 |
| Total Debt | NA | NA | 1,768 | 1,552 | 1,190 |
| Total Liabilities | NA | NA | 3,015 | 2,253 | 2,251 |
| Preferred Stock | NA | NA | NA | NA | NA |
| Total Equity | NA | NA | 1,491 | 2,065 | 1,879 |
| Total Equity & Liabilities | NA | NA | 4,507 | 4,318 | 4,129 |

Key Metrics (Dec)

| (US\$ Millions) | 2021 | 2022 | 2023E | 2024E | 2025E |
|---------------------------|------|------|-------|-------|-------|
| Acquisitions | NA | NA | 0 | 0 | 0 |
| Cap Rate | NA | NA | NA | NA | NA |
| Developments | NA | NA | NA | NA | NA |
| Cap Rate | NA | NA | NA | NA | NA |
| Dispositions | NA | NA | (83) | 0 | 0 |
| Cap Rate | NA | NA | 0% | NA | NA |
| Same Store Revenue Growth | NA | NA | NA | NA | NA |

Performance Metrics (Dec)

| (US\$ Millions) | 2021 | 2022 | 2023E | 2024E | 2025E |
|-----------------------------------|------|------|--------|--------|--------|
| Return on Invested Capital (ROIC) | NA | NA | 54.0% | 59.5% | 62.7% |
| Operating Margin | NA | NA | 100.0% | 100.0% | 100.0% |
| Interest Cover | NA | NA | 1.8x | 1.9x | 2.1x |

Company Sector

REITs

Company Description

AHR owns a diversified portfolio of healthcare assets spanning: (1) senior housing, (2) medical office, (3) skilled nursing facilities and (4) hospitals. The largest asset type within the portfolio is "integrated senior health campuses (ISHC) in a RIDEA structure. The structure allows healthcare REITs to participate in the upside and downside of a property's performance.

Investment Rationale

Our investment thesis on AHR is driven by our positive view on senior housing and the aging of America. Demographic trends bode well for senior housing demand. The 82+ population targeted by senior living operators is estimated to grow about six times faster than the overall US population. AHR is well positioned to capture this demand and drive earnings growth via its RIDEA exposure in senior housing operating assets (SHOP) (8.1% of NOI) and Trilogy (40.4% of NOI).

Stock Data

Average Daily Volume

NA

Quarterly Earnings Estimates

| | 2022 | 2023 |
|----|------|-------|
| Q1 | NA | 0.31A |
| Q2 | NA | 0.37A |
| Q3 | NA | 0.35A |
| Q4 | NA | 0.24E |

Investment summary

Investment Thesis: Buy rating and a \$15 PO

We initiate coverage on American Healthcare REIT (AHR) with a Buy and a \$15 price objective (PO). AHR is a publicly traded self-managed real estate investment trust. The company went public via an IPO. On February 06, 2024, the Company's common shares were listed on the New York Stock Exchange. AHR was formed from non-traded REITs focused on the healthcare real estate sector.

Our investment thesis on AHR is driven by our positive view on senior housing and the aging of America. As we lay out in our [Senior Housing Primer](#), demographic trends bode well for senior housing demand. The 82+ population targeted by senior living operators is estimated to grow about six times faster than the overall US population. AHR is well positioned to capture this demand and drive earnings growth via its RIDEA exposure in senior housing operating assets (SHOP) (8.1% of NOI) and Trilogy (40.4% of NOI).

Exhibit 1: Summary of Investment positives and negatives

We believe the investment positives outweigh the investment negatives at the current valuation

Investment Positives

AHR: the third option to ride the SH demographic wave
Trilogy has carved out a niche with healthcare real estate
Cheaper way to play the senior housing recovery

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Investment Negatives

Trilogy: concentration risk & unknown business model
MOB portfolio is lower quality than public peers
Dividend payout is elevated; roughly 100% in 2024

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Valuation

Our \$15 price objective is derived using an AFFO multiple. We apply a 14x AFFO multiple our 2024 AFFO estimate of \$1.05. Our applied multiple is based on AHR's relative mix of healthcare real estate exposure and our view on its portfolio quality relative to publicly traded peers. Although we do not use a NAV approach to derive our PO, we calculated a one year forward NAV of \$21.

Exhibit 2: Segments

Blended Street AFFOx comps for AHR pro rata segmentation

| Segments | Pro rata ABR | AFFOx |
|-----------------------------------|---------------|--------------|
| Integrated Senior Health Campuses | 40.4% | 15.4x |
| SHOP | 43.0% | 21.5x |
| SNFs | 57.0% | 10.8x |
| MOBs | 36.0% | 11.6x |
| SHOP | 8.1% | 21.5x |
| Senior Housing - Leased | 4.4% | 12.8x |
| SNFs | 8.0% | 10.8x |
| Hospitals | 3.1% | 11.0x |
| Total | 100.0% | 13.9x |

Source: Factset

Priced as of 02/28/2024

Note: Comps per segment: SHOP: WELL, VTR; SNF: OHI SBRA; MOB: HR, DOC; SH Leased: VTR, SBRA, OHI; Hospitals: SBRA, DOC, OHI

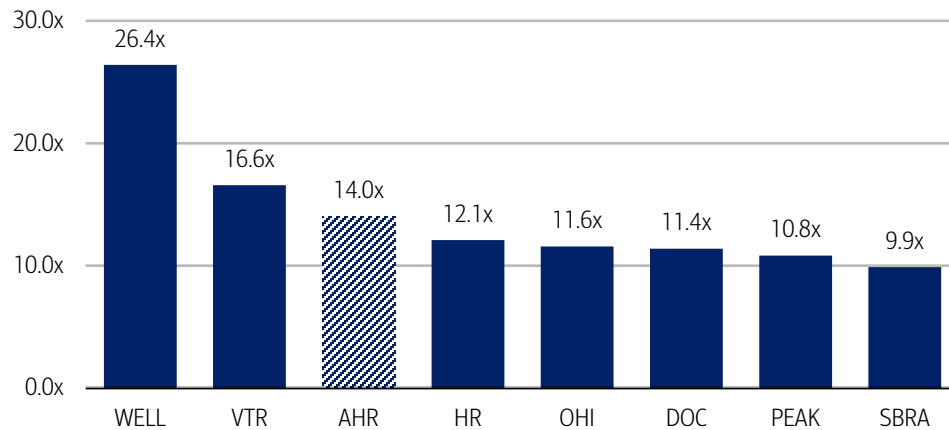
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Price return to our PO indicates 9.6% potential upside and 17.2% potential total return, including the 7.6% dividend yield, which suggests a Buy rating. Upside and downside risks to our PO are: the performance of Trilogy which represents 40.4% of AHR's total NOI, the pace and timing of a recovery in AHR's senior housing operating assets (8.1% of NOI), external growth opportunities at yields higher than AHR's cost of capital, and re-leasing spreads and retention in their medical office portfolio.



Exhibit 3: 2024 AFFO multiples

2024 implied street AFFO multiples vs applied AHR AFFOx



Source: Factset
Priced as of 2/28/2024

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Company overview

A diversified healthcare REIT

The company was formed in 2015 and is headquartered in Irvine. The company's executive team has an average of 26 years of real estate experience. On February 06, 2024, the Company's common shares were listed on the New York Stock Exchange. As of September 30th, AHR's portfolio consists of 298 properties in 36 states, the United Kingdom and the Isle of Man.

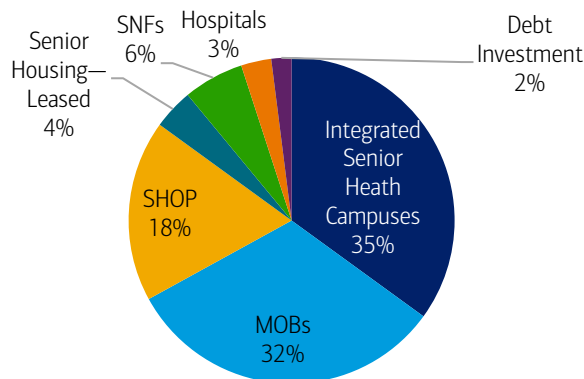
Significant upside from its RIDEA portfolio (48.5% of total NOI)

AHR owns a diversified portfolio of healthcare assets spanning: (1) senior housing, (2) medical office, (3) skilled nursing facilities and (4) hospitals. The largest asset type within the portfolio is "integrated senior health campuses (ISHC) in a RIDEA structure. The structure allows healthcare REITs to participate in the upside and downside of a properties performance. For more on the RIDEA structure see our [Senior Housing Primer](#).

ISHC's are unique within our coverage universe and are a cross between traditional senior housing and skilled nursing facilities. Trilogy is the sole operator of the ISHC within AHR's portfolio. AHR's owns a 74% interest in Trilogy and has a purchase option to purchase the minority stake.

Exhibit 4: Segment diversification

ISHC and SHOP make up the most of the aggregate purchase price



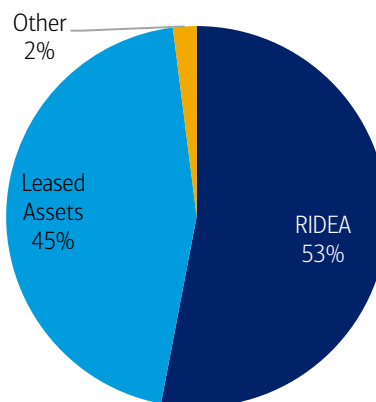
Source: Company filings

Note: Based on aggregate contract purchase price of \$4.1 billion on a pro rata ownership basis as of June 30, 2023.

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Exhibit 5: RIDEA / operating portfolio concentration

More than 50% of the portfolio is in a RIDEA structure



Source: Company filings

Note: Based on aggregate contract purchase price of \$4.1 billion on a pro rata ownership basis as of June 30, 2023.

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Unique in that it owns ISHCs; cross between SH & SNF

Trilogy's ISHC assets are AHR's largest property type exposure

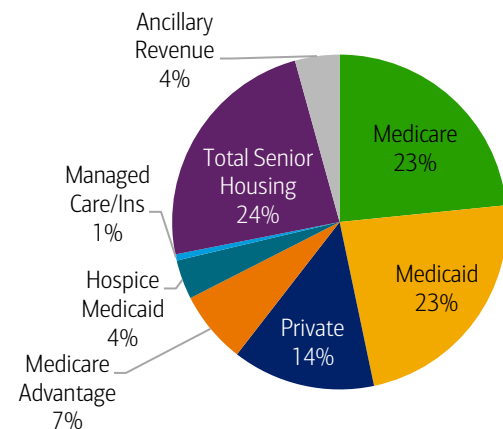
AHR's owns a unique type of healthcare real estate property that AHR calls Integrated Senior Health Campuses (ISHC). These assets are operated by These assets are operated by Trilogy Health Services. Trilogy represents 40.4% of AHR's pro-rata NOI.

We view integrated senior health campus (Trilogy) as a crossover between traditional senior housing and skilled nursing facilities. In a way, they are similar to rental continuing care retirement communities (CCRCs) in that they offer a continuum of care as resident's acuity changes. Trilogy charges market rents and no entry fees - like rental CCRCs. However, the primary difference is that Trilogy has a higher percent of beds focused on skilled nursing care than CCRCs.

Another unique aspect of AHR's exposure to Trilogy is that the assets are in a RIDEA structure allowing AHR to participate in the upside of the facilities. On the flip side, it also exposes AHR to downside if Trilogy underperforms. We are more familiar with senior housing assets being in a RIDEA structure. That said, PEAK has 9.4% of its NOI focused on traditional entry fee CCRCs. The main difference is that Trilogy has a much larger percent of its beds focused on SNFs. From our perspective, we are less familiar with how SNFs beds will perform across a cycle given that our historical coverage universe only has SNFs properties in traditional lease structures.

Exhibit 6: Trilogy's payment breakdown

Roughly half of Trilogy's revenues comes from government payers



Source: Company Filings

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Exhibit 7: Top 10 tenants/operators

Trilogy Manager makes up 40.4% of pro rata ABR

| Tenants/Operators | Property Segment | % of ABR |
|--|------------------|--------------|
| Trilogy Manager (operator) | ISHC | 40.4% |
| Heritage Senior Living (operator) | SHOP | 3.2% |
| Reliant Care Management (tenant & operator) | SNF | 3.0% |
| Bane Care Management (tenant & operator) | SNF | 3.0% |
| Good Shepherd Health System (tenant) | MOBs | 2.7% |
| Methodist Health System (tenant & operator) | Hospitals | 2.6% |
| Cogir Senior Living (operator) | SHOP | 2.4% |
| Vista Springs (tenant & operator) | SH—Leased | 1.9% |
| TL Management (tenant & operator) | SNF | 1.7% |
| Senior Solution Management Group, Texas Portfolio (operator) | SNF | 1.7% |
| Total | | 62.6% |

Source: Company filings; as of 3Q23

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AHR has an option to acquire the remainder of Trilogy

On November 3, 2023, AHR entered into a Membership Interest Purchase Agreement, (the "Trilogy Holdings Option Agreement") with subsidiaries of NorthStar Healthcare Income, Inc. The agreement provides AHR with the option to purchase the 24.0% minority membership interest in Trilogy Holdings that it does not own. If exercised, AHR will own 100% of Trilogy Holdings. The purchase option is exercisable within three timing windows before September 30, 2025:

- Before March 31, 2024 for a cash purchase price of \$240.5M
- Between April 1, 2024 and December 31, 2024 for a cash purchase price of \$247M
- After January 1, 2025 for a cash purchase price of \$260M.

The agreement provides AHR with the option to issue preferred equity to NorthStar. Preferred equity can be used for up to 90% of the purchase price. The yield on the preferred would start at 4.75% but would increase over time. The preferred is perpetual but can be redeemed by AHR anytime. In addition, holders have the right to convert to AHR common equity on or after July 1, 2026.

We expect AHR to purchase the minority stake but timing is uncertain.

Strategy: grow NOI in its RIDEA portfolio & modest Trilogy developments

Near term, we see AHR focused on two key initiatives:

- First, maximizing NOI in its RIDEA portfolio. AHR has significant upside in its SHOP portfolio as occupancy recovers. AHR's SHOP occupancy is 80.3% which is below the industry average occupancy of 85.8% and publicly traded peers VTR & WELL. We note that AHR has transitioned several properties from the net lease portfolio to RIDEA recently.
- Second, AHR will work with Trilogy on growing its portfolio via development. Over the last 7 years, AHR has added 3-5 facilities annually at high returns. For the last 7 properties, Trilogy development assets were stabilized at a weighted average yield of 11.2%.

Management also has a history of finding acquisition opportunities. Management has acquired over \$9.6B over the last 17 years on behalf of AHR and three other prior public reporting REITs. At this time, we are not factoring any external acquisitions into our base case. AHR's cost of capital remains higher than peers which suggests more limited external growth via acquisitions.

Investment positives

AHR: the third option to ride the SH demographic wave

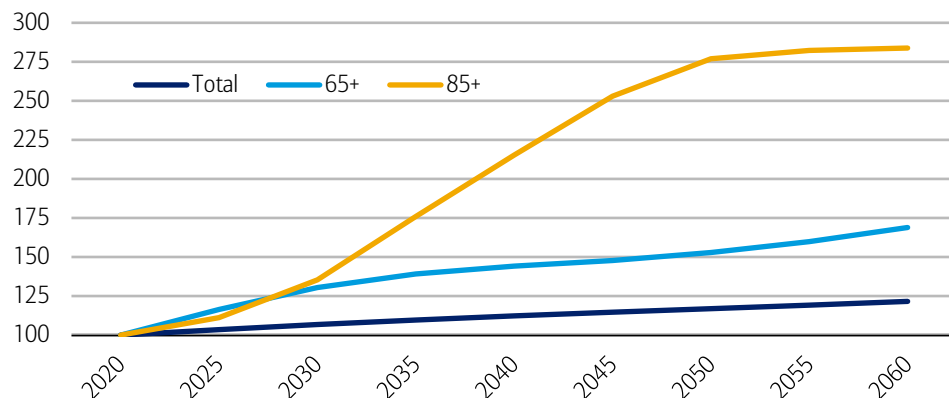
We are bullish on the outlook for senior housing fundamentals. AHR represents the third option for investors to play the senior housing story given its exposure to senior housing both via its Senior Housing Operating (SHOP) portfolio (8.1% of NOI) and Trilogy (40.4% of NOI). We note that we have Buy ratings on VTR and WELL which have 37.9% and 49.6% exposure to SHOP.

We are positive on senior housing given population trends (Exhibit 8) and increasing awareness of the benefits of assisted living and memory care options bode well for the industry's prospects. The 82+ population targeted by senior living operators is estimated to grow about six times faster than the overall US population.

Senior housing has high fixed costs which bodes well for AHR's NOI uplift. NOI break evens range from 30% to 50% occupancy, depending on acuity levels, amenities, activities, and property quality. From breakeven occupancy to 85%, NOI margin rises to 25 to 35%. Margins are typically on the higher end for IL and lower for AL. Above 85% occupancy, an incremental resident results in 80% to 90% of revenue flowing straight through to the bottom line. For more see our [Senior Housing primer](#)

Exhibit 8: Projected population size, indexed to 100 in 2020

The population of those 85+ is projected to grow at 5x the national average



Source: US Census

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Trilogy has carved out a niche with healthcare real estate

AHR owns a unique type of healthcare real estate asset that management calls "Integrated Senior Health Campuses" (ISHC). In our view, the ISHC properties are similar to rental continuing care retirement communities in that they provide a continuum of care as residents acuity rises. However, the campus are smaller (similar in size to traditional senior housing assets) and have a higher skew of skilled nursing (SNF) beds. We believe Trilogy has carved out a strong niche within its markets with the type of product it offers.

We toured several Trilogy assets and met with the management team as part of our due diligence on AHR. We were impressed by both the quality of the assets and the management team. We believe AHR's management is focused on driving operational excellence via a strong culture. We saw the culture first hand in our meetings and tours.

Trilogy assets and strategy are unique but key drivers of its performance in our view. The portfolio is heavily concentrated in four Midwestern states (Indiana, Kentucky, Ohio, Michigan). Trilogy's strategy is to cluster assets to drive operating efficiencies via its scale. Trilogy leverages its scale to centralize key business functions such as recruiting, marketing and compliance for use by multiple facilities. In addition, its developed an "internal agency" of nurses, called "Flex Force" that can work as needed at different

facilities. This eliminates the need for costly 3rd party staffing agencies and helps maintain a consistent, high-quality service across the portfolio.

For AHR, there are two key positives of having the exposure to Trilogy. First, the properties are structured in a RIDEA structure which allows AHR to participate in the upside of the operations. Second, AHR utilizes Trilogy's development team to identify, source and manage ground up developments. Over the last 7 years, AHR has added 3-5 facilities annually at high returns. For the last 7 properties, Trilogy development assets were stabilized at a weighted average yield of 11.2%.

Cheaper way to play the senior housing recovery

As we mentioned previously, AHR is the third way within our coverage universe to play the senior housing story. We note that WELL and VTR trade at significant premiums on a multiple basis to AHR. As of 3/1/2024, WELL's 2024 AFFOx is 25.9x and VTR's is 17.3x. Meanwhile, AHR trades at a 13.0x on our 2024 AFFO estimate.

Given differences in growth trajectories across the three REITs, we believe utilizing a PEG or PEGY helps to put the growth and multiple in context. Exhibit 9 shows the PEG and PEGY for AHR versus other healthcare REITs including VTR and WELL. We find that AHR screens best on a PEG basis within healthcare REITs.

Exhibit 9: PEG & PEGY Analysis

AHR screens well on both a PEG and a PEGY basis relative to other healthcare REITs

| Ticker | Price | Dividend yield | 2024 AFFOx | AFFO growth (4-year CAGR) | PEG (4-yr CAGR) | PEGY (4-yr CAGR) |
|-----------------------|----------|----------------|--------------|---------------------------|-----------------|------------------|
| AHR | \$13.64 | 7.6% | 13.0x | 12.7% | 1.02 | 0.64 |
| WELL | \$91.86 | 2.7% | 25.8x | 16.9% | 1.53 | 1.31 |
| VTR | \$42.48 | 4.4% | 17.4x | 6.4% | 2.72 | 1.61 |
| PEAK | \$16.55 | 7.3% | 10.7x | 3.4% | 3.15 | 1.01 |
| OHI | \$31.53 | 8.5% | 12.2x | 3.5% | 3.45 | 1.01 |
| ARE | \$121.40 | 4.3% | 15.4x | 3.9% | 3.96 | 1.87 |
| SBRA | \$14.00 | 8.8% | 9.9x | 2.5% | 4.00 | 0.88 |
| Average ex AHR | | 6.0% | 15.2x | 6.1% | 2.50 | 1.26 |

Source: BofA Global Research
Priced as of 02/29/2024

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Investment risks/negatives

Trilogy: concentration risk & unknown business model

We see three key risks from Trilogy.

- First, Trilogy is 40.4% of AHR's total NOI. As a result, the underlying performance of Trilogy will be the key driver of AHR's earnings. In other words, concentration risk is extremely high at AHR.
- Second, Trilogy has a unique business model which we are unfamiliar with. Key questions that are unknowns to us are: (1) it is not clear if another operator could step in to operate some or all of the Trilogy facilities if Trilogy runs into operating issues, (2) the strength of the current Trilogy management team appears to be a key driver of its performance, (3) we are not sure how Trilogy will performance across economic cycles and (4) there is significant geographic concentration risk given Trilogy assets are clustered in four states: Indiana, Kentucky, Ohio and Michigan.
- Third, given Trilogy's bed are 57% SNF beds, Trilogy is exposed to government reimbursement risk.

Exhibit 10: Trilogy geographic diversification

Trilogy is split between 43% SH and 57% SNF beds

| State | # of Buildings | Senior Housing | SNF | Total |
|------------------|----------------|----------------|-------------|--------------|
| Indiana | 66 | 2,682 | 3,902 | 6,584 |
| Michigan | 14 | 652 | 741 | 1,393 |
| Ohio | 29 | 1,364 | 1,756 | 3,120 |
| Kentucky | 16 | 682 | 835 | 1,517 |
| Total/Avg | 125 | 5380 | 7234 | 12614 |

Source: Company filings

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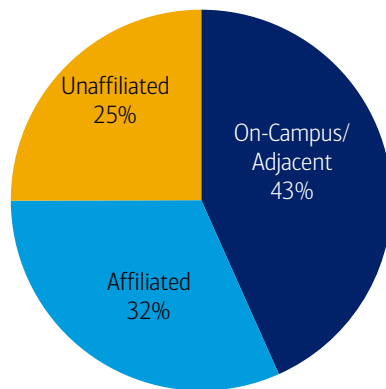
MOB portfolio is lower quality than public peers

We view AHR's medical office building (MOB) portfolio as lower quality than public traded peers. Most publicly traded peers have focused on owning "on campus" or affiliated medical office buildings. On Campus MOBs are facilities located on a hospital campus. Affiliated MOBs are assets that are affiliated with a health system. In both cases, we believe retention of tenants is higher given the association with a large health system that attracts patients and doctors.

Using this metric as a gauge of AHR's medical office quality, AHR has the lowest quality MOB portfolio out of our comp set. Roughly, 25% of AHR properties are off campus and not affiliated based on their disclosures. However, the true figure is likely higher. AHR buckets it's on campus and affiliated exposure at 75%. However, this includes assets that management defines as "adjacent". We spoke to AHR who flagged that adjacent must be near a hospital and a health system and also needs to occupy at least 25% of the building. Exhibit 11 shows the exposure to off campus and unaffiliated assets across our coverage.

Exhibit 11: MOB property composition

On-Campus/Adjacent and Affiliated properties make up 75% of the composition



Source: Company Filings

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Dividend payout is elevated; roughly 100% in 2024

We estimate that AHR's dividend payout as a percent of AFFO will be elevated in 2024 before falling to a more sustainable level in 2025. We project that the 2024 payout ratio will be 98.9% and 93.4% in 2025. We note peers' payout ratios for 2024 and 2025 in Exhibit 12 below.

Exhibit 12: 2024 dividend payout ratio

AHR's dividend payout ratio of 98.9% in 2024 is elevated compared to peer average of 80.7%

| Ticker | AFFO per share | | Dividends per share | | Dividend payout ratio | |
|-----------------------|----------------|---------------|---------------------|---------------|-----------------------|--------------|
| | 2024 | 2025 | 2024 | 2025 | 2024 | 2025 |
| ARE | \$7.90 | \$8.15 | \$5.27 | \$5.53 | 66.7% | 67.9% |
| OHI | \$2.59 | \$2.91 | \$2.68 | \$2.68 | 103.5% | 92.1% |
| PEAK | \$1.54 | \$1.69 | \$1.20 | \$1.22 | 77.9% | 72.4% |
| SBRA | \$1.41 | \$1.50 | \$1.24 | \$1.27 | 87.7% | 84.9% |
| VTR | \$2.44 | \$2.57 | \$1.89 | \$1.98 | 77.5% | 77.0% |
| WELL | \$3.55 | \$4.35 | \$2.53 | \$2.63 | 71.1% | 60.3% |
| AHR | \$1.05 | \$1.15 | \$1.04 | \$1.07 | 98.9% | 93.4% |
| Average ex AHR | | | | | 80.7% | 75.8% |

Source: BofA Global Research

As of 2/28/2024

BofA GLOBAL RESEARCH

Key terms

AFFO: Adjusted Funds from Operations

CAGR: Compound Annual Growth Rate

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

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

HC: Healthcare

ISHC: Integrated Senior Health Campus

MOB: Medical office building

NAV: Net Asset Value

NOI: Net Operating Income

PEG: Price Earnings to Growth

PEGY: Price Earnings to Growth and Yield

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

Companies mentioned

Exhibit 13: Companies mentioned

Companies mentioned in this report

| Ticker | Company Name |
|--------|---------------------------------|
| ARE | Alexandria Real Estate Equities |
| WELL | Welltower Inc |
| MPW | Medical Properties Trust Inc |
| OHI | Omega Healthcare Investors |
| PEAK | Healthpeak Properties Inc |
| SBRA | Sabra Health Care Reit Inc |
| VTR | Ventas Inc |
| DOC | Physicians Realty Trust |
| HR | Healthcare Realty Trust Inc |

Source: Bloomberg

Exhibit 13: Companies mentioned

Companies mentioned in this report

| Ticker | Company Name |
|--------|--------------|
|--------|--------------|

BofA GLOBAL RESEARCH

Exhibit 14: Stocks mentioned

Prices and ratings for stocks mentioned in this report

| BofA Ticker | Bloomberg ticker | Company name | Price | Rating |
|-------------|------------------|--------------|------------|--------|
| VTR | VTR US | Ventas Inc. | US\$ 44 | B-1-7 |
| WELL | WELL US | Welltower | US\$ 92.72 | B-1-7 |

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**American Healthcare REIT Inc. (AHR)**

Our \$15 price objective is derived using an AFFO multiple. We apply a 14x AFFO multiple our 2024 AFFO estimate of \$1.05. Our applied multiple is based on AHR's relative mix of healthcare real estate exposure and our view on its portfolio quality relative to publicly traded peers. Although we do not use a NAV approach to derive our PO, we calculated a one year forward NAV of \$21.

Risks: AHR's reliance on Trilogy & govt reimbursement risk via SNF exposure..

Ventas, Inc. (VTR)

Our \$49 price objective is derived by applying an AFFO multiple to our 2024 forward AFFO estimate as we look to a more normalized earnings period. We apply a target AFFO multiple of 20x, which reflects the current market conditions.

Upside risks to our price objective are better-than-expected senior housing fundamentals, declining interest rates, and lower tenant risk.

Downside risks to our price objective are weaker-than-expected senior housing fundamentals, increased tenant credit risk, and rising interest rates

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 Healthcare REIT Inc. | AHR | AHR 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 |
| | 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 Hoffer Properties | AHH | AHH US | Camille Bonnel |
| | Camden Property Trust | CPT | CPT US | Joshua Dennerlein |
| | Douglas Emmett | DEI | DEI US | Camille Bonnel |
| | Healthpeak Properties, Inc. | DOC | DOC 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 |

US - REITs Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|-------------------|-----------------|-------------|------------------|-------------------|
| | 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**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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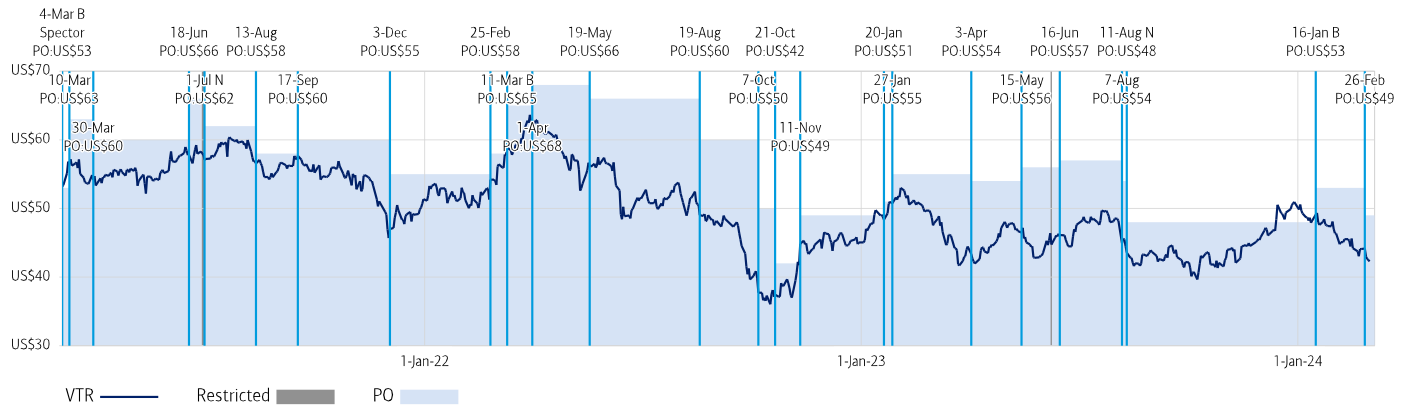
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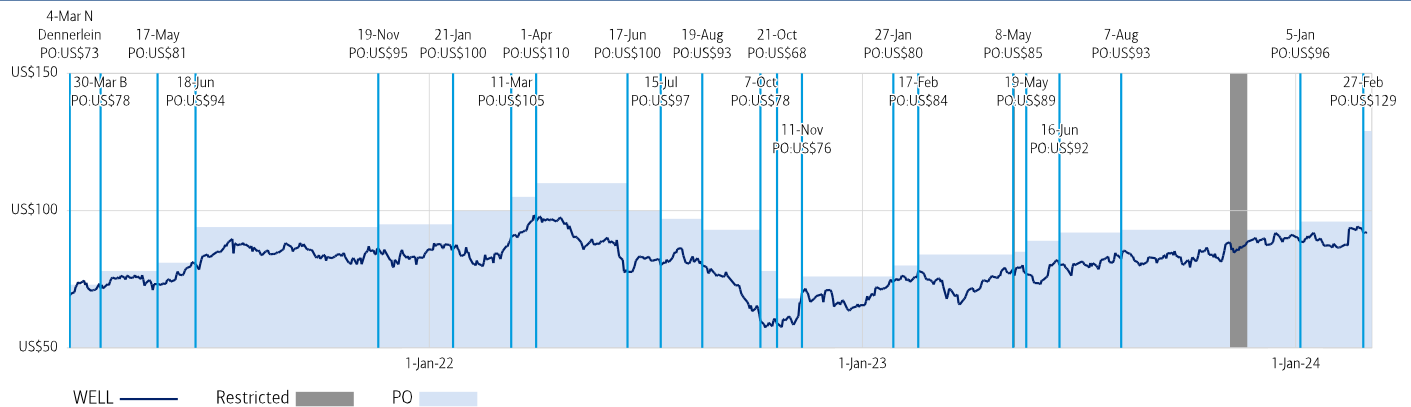
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Ventas Inc. (VTR) Price Chart



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.

Welltower (WELL) Price Chart



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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