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Summary:

Ventas Inc.

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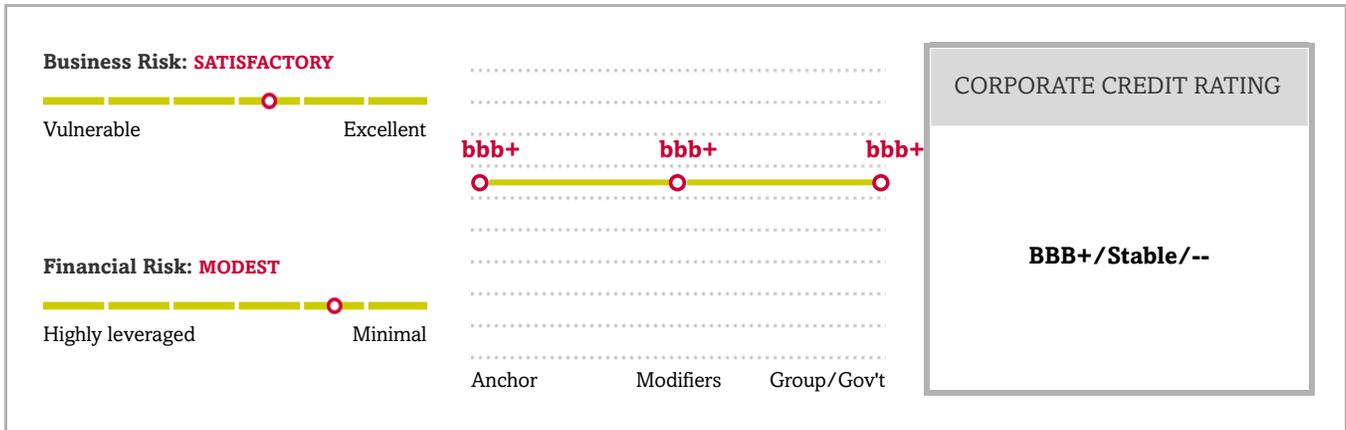
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Summary: Ventas Inc.



Rationale

Business Risk: Satisfactory	Financial Risk: Modest
<ul style="list-style-type: none"> • One of the largest healthcare REITs that benefits from a diverse portfolio of healthcare facilities with good long-term demand fundamentals. • Tenant concentration, with moderate exposure to government reimbursement and adequate rent coverage of triple net leases. • REIT Investment Diversification and Empowerment Act (RIDEA) investments represent about one-third of invested capital, which we view as potentially more volatile than triple-net-leased investments but have exhibited healthy same-store growth. 	<ul style="list-style-type: none"> • Conservative leverage and strong coverage metrics. • Long debt tenor with laddered maturity schedule. • Strong access to capital supports adequate liquidity.

Outlook: Stable

The rating outlook on Ventas Inc. is stable. We expect Ventas' large and diverse portfolio of good quality healthcare facilities to lead to steady revenue and EBITDA growth over the next one to two years. Ventas' revenues and cash flow benefit from long-term leases, good rent coverage, and favorable fundamentals. The stable outlook also factors in Ventas' manageable debt maturities, strong access to capital, and at least a leverage-neutral growth funding strategy over the long run that supports currently strong coverage measures and moderate leverage.

Downside scenario

We would lower our ratings by one notch if fixed-charge-coverage (FCC) approaches 3x or lower and leverage increased materially. Debt to EBITDA rising to 7x or higher or debt to capital increasing to 50% or higher on a sustained basis could pressure Ventas' ratings. Weaker credit metrics could be the result of either a large debt-financed acquisitions or a prolonged economic downturn that caused a material cash flow deterioration in Ventas' healthcare portfolio.

Upside scenario

Although unlikely over the one to two year outlook period, we would consider raising our rating on Ventas if the company pursues growth prudently and profitably and without any integration issues, while increasing tenant diversity. We would also look for a longer track record of successfully managing its senior housing operating portfolio through a cycle that taken together could ultimately support a "strong" business risk profile. We would also expect Ventas to maintain a "modest" financial risk profile.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> • Low-single-digit (3% to 4%) same-store revenue/net operating income (NOI) growth in 2014 and 2015. • EBITDA margin of 55% in 2014 and 2015. • \$4 billion to \$5 billion of acquisitions in 2014, including recently announced acquisitions aggregating \$3.75 billion which will close in the third and fourth quarter of 2014, as well as \$1.5 billion in 2015. We assume acquisition yields average 6%. In addition, we assume the company may fund 2014 investments with more debt than equity and that the timing of debt issuance and acquisition closings result in higher year-end leverage, but that funding is leverage neutral in 2015. • \$100 million to \$150 million of development/redevelopment completions yielding 8%. • \$200 million to \$300 million of asset dispositions at an 8% to 9% capitalization rate. 	2013A	2014E	2015E	
	Debt/EBITDA	6.1x	Low 7x	Low 6x
	Debt/undeprec. cap.	44.7%	Low-mid 40%	Low 40%
	FCC	4.0x	Mid-high 3x	Mid-high 3x
	Total cov. (x)	1.3x	1.2x	1.2x
<p>Debt is adjusted for operating leases (\$240 million). A--Actual. E--Estimated.</p>				

Business Risk: Satisfactory

Our business risk profile incorporates our view of the U.S. REIT industry's "low" risk and "very low" country risk. We view Ventas' business risk profile as "satisfactory," which is supported by the REIT's large and diverse portfolio of health care facilities, supported by favorable fundamentals, largely private pay exposure at the facility level and adequate coverage of its triple-net-leased properties that have modest lease rollover exposure. Roughly one-third of its investments are in senior housing operating investments, which in our view are potentially more volatile.

Ventas has been among the most acquisitive REITs over the last several years and grown its asset base to over \$20 billion, through several large acquisitions that have diversified the portfolio and largely improved the quality of the asset base. These acquisitions have increased Ventas' exposure to higher-barrier/cost markets within the senior housing portfolio. These properties are well located and include fairly stable medical office buildings primarily located on a hospital campus or affiliated with a hospital system. We believe the company also benefits from relatively limited exposure to government reimbursement risk, since roughly 75% of NOI is derived or supported by facilities that obtain their revenues from private-pay sources. As of March 31, 2014, Ventas owned 1,473 healthcare facilities with an undepreciated asset base of roughly \$22 billion. The portfolio is diversified across senior housing facilities which account for 54% of annualized NOI, (split between RIDEA investments (28%) and triple-net leases (26%)), skilled nursing facilities (SNFs; 20%), medical office buildings (MOB; 16%), hospitals (7%), and other facilities/investments (2%). The portfolio is also spread across 46 states plus District of Columbia, Canada, and the U.K. Tenant

concentration has declined over the last several years, but still remains concentrated with its top five accounting for just over 50% of NOI. However these operators are among the largest and best positioned senior housing, SNF, and hospital operators/managers.

As the portfolio has grown, so has Ventas' investments in senior housing operating assets (30% of NOI pro forma for recently announced acquisitions), which are more management and capital intensive than triple-net-leased investments and potentially vulnerable to macroeconomic trends and cash flow volatility. However, we acknowledge currently favorable fundamentals for senior housing and healthy growth in same-store NOI, which could range from 4% to 6% in 2014 (an 4.6% rise in the first quarter) for the senior housing operating portfolio. Still, new construction has begun to pick up, and while moderate relative to existing stock, this could weigh on NOI growth rate as new competition enters certain markets or accelerates over the next few years. Nonetheless, we expect overall property level cash flow should be fairly predictable over the next one to two years, exhibiting low-single-digit same-store growth, benefiting from supportive fundamentals; weaker, but adequate rent coverage (for triple-net leases); and long-term leases with modest expirations and contractual rent increases. We expect Ventas to complement this growth by remaining acquisitive.

Ventas recently announced agreements to acquire two portfolios totaling \$3.8 billion which will represent about 14% of Ventas' pro forma undepreciated real estate assets, and is expected to yield 6%. We expect the acquisitions to close in the third and fourth quarters. The portfolios are largely private pay, which is consistent with its focus on these facilities. However, in our view the asset quality is slightly weaker than Ventas' existing portfolio, particularly the American Realty Capital Healthcare Trust Inc. portfolio. The portfolio is relatively young; however, the majority of the MOB assets are located off-campus, but well leased largely to investment-grade tenants, and the senior housing/independent living assets garner rents that are below Ventas' portfolio average and have demographics that are also weaker than the Ventas' average, but are generally above the U.S. and Canadian market averages. Ventas intends to fund the acquisition in a leverage-neutral manner or possibly with slightly more debt, which could increase leverage modestly, but should still support levels consistent with a "modest" financial risk profile. We expect the company to maintain conservative balance sheet metrics and strong coverage metrics over the long run.

Financial Risk: Modest

We view the company's financial risk profile as "modest". Ventas, despite its aggressive growth, has maintained a sound balance sheet with above-average coverage measures. Debt to EBITDA and debt to undepreciated capital on a trailing-12-month basis ended March 31, 2014 was 6.1x and 45%, while debt service coverage was a strong 4.0x. We believe debt to EBITDA will rise in 2014 as the company funds its pending investments partly with debt but cash flow will lag resulting in higher leverage temporarily. We estimate leverage will return to near current levels in 2015. Debt service coverage will also weaken but remain in the mid- to high-3x area. Ventas' financial risk profile is also supported by a predominantly fixed-rate debt structure, we estimate roughly 85% of its debt is fixed pro forma for the issuance of \$700 million of senior notes in April 2014 that repaid revolver borrowings, a well-laddered and long-duration debt maturity profile (nearly seven years), an adequate liquidity position, and strong access to capital.

Liquidity: Adequate

Standard & Poor's views Ventas' liquidity as "adequate" over the next 12 to 24 months. We expect sources of liquidity, including cash, forecast FFO, and availability under the company's credit facility, will exceed uses by over 1.2x.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> • \$59.8 million of cash as of March 31, 2014. • Proforma for the issuance of \$700 million of senior notes in April, Ventas had full availability under its \$2 billion revolving credit facility due in January 2018. • About \$1.3 billion of FFO in 2014 and \$1.4 billion in 2015. 	<ul style="list-style-type: none"> • No senior unsecured debt maturities in 2014 and \$634 million maturing in 2015 (we do not factor nonrecourse mortgage debt into our liquidity analysis). • \$70 million to \$80 million of recurring capital expenditures and leasing costs and \$200 million to \$250 million to complete development and redevelopment project and other revenue enhancing expenditures. • Roughly \$860 million to \$950 million of projected common distributions in 2014 and 2015.

Other liquidity considerations

We assume the recently announced agreements to acquire American Realty Capital Health Care Trust and certain Canadian assets for an aggregate price of \$3.5 billion (plus \$250 million to fund ARCHT's acquisition pipeline) will be funded with roughly \$1.8 billion of common equity, the assumption of \$300 million of property by mortgages and Ventas will raise debt to fund the remaining \$1.6 billion to \$1.7 billion.

Additional potential sources of capital include access to secured debt, though we have not factored this into our liquidity assessment. Ventas' encumbrance level was fairly modest at less than 12% secured debt to undepreciated real estate and nearly 80% of NOI is unencumbered. We believe the company has some flexibility to pursue additional secured debt without jeopardizing the current debt ratings. As of March 31, 2014, Ventas was comfortably in compliance with the covenants that govern its unsecured bonds and credit facility.

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Stable/--

Business risk: Satisfactory

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/Leverage:** Modest

Anchor: bbb+

Modifiers

- **Diversification/Portfolio effect:** Neutral
- **Capital structure:** Neutral
- **Liquidity:** Adequate
- **Financial policy:** Neutral
- **Management and governance:** Satisfactory
- **Comparable rating analysis:** Neutral

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Key Credit Factors For The Real Estate Industry, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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