

CHIEF EXECUTIVES FOR CORPORATE PURPOSE - CECF

**15th Annual Board of Boards and CEO Investor
Forum**

**Tom DeRosa, Welltower, Long-Term Plan
Presentation**

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15th Annual Board of Boards and CEO Investor Forum

MS. BASAK: So our next speaker is Tom DeRosa. He is the Chairman of the Board and CEO of Welltower, which is a company that delivers healthcare infrastructure necessary for better treatment at lower costs to keep patients out of hospitals. Thank you.

MR. TOM DEROSA: Good afternoon. It's my honor to be here today to present Welltower's long-term plan. A plan that enables a \$52 billion New York Stock Exchange listed public company like Welltower to address some massive challenges facing society while at the same time driving sector leading financial performance that is creating value for our shareholders. We've also demonstrated a commitment to environment, diversity in equality and good governance that is much more than checking boxes and receiving awards. These initiatives are tangibly driving financial performance. And I'll tell you more about that later.

So now for our safe harbor. Lucky for you I'm not going to read this but I can tell my lawyers that you did while I tell you what we're going to do for the next 30 minutes. I plan to give you an overview of our business and strategy and how that is enabling long-term value creation. I'll also talk about how we've partner with some of the leading health systems, insurance and technology companies to enhance and accelerate our mission and strategy. I will finish up with a look at our performance.

Let's start with our statement of corporate purpose. Addressing massive societal challenges through reimagining and reinventing the built environment for effective delivery of healthcare and wellness services. You may be wondering what a healthcare real estate company or REIT has to do with improving the health and wellness of society. I could hear you thinking, hmm I get what this guy does. He owns a bunch of buildings, collects rents, puts a GNA load on that cash flow and pays out the remainder in a dividend. Yeah, that's a business and that's a business model that seems to work for many companies that elect re-tax status. But for Welltower that's only a starting point. You see if we took our 1700 buildings and I could squeeze them together so you couldn't tell one building from the next, that would be the largest block of bricks in the world. However we view that block as a platform. A platform that has hundreds of thousands of at risk seniors who live with us every day. And tens of

millions of clinician patient interactions that occur every year. And why does that platform have value? Because platforms enable products, services, technology and innovation to effectively and efficiently achieve scale. I want you to keep that in mind as I take you through our long-term plan.

So with that out of the way let's come back to the question of how Welltower can address societal challenges resulting from a U.S. healthcare system in need of disruption. I can answer that simply. If we are to fix healthcare, you cannot separate the how from the where. I came up with that. We must first consider the social determinants of health. What are they? Things like where you live, nutrition, transportation, safety and social interaction. What you may not know is that these social determinants make up 80% of an individual's health and wellbeing. As you can see healthcare which are clinical services, procedures and pills account for the remaining 20%. Yet in the U.S. we spent a whopping 17% of GDP on pills and procedures and the least as you can see compared to other major developed countries on social care. And that is why life expectancy in the U.S. has slipped by three years as compared to countries like Norway and Australia. The lack of focus on social determinants will exacerbate these issues due to the fact that our 80 plus year old population is growing exponentially faster than any other age cohort, increasing nearly 50% in the next 10 years. So why should you be worried about that? Because due to the chronic illnesses associated with this age cohort, they account for 85% of healthcare spent. This is not sustainable.

So let's talk about our business. We divide our business up into three verticals. Aging, access to care and wellness. We're going to start with aging. Aging which represents 76% of our net operating income is engaged in residential solutions directed at provided assistance with activities of daily living and post-acute rehab care for a population of chronically ill seniors, typically 85 years or older. This model keeps at risk seniors in safe and supported settings which leads to fewer trips to the ER and shorter stays when those individuals are admitted to a hospital bed. We are the dominant provider of premium senior housing in the top high barrier to entry markets in the U.S., Canada and the U.K. Going back to my point about where the U.S. spends its money, our communities on average charge \$10,000 per month and those monthly costs can go to \$25,000. You can see the building Sunrise at East 56th Street, that is a building -- I'll talk about it in a little while, but

we're opening that this year. The monthly charges to the residents there will be in the \$20,000 range. And I will add that this is all out-of-pocket. It's very expensive and only reaches the top 10% of seniors or those seniors with adult children who are willing to pay for their residential care needs. Medicare reimburses none of this. Medicare only reimburses 100 days in post-acute care after a hospital stay of at least three days. By the way this is often a surprise to families who have exhausted their ability to care for a chronically ill parent at home. The issues of caring for a parent with dementia are profound. And unsuitable home settings an lack of oversight of prescription drug management, nutrition and hydration often lead to unnecessary trips to the emergency room. Our country cannot afford this. So Welltower operates with a family of brands that -- and I'm going to bet that none of these are familiar to you but they exist all over the country and in the top metro markets as I said. You also heard about what this costs. So one might say this is a luxury good. And what I always say, this is the luxury good that no one aspires to own. Nevertheless, it is a service that is needed by more and more seniors each year.

Let's turn to our next business access to care. Welltower is the largest owner, manager and developer of outpatient or ambulatory medical facilities in the United States. We partner with the nation's largest health systems to deliver non-hospital, consumer friendly settings where clinician visits and procedures can be delivered at significantly lower cost than acute care hospitals. Our portfolio is associated with some of the leading brand name hospital systems in the United States. As you can see, it's diversified across major metro markets. The 19th Century model of treating all health conditions in a hospital has put our healthcare system in jeopardy. And escalating costs and reimbursement pressures have created financial difficulties and forced hospital closures. This is also forcing health systems to consider a more expansive footprint to meet their patients in more convenient and lower cost settings. Nevertheless, the nation's healthcare infrastructure is still dominated by out moated inefficient acute care hospitals with an insufficient investment in ambulatory care. I can tell you Welltower is charged with fixing that. Let's look where ambulatory care is headed. The first picture on the right is a state of the art cancer center we recently opened at the shops at Mission Viejo in Orange County, California. A luxury shopping mall. Now people who are

having infusions or radiation therapy can do so in a setting that inspires life and wellness on a site thought ironically was previously earmarked for a Neiman Marcus. And better than the dark basement in a hospital where someone would have gone for their infusions and radiations and still is in this country, which really needs to stop. And speaking of retail, we are currently building a modern ambulatory site for Atrium health, which is the largest health system in the State of North Carolina on the site of a former shopping mall in Charlotte, North Carolina. This is an example of how healthcare can serve as an anchor rather than a department store to define a mixed use community that we're building which is focused on wellness. Now healthcare is establishing a sense of place, a place that we will gather and be inspired by.

Okay, so I know you were all offended by the amount of money I charge seniors per month to live in our premium assisted living residences. So now I'm going to talk about how we're answering that. Because I was not happy with that. It's a business, it's address, it's 10% of the senior population could afford it but that's not acceptable to me. So we define our third business vertical as wellness. As we're delivering wellness settings for independent middle income seniors that will inspire a more wellness oriented lifestyle. While our aging vertical is quite successful as I discussed, the fact is that 85% of seniors have an income of less than \$50,000 a year and half of that is social security. So this growing senior population, the decision to stay in their historic residence where they raise their family is often in conflict with their physical and social needs as they age. The options for safe and affordable housing solutions are limited. On the left you see the classic guarded style apartment building that you see throughout the country can help address this need. But these buildings have stairs, narrow hallways and doorways and inaccessible bathrooms. Welltower living, which we just announced last week, which is a new branded product to address the needs of this market. And currently we have 5000 units of this product is a purpose built residential community designed for this population that addresses those structural issues I talked about with monthly rents in the \$900 to \$1200 range that are affordable for a middle income senior and can actually accommodate a long arch of aging. Now when you take these settings and wrap a Medicare Advantage plan around them like we're doing with Geisinger, which is a health system in Pennsylvania that also has a very successful insurance business. When you take a Medicare

Advantage plan and wrap it around these residential communities, we can start to drive clinical and social products to this population at little to no cost to the resident that will enable a more wellness oriented lifestyle and that can drive better health outcomes and lower Medicare spend over time. And keep this population in the Medicare program, not force them into something called the Medicaid spend down, which I think is unacceptable. If you've raised a family in this country and you worked and you owned a home and you have a small pension and Social Security, you are entitled to stay on the Medicare program. And I think it's unacceptable that many people dispose of their assets and wave the white flag of destitution and go live their days in a Medicaid nursing home. We're trying to offer an alternative to that.

So how does our strategy, I talked to you earlier, our strategy captures another level of value above collecting rents and paying a dividend. The answer is partnering with health systems, insurance providers and technology companies who are aligned with us around our mission. So this is the headline from the Philadelphia Enquirer from a few weeks ago. The Jefferson Health System, which is based in Philadelphia and one of the nation's largest urban academic medical systems, announced a broad joint venture with Welltower thought will help them capitalize their growth by establishing a joint venture with Welltower to recapitalize their existing ambulatory real estate footprint. Two, we're developing new ambulatory sites of care in the greater Philadelphia market for Jefferson that are aligned or actually may be co-located with the type of residential concept I just talked about, the Welltower living concept. And third, we're going to expand Jefferson's clinical home health and payer services out of their hospital buildings into our existing population of over 20,000 seniors who live with Welltower in the greater Philadelphia market.

Another partnership we're really proud of is with Anthem and CareMore. CareMore is Anthem's clinical service arm. And this is enabling chronically ill seniors living in our assisted living communities, the expensive ones, to have their clinical needs met by CareMore doctors and nurses where they live. So they don't have to go out and visit these physicians, the physicians come to them. And this is reducing their out-of-pocket healthcare costs because Anthem is providing an innovative Medicare Advantage product to this population. And the reason they can do that is because they live in a setting of wellness, where we control their medication management, their

nutrition, their hydration and their physical safety. The fact is they're not living at a home with three flights of stairs, which typically leads to a fall that leads to a fracture that leads to a visit to the ER which leads to a stay in a hospital. We have to avoid that where we can. Welltower's flagship East 56th Street building on Lexington Avenue, which will open in May, it will be the most technologically advanced purpose built residential facility for seniors in the world. Particularly those who are suffering with cognitive impairment, including the diseases known as Alzheimer's. And the advancements here are largely due to a very innovative design. This is the first purpose built facility in the City of New York for those individuals suffering with Alzheimer's disease. And we will have innovative care programs and Phillips is taking its technology and this -- Phillips Technology is going to help us better monitor our population and improve workflows and actually indicate situations where we may see a fall and try and avoid that. We're very excited about this.

Okay, so let's now talk about how do we capitalize this business. Welltower has taken a very active approach to our portfolio by acquiring, recycling and developing properties to maintain a high quality, modern, sustainable and increasing relevant asset portfolio. The product of this high quality portfolio is a resilient and consistently growing cash flow stream secured by the real estate underneath it. So in a sense we are senior secured way to gain exposure to one of the strongest investment themes of our lifetime. Which is the aging of the demographic. We finance our portfolio through unparalleled access to capital. Maintain the conservative leverage profile enables us to achieve extremely efficient pricing while preserving -- capacity to take advantage of disruptions in the market. The aging of the demographic is creating massive secular investment opportunities. And while our public cost of capital can be impacted by the cyclicity of the capital markets, it's a very relevant statement for today right? We view our balance sheet capacity as an assurance that we will be able to take advantage of opportunities regardless of the market environment. The result of this stable and resilient cashflow profile and low leverage is a highly defensive organic expected annual total return of approximately 10% over the next five years. And that's assuming no rerating of our multiple. So this projected future cashflow is driven by, as you can see on the left, core cashflow growth of 4.3% as the early stages of the demographic wave begin to drive senior housing occupancy

back to historical norms. Then through the stabilization of our funded development pipeline there are other buildings besides the one I showed you in New York that we are building, we expect additional 1.5% annual cashflow growth. When this cashflow growth is paired with Welltower's 4% current dividend yield, the result is an expected total annualized return to shareholders of 9.4% over the next five years. And this expected return could prove to be conservative in the long run as we believe the opportunity of further consolidation and development of the healthcare delivery assets of tomorrow have and will continue to provide extraordinary opportunities to us for further investment. And assuming we do a fraction of what we have completed in the past few years, external acquisition and development should further increase our expected annual return profile to 11 1/2%.

Having weighed out our expectations for future growth and returns, let's take a look at our current and historical performance relative to the broader market. First I would like to highlight that our current dividend yield is two times the average of the S&P 500. And this very secure cash dividend is increasingly important in a market style for yield. Two, even in the bull market of the last 10 years dominated by high growth tech and bio companies, Welltower's total return has nearly matched that of the index. And third, and possibly most important, Welltower has produced this return for investors with almost half of the volatility of the index as you see here on the right. In short, Welltower's provided significant cash and total returns to its shareholders with significantly less volatility. This is a product of our positioning as a senior secured investor in one of the market's fastest growing opportunity sets. The aging of our population and the disruption of the hospital centric healthcare delivery system.

As I said at the start of this, ESG is more than a box ticking exercise at Welltower. Our sustainability results and goals have earned Welltower a place in the Dow Jones World Sustainability Index among other accolades as you see up on this slide. But our investors have directly benefited from these initiatives through our issuance of a green bond in December of 2019. This innovative financing vehicle enabled Welltower to achieve its lowest coupon ever on a seven year debt placement as demand was seven times oversubscribed by large institutional investors with a commitment to the environment, many of whom are attending this event today.

While Welltower is a company with true gender parity across our workforce as you can see, I am very proud of the fact that 50% of my senior leadership team is made up of women and people of color. While that has earned us many accolades too, we take social responsibility beyond the walls of the business. We believe that many of the initiatives I've discussed today address some of the biggest problems facing society like isolation and loneliness and homelessness. If Welltower living can take a 70 year old limited income senior, put them in an affordable and supportive environment today, we may have a shot at keeping that senior out of the homeless population when they are 85.

Now to governance. In his most recent letter Warren Buffet spoke to the poor state of corporate boards noting too few women serve on them and directors to readily go along with the management team. When seeking directors, CEOs don't look for pit bulls he wrote. It's the cocker spaniel that gets taken home. The fact that 75% of our independent directors are women and minorities and 50% are women, puts Welltower at the very top of S&P companies for board diversity. However, this diversity also extends to skill set. Our board brings vertical expertise in areas such as healthcare, health insurance, real estate and hospitality. We found when you recruit board members based on skills and experience, it's easy to end up with a diverse board. Our board diversity and strengths challenge our management team every day in a very positive way.

So to wrap up this long-term plan let me hit a few points that I think summarize what I've just discussed. By delivering a built environment focused on maintaining and enhancing the social determinants of health for aging and other at risk populations, Welltower is delivering a long-term plan that achieves industry leading financial performance and builds shareholder value while positively impacting some of today's most pressing societal challenges. Thank you. And now I'd be happy to take your questions.

(Applause)

MS. BASAK: Do we have any to start from our audience? Over here.

FEMALE VOICE: Thank you. I'm curious about the -- as you look forward to the human capital staffing needs, what are you thinking about -- the needs are great obviously and what are you thinking in terms of the compensation that will be required for quality healthcare workers in those -- particularly in the

senior settings?

MR. DEROSA: That's a very good question. We have 60,000 caregivers that work for us at Welltower. This is one of the biggest challenges we talk about every day. One of the fastest growing job categories in the next 25 years is going to be caregivers. So we are coming at this in innumerable ways. We're concerned about the challenges of labor shortage for this job category. So when you see initiatives with companies like Phillips and there are other technology companies we're working with, we're looking for how we can more efficiently use human capital in the provision of care. So that's one. We have many different outreach programs, for example the military, where we're looking to recruit people particularly enlisted women and men coming out of service. Because while you start as a caregiver in this business, you can actually progress into a management track over time. Many people enter at the basic caregiver role. And remember our business is not providing a lot of what we define as healthcare, it's really the social determining care. So these are not in many cases people who need to have a nursing background. So we are -- it's something we're very conscious of. We also think -- we particularly for people at the low earning levels of the demographic, we offer them a home like environment to come to work in. We can actually -- generally our employees have a meal or two while they're with us during the workday. And the connections that a lot of these caregivers make with the residents is something that's quite special. And we nurture that. This is our resident's home. And these care workers are coming into their home. And that creates a lot of connection beyond just cashing a paycheck. So we have great -- in many parts of our business you'd be surprised at the longevity of the employee base, because they feel this connection to being part of a community because they often don't have that when they go home.

MS. BASAK: Do we have anymore from the audience? So from our viewers, can you take us through the economic model for the wellness group that's less than \$50,000 income seniors in a bit more detail.

MR. DEROSA: So what I can tell you is that this is a very low service model. So for example these communities may only have two to three FTEs. Whereas the Welltower on East 56th Street may have 100 FTEs. So actually the margins in the Welltower living business are quite compelling. You know the fact is that we -- again, I talked about what we're doing with Geisinger as

an example of how we will bring -- align partners to help drive some of additional products and services without cost to the resident. What I'm trying to do with the Welltower living model is mimic what goes on in a \$10,000 a month senior living community for \$1000 a month.

MS. BASAK: Okay. Is there a new vertical you are looking for on your board?

MR. DEROSA: I would say we're looking for someone from the world of technology. Particularly who understands consumer facing technology. And we've identified that person, so stay tuned.

MS. BASAK: To be continued.

MR. DEROSA: Yes.

MS. BASAK: How do you think about utilizing your suppliers to advance your corporate purpose?

MR. DEROSA: Very interesting, I'll give you an example. In the Welltower living business there's no food associated -- there's no dining room. There's no -- and food insecurity is one of the biggest issues that faces this population. And I'll tell you a funny story. I was at a convening at Harvard Business School this summer, I see Rebecca Henderson sitting in the audience, I'm a fan. And anyway I was in a class and I talked -- and Arthur Siegal who has been around a long time -- I've known a long time, in his class I talked about this issue of seniors and urbanizations. You know how do we get people to live longer in cities, because I think that's a way we can help address some of the issues of seniors. And so in the next class a woman tapped me on the shoulder and said I'd love to talk to you about my business. And she said I'm developing 300 gram frozen meals that are low salt, low sugar, high protein and can be designed for a number of different conditions. You know we are diabetic, you have COPD, you know, or you want to lose weight or you want to put weight on. And I said so you're a healthcare company, she said no, no, I'm a consumer packaged goods company. I said I think you're a healthcare company. And so today we are working together to send people from our skilled nursing communities -- think about this you've spent 60 days post-surgery in a skilled nursing community and what do you think that -- and many of these people are on Medicaid. What do you think they're going home to? Could you imagine what they're going home to? They're going home to an empty fridge or spoiled food. And because -- they may not have any help. So now we're

sending them home with meals, frozen meals that are really high quality. And by the way, my employees eat them. We don't have a cafeteria, we eat these -- the company is Louivou [phonetic], keep an eye out for it, it's really interesting. And we send -- these meals are very nutritious, very high quality. They can also retail for \$3 a meal. So if a Medicare Advantage Plan can pay for part of that meal, you can now say to one of these low income seniors living in a Welltower living community, you know what for \$20 a week you could afford that. We're going to send you 10 to 15 meals. So this is how you get a company that was thinking itself about selling frozen meals at Wholefoods into helping this mission of health and wellness. So we're really excited about that. So that's just one example of that.

MS. BASAK: You're turned a B to C company into a B to B company.

MR. DEROSA: Exactly.

MS. BASAK: So another question is can you expand on your comments regarding healthcare system relationships and more opportunities for your company?

MR. DEROSA: Yes, so Dr. Steve Klaskow who runs the Jefferson Health System who is a true visionary in healthcare, in fact he's now been named the distinguished fellow of the World Economic Forum and is a healthcare governor there as well as I am. Steven has been a champion of speaking to other health systems saying look, you see what we did with Welltower, that's the future. You know you're trying to still think -- you're running a business that's all about getting people in hospital beds. Steve talks about healthcare with no address. Which means that push it out into the community. So our -- and by the way if you're a health system like Jefferson, you have a lot of old out moated real estate. Particularly in Center City Philadelphia. A lot of that needs to go away, be reinvented, they don't have the capital to do that. Health systems used to be mid-teens margin businesses that don't pay taxes and they don't pay big salaries. And if people liked them, they would give them lots of money, right? To put their names on buildings. Today the health system business is maybe a 1% margin business. And because of all of the issues regarding efficiency and changes in reimbursement and where they need to invest capital today. Where they need to invest capital today has changed dramatically. So having a partner like Welltower can really help them be competitive. There was a day when health systems didn't think about competition because they had monopolies. And

now you see health systems are going across state lines and they think of their competitors very differently than they did 20 years ago.

MS. BASAK: Love this question. How does Medicare for All impact your business model?

MR. DEROSA: I don't want to get into politics. You know what? I think our business model just makes sense. I think you have to -- when people can no longer live independently you've got to bring them into environments where they can be supported. Because what happens is if we don't do this, then Medicare will go broke because we cannot see the health system as the safety net. People have to take responsibility for their health and wellness. That's hard to do, it's easier said than done. But if we could keep people in supportive environments and draw people, give them the incentives to go into supportive environments, I think we're going to get really good outcomes. And I'll just tell you in Canada where I have a business, in the Province of Quebec 20% of seniors live in our congregate living communities. In the United States it's only about 10%. But in Quebec why do Quebec -- choose to live in these kind of communities? Which are very similar to the Welltower living community. It's because the government of Quebec who is both the payer and the provider realized, you know what, if you give people a small tax incentive you actually can change behavior. And that's exactly what they did. Our business in Canada costs about \$2,000 Canadian a month, so about \$1800. And if you're a senior who chooses to leave their historic residence and move into a congregate living community, you get about \$100 Canadian a month and a tax break. And that actually moves the needle. And over 10 years has moved 10% of the population into these congregate settings. And the government of Canada, you know, now has 300 people living in a community so it's a lot more efficient for them as the provider to deliver healthcare. So maybe that's what we'd see with Medicare for All.

MS. BASAK: Okay. One more. Great to see the diversity of your board. What methods did you employ to achieve that?

MR. DEROSA: The diversity came from diversity of skills. So if you're looking for the best and the brightest who run health systems, who may have spent time in the U.S. government, in CMS, like Dr. Karen DeSalvo or Johnese Spisso, you know what? More than 50% of the time it's going to be a woman. So we didn't go out and look for women directors, you know I have a director who

is the longest serving director, you - - to hear this, she's been on our board 27 years, is Sharon Oster who was the Dean of the Yale School of Management and is on the faculty of Yale. So I grew up in this business with a strong voice of a director who was a woman. But I often get the question how did you get all those women on your board, like, what do you mean? We just went and looked for the smartest most capable people. And again, you've got a better than 50% chance it's going to be a woman.

MS. BASAK: Okay. Do we have any more from our audience? Up here.

MALE VOICE: Yeah, I was looking at your governing team, - - you have two SVPs in relationships it's called and then one in business insights as well as a normal reed structure of investment people. Why those two roles and what do those people do?

MR. DEROSA: So let's talk about business insight, I have 12 PhDs in stats who work for Welltower. I didn't have time to get into this today but we are using data and business insight to really drive not only decision making on our part for where we deploy capital but it's become very useful to health systems for example. We divide the country up into 8.2 million micro-markets, which is .25 mile by .25 mile and can tell you with very great precision what the need is in that micro-market but what's the propensity for that population to pay for this product. And that's a very powerful tool. But now we're also working with health systems to say look, you're Jefferson Health System, you want to expand to the main line. We can tell them what predict using AI, what will be the medical specialties that will be of need there in the next 10 years and which independent physicians do we want to recruit to try and build up our market share in that specific area. So--

MALE VOICE: - -.

MR. DEROSA: Yeah, so--

MALE VOICE: I advise - - in the space of healthcare.

MR. DEROSA: Okay.

MALE VOICE: What about - -.

MS. BASAK: I may have to leave it there after this answer. So--

MR. DEROSA: I'll -- they're relationship management people with our different health systems and operators.

MS. BASAK: Okay. Thank you all so much. Thank you, Tom.

(Applause)