



UConn Student Managed Fund

Ventas Inc. (NYSE: VTR)

January 4, 2021

Target Price: \$58.42
Current Price: \$46.88
Stop loss: \$37.5
52 Week High/Low: \$63.38/\$13.35

Market Cap (\$B): \$18.4
Dividend Yield: 3.84%
Beta: 1.18
ROE: 3.26%

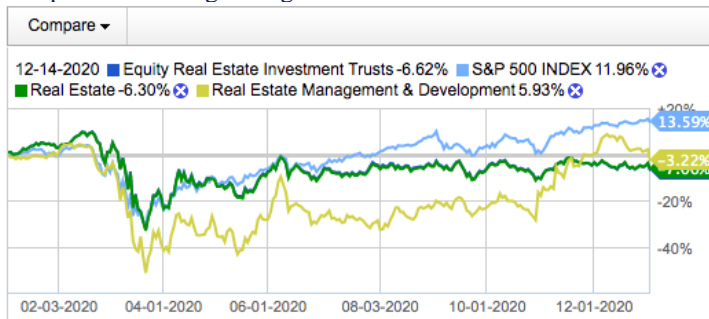
P/E Ratio (TTM): 54.5x
EV/EBITDA: 18.9x
ROIC: 3.16%
Profit Margin: 25.73%

Company Overview

Ventas, an S&P 500 company, operates at the intersection of two powerful and dynamic industries – healthcare and real estate. As one of the world’s foremost Real Estate Investment Trusts (REIT), we use the power of capital to unlock the value of real estate, partnering with leading care providers, developers, research and medical institutions, innovators and healthcare organizations whose success is buoyed by the demographic tailwind of an aging population. For more than twenty years, Ventas has followed a successful strategy that endures: combining a high-quality diversified portfolio of properties and capital sources to manage through cycles, working with industry leading partners, and a collaborative and experienced team focused on producing consistent growing cash flows and superior returns on a strong balance sheet, ultimately rewarding Ventas shareholders. As of September 30, 2020, Ventas owned or managed through unconsolidated joint ventures approximately 1,200 properties.

Industry Outlook

We continue to see stable cashflows from the senior housing subsector and expect these to only increase as the countries demographic shift to an older population. Accompanied by an age group averaging the highest health care spending per capita, which we believe will stabilize other health systems cashflows. Additionally, the investment in to research and innovation appears to a profitable and growing subsector



Investment Thesis

Demographic Shifts: The number of people over 80 is growing exponentially and is expected to grow around a CAGR of 6% through 2030. Combined with estimates of doctors who are estimating today’s modern medicine could add 10 years to the average life expectancy. The industry reports are expecting this increase 80+ population increase demand beyond current senior housing supply. This will benefit VTR as a higher demand will support higher rent each property will be able to charge. Other assets will also benefit though as the annual per capita spending for 80+ is \$19,000, almost triple the next closest age group spending. And because of these factors I expect demand and therefore FFO to increase from this demographic shift.

Diversified Portfolio: Ventas is set up especially well to benefit from the incentives, such as tax relief and subsidies, set forward in the affordable care act. There are strict requirements on what medical office buildings or MOB’s can benefit from the program and because of Ventas investment in high quality assets 95% of their MOB’s meet the requirements. Additionally, the balancing of their portfolio showed its resilience during the pandemic with occupancy only dropping 1.3% during COVID. Lastly it is one of the few in the subsector investing in research and innovation, which is promising solid growth over the next decade.

Investment Risks

Portfolio weightings: Over half of VTR’s portfolio is in senior housing and of the senior housing portfolio, a few properties house a significant number of tenants. Additionally, some properties are partially owned by competitors creating a possible conflict of interest.

Regulation: Government policy can greatly help or hurt VTR. It is currently benefiting from the affordable care act but it is impossible to say with certainty the effect of future policies.

Reputational: VTR has its name associated with over 1200 properties, bad publicity for one could reflect poorly on VTR themselves.

Financial Performance Valuation Assumptions & Key Financials

	As of and For the Years Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands, except per share data)				
Operating Data					
Rental income	\$ 1,609,876	\$ 1,513,807	\$ 1,593,598	\$ 1,476,176	\$ 1,346,046
Resident fees and services	2,151,533	2,069,477	1,843,232	1,847,306	1,811,255
Interest expense	451,662	442,497	448,196	419,740	367,114
Property-level operating expenses	1,808,208	1,689,880	1,483,072	1,434,762	1,383,640
General, administrative and professional fees	165,996	151,982	135,490	126,875	128,035
Income from continuing operations	439,297	415,991	1,361,222	652,412	408,119
Net income attributable to common stockholders	433,016	409,467	1,356,470	649,231	417,843
Per Share Data					
Income from continuing operations:					
Basic	\$ 1.20	\$ 1.17	\$ 3.83	\$ 1.89	\$ 1.24
Diluted	\$ 1.19	\$ 1.16	\$ 3.80	\$ 1.87	\$ 1.22
Net income attributable to common stockholders:					
Basic	\$ 1.18	\$ 1.15	\$ 3.82	\$ 1.88	\$ 1.26
Diluted	\$ 1.17	\$ 1.14	\$ 3.78	\$ 1.86	\$ 1.25
Other Data					
Net cash provided by operating activities	\$ 1,437,783	\$ 1,381,467	\$ 1,428,752	\$ 1,354,702	\$ 1,402,003
Net cash (used in) provided by investing activities	(1,585,299)	324,496	(937,107)	(1,214,280)	(2,420,740)
Net cash provided by (used in) financing activities	160,674	(1,761,937)	(671,327)	96,838	1,023,058
FFO ⁽¹⁾	1,436,049	1,308,149	1,512,885	1,440,544	1,365,408
Normalized FFO ⁽¹⁾	1,423,047	1,462,055	1,491,241	1,438,643	1,493,683
Balance Sheet Data					
Real estate property, gross	\$ 28,817,100	\$ 26,476,938	\$ 26,260,553	\$ 25,380,524	\$ 23,855,137
Cash and cash equivalents	106,363	72,277	81,355	286,707	53,023
Total assets	24,692,208	22,584,555	23,954,541	23,166,600	22,261,918
Senior notes payable and other debt	12,158,773	10,733,699	11,276,062	11,127,326	11,206,996

We recommend a BUY rate for Ventas Inc. based on a target price of \$58.94 per share. This target price reflects a 25.73% margin of safety based on its closing price of \$46.88 on January 4, 2021. We calculated WACC as 6.1%, assuming a terminal growth rate of 2% and 19x exit EV/EBITDA. We used the perpetuity growth and terminal EV/EBITDA method to calculate the final target price of \$58.94.

Scenario	Perpetuity	EBITDA	Weights	Value
Bull	74.73	64.65	25%	68.68
Base	60.38	58.65	50%	59.34
Bear	38.98	51.17	25%	46.29
Target Price				58.42
Current Share Price				49.04
MOS				19.12%

Current share price	49.04
Current shares outstanding (mil)	374.6
Current market cap.	18370
Total debt outstanding	12295.20
Cash plus marketable securities (mil)	588.34
Discount rate input	
Debt ratio	40%
Equity ratio	60%
Levered beta	1.18
Treasury rate	2.0%
Market risk premia	5.0%
Cost of equity (CAPM)	7.9%
Cost of debt	3.84%
Size premium	0%
Tax rate	8%
WACC	6.15%
Terminal growth rate	2.00%

ESG

Martin Marietta is average (54th percentile) in ESG ratings with a MSCI BBB rating among 84 companies in the real estate management and service industry. According to MSCI, VTR is average on all areas evaluated. With the continued focus on ensuring employee safety and improving properties energy efficiency we expect to see VTR ESG rating upgrade soon.

