27 Mar 2020 | Rating Changed Outlook to Negative

Fitch Revises Ventas' Outlook to Negative; IDR Affirmed at 'BBB+'

Fitch Ratings-New York-27 March 2020:

Fitch Ratings has revised the Rating Outlook of Ventas, Inc. to Negative and affirmed the ratings with the Long-Term Issuer Default Rating (IDR) at 'BBB+' and the Short-Term IDR at 'F2'.

Fitch expects Vantas' operating EBITDA and leverage will be negatively affected by the coronavirus, given that it is a healthcare REIT whose portfolio includes senior housing facilities (53% of net operating income at Dec. 31, 2019). Prior to the pandemic, Ventas' plan to meet its financial policies relied on dispositions to fund debt repayment to offset oversupply in senior housing that was pressuring operating EBITDA. The pandemic compounds the pressure and the resultant volatility in the capital markets makes dispositions to fund debt repayment less likely at this time. The Negative Outlook, rather than a downgrade, reflects the fact that the pandemic has yet to meaningfully affect operating cash flow and the issuer has the ability, should it choose to do so, to reduce leverage by curtailing investment activity, raising equity proceeds through asset sales and equity issuance (albeit at more expensive terms than earlier in 2020) or reducing the dividend or converting it to stock from cash.

The affirmation also reflects Fitch's view that VTR has sufficient liquidity to manage through heightened volatility in the capital markets. Consistent access to capital is a key factor in REIT ratings, given distribution requirements limit the amount of retained free cash.

Key Rating Drivers

Coronavirus Will Negatively Affect Senior Housing Facilities: Fitch expects senior housing facilities in the United States will see lower revenues, EBITDA and free cash flow as the coronavirus results in higher resident fatalities, reduced ability to lease to new residents and operating expenses that are largely fixed in the short-run. Healthcare REITs with senior housing operating portfolios (whereby they realize the majority of the facility-level economics) will see a direct impact on net operating income whereas senior housing facilities that are leased to tenant operators will be indirectly impacted if and when tenants seek rent concessions or deferrals. Fitch would only expect REITs to consider rent relief for leases with low coverage (i.e. REITs with significant exposure but higher coverage will be less impacted). Leases tend to be operators' largest form of

financing and one of the largest expenses along with labor. Given coverage levels were thin for senior housing leases due to over-supply, lease deferrals are likely. REITs are the most obvious partner to provide relief to the operators. Relief may not be necessary if there were government stimulus or support directed at the industry; however, Fitch's ratings are not assuming this occurs. Fitch's analysis is focused on headroom in the rating, including the extent to which facility-level cash flow cover rent, more so than forecasting specific infection and fatality rates given the dispersion of data and opinions from experts in epidemiology and public policy.

Fitch has included a coronavirus reserve within VTRs operating EBITDA forecast that reduces senior housing operating portfolio occupancy by 300bps with a larger effect on net operating income and for triple-net leases assumed to have coverage below 1.1x for senior housing, deferred rent of 7.5% in 2020 and 2.5% in 2021. Fitch assumes half of the deferred rent reverts to a cash basis in 2022 and senior housing operating portfolio occupancy growth and pricing power turns positive in 2022. Should the course of the pandemic be such that senior housing fundamentals are more severely affected for longer and, as a result, the deterioration in metrics may be more significant or permanent, there could be negative momentum in the ratings.

Higher Leverage Likely: Fitch projects VTR's leverage could increase into the mid-to-high 6x range through 2021 absent any offsetting actions by the issuer, above Fitch's rating sensitivity of 6x. Leverage was 6x and 6.1x for the year and quarter ended Dec. 31, 2019 per the issuer's calculations and slightly higher under Fitch's methodology. VTR's 2020 guidance indicated leverage maintenance (i.e. remaining above 6x per Fitch's calculations) would result from dispositions and loan repayments ($1.3 billion in total including $600 million of contributions to the fund that closed in 1Q20) funding $700 million of debt repayment and $600 million of capital expenditures. Fitch believes the remaining $700million of proceeds are less likely in the current market environment and the impact of the coronavirus on senior housing will pressure operating EBITDA. Levers for VTR to reduce leverage, should it choose to do so, include selling equity or assets amid the volatility, curtailing development expenditures and/or reducing the dividend or converting it to stock from cash.

The primary differences between methodologies are Fitch calculating leverage off of notional debt not gross debt, Fitch not deducting partners' share of consolidated debt and lower EBITDA due to Fitch considering the net cash distributions to and from joint ventures and partially-owned properties whereas VTR's calculation includes their pro-rata share of EBITDA. Fitch notes that property JVs tend to distribute less cash than EBITDA generated so that the JV can fund capex and interest. Fitch's EBITDA also does not reflect ownership interests in Ardent or Atria.

Liquidity Runway: VTR has no meaningful unsecured debt maturities until 4Q21 when CAD$300 million of senior unsecured notes mature. VTR has approximately $317 million and $169 million of

secured debt maturities and amortization in 2020 and 2021 which Fitch assumes can be refinanced but, importantly, are not recourse to the issuer.

Tenets of 'BBB+' IDR: VTR's 'BBB+' IDR has been based on the expectation that its diversified portfolio of healthcare assets would deliver durable EBITDA and free cash flow enabling the issuer to maintain its financial policy of leverage between 5x - 6x, through-the-cycle. The 'BBB+' ratings also assume VTR has comparable access to capital with similarly-rated peers and above-average relative to the broader REIT universe. Constraining VTR's IDR is a large senior housing operating portfolio that Fitch expects will exhibit more volatility than a triple-net leased portfolio. Fitch views the contractual and visible cash flows provided by triple-net leases more favorably than those from senior housing operating assets, assuming comparable property quality and cost. This is a function of the longer lease term and type of counterparty (i.e. a corporation rather than individual), and the presence of a third-party with at-risk capital behind the REIT's. Fitch appreciates that senior operating assets afford the REIT more influence on the property's operations.

Derivation Summary

Ventas' ratings reflect the issuer's diversified and high quality portfolio of healthcare real estate and its conservative financial policies. The ratings also reflect Ventas' above-average access to capital relative to both healthcare REITs specifically and the broader REIT universe. Ventas, Welltower, Inc. and Healthpeak Properties, Inc. (both BBB+/Stable) are the highest-rated healthcare REITs due to the generally comparable aforementioned factors. The three largest healthcare REITs are rated higher than smaller and/or more narrowly focused healthcare REITs such as Sabra Health Care REIT (BBB-/Negative), National Health Investors, Inc. (BBB-/Stable) and Omega Healthcare Investors, Inc. (BBB-/Stable) due to relative access to capital and Sabra Health Care REIT's, National Health Investors' and Omega Healthcare Investors, Inc.'s larger exposure to skilled nursing facilities.

Fitch links and synchronizes the IDRs of the parent and rated subsidiaries due to the entities operating as a single enterprise with strong legal and operational ties.

No country ceiling or operating environment aspects have an impact on the rating.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

--Operating EBITDA declines to $1.8 billion from $1.9 billion in 2019 with senior housing headwinds not fully offset by positive operating fundamentals in the medical office building and research and innovation segments;

--Fitch has included a coronavirus reserve within operating EBITDA that reduces senior housing operating portfolio occupancy by 300bps with a larger effect on net operating income and for senior housing triple-net leases assumed to have coverage below 1.1x, deferred rent of 7.5% in 2020 and 2.5% in 2021. Fitch assumes half of the deferred rent reverts to a cash basis in 2022;

--Capital deployment limited to acquisitions/dispositions closed (i.e. the assets contributed to the fund in 1Q20) or under contract and some development expenditures delayed into 2021.

RATING SENSITIVITIES

Fitch does not envision positive rating momentum in the near term, the following may have a positive impact on VTR's ratings and/or Outlook:

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Fitch's expectation of leverage (net debt to recurring operating EBITDA after net distributions to non-controlling interests) sustaining below 5.0x;

- Demonstrated market-leading capital markets access across the broader REIT universe and comparable to 'A' category corporates;

- Fitch's expectation of REIT fixed-charge coverage (recurring operating EBITDA after net distributions to non-controlling interests adjusted for straight line rents and maintenance capex relative to interest and preferred dividends) sustaining above 4x;

- Fitch's expectation of unencumbered asset coverage of unsecured debt, at a stressed 8.5% capitalization rate, sustaining above 4x.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Should the impact of the coronavirus be so severe or the recovery so muted such that Fitch no longer expects a timely restoration in the credit metrics listed below;

- Increased cash flow volatility through-the-cycle due to RIDEA exposure. Change in SSNOI may be a proxy for comparable cash flow from operations;

- Fitch's expectation of leverage (net debt to recurring operating EBITDA after net distributions to

noncontrolling interests) sustaining above 6x;

- Fitch's expectation of REIT fixed-charge coverage (recurring operating EBITDA after net distributions to non-controlling interests adjusted for straight line rents and maintenance capex relative to interest and preferred dividends) sustaining below 3x.

International scale credit ratings of non-financial corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance.

For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings visit www.fitchratings.com

Liquidity and Debt Structure

Liquidity Buffers Capital Markets Volatility: VTR drew down $2.75b of its $3b credit facility due 2021 with extension options into 2022 amid current market volatility. VTR reported cash of $2.75 billion and negligible commercial paper borrowings as of March 17, 2020. VTR has no corporate debt maturities until 4Q21. The largest use of cash over the next one to two years is development and redevelopment expenditures, Fitch expects healthcare REITs generally and VTR specifically will look to delay expenditures where possible given market volatility. Fitch also notes that the largest component of the development pipeline is comprised of office developments which have material pre-leasing and can be partially funded by the $400 million senior secured revolving construction credit facility that had $240m of availability at Dec. 31, 2019.

Appropriate Contingent Liquidity: VTR's dividend policies do not have a material influence on the rating. The company neither retains significant amounts of capital with a below average payout ratio nor does it payout more than it generates. Fitch estimates that unencumbered assets cover unsecured debt by more than 2.0x on a stressed basis, which is above the 2.0x level typical of investment grade REITs. VTR's has historically maintained coverage around 2.0x, but has periodically dropped below that level.

ESG Considerations

VTR has an ESG Relevance Score of '4' for Exposure to Social Impacts as an owner, operator and provider of real estate to U.S. healthcare operators affected by social and political pressures to play its part in containing healthcare costs, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Ventas Canada Finance Limited
----senior unsecured; Long Term Rating; Affirmed; BBB+
----senior unsecured; Long Term Rating; New Rating; BBB+
Ventas Capital Corporation
----senior unsecured; Long Term Rating; Affirmed; BBB+
Ventas, Inc.; Long Term Issuer Default Rating; Affirmed; BBB+; RO:Neg
Ventas Realty, Limited Partnership; Long Term Issuer Default Rating; Affirmed; BBB+; RO:Neg
; Short Term Issuer Default Rating; Affirmed; F2
----senior unsecured; Long Term Rating; Affirmed; BBB+
----senior unsecured; Short Term Rating; Affirmed; F2

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Applicable Criteria

Corporate Rating Criteria (pub. 19 Feb 2019)
Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019)
Parent and Subsidiary Rating Linkage (pub. 27 Sep 2019)
Short-Term Ratings Criteria (pub. 06 Mar 2020)

Additional Disclosures

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