



Healthpeak's \$2.6B Merger with Physicians Realty Trust

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Deal Introduction

DETAILS ABOUT THE DEAL

Real estate company Physicians Realty Trust (DOC) and Healthpeak Properties (PEAK) declared on October 30, 2023, their intent to merge and form a company that would dominate the healthcare delivery and discovery space. The combined company resulting from this merger would be valued at almost \$21 billion, with properties in high-growth markets such as Dallas, Nashville and Denver. Of the resulting 52 million square foot portfolio, 40 million are outpatient medical properties located in the aforementioned high-growth areas. The combined business will trade on the Stock Exchange under the ticker symbol "DOC," and name "Healthpeak Properties."

Each share of Physicians will be converted into 0.674 of a newly issued Healthpeak share, leaving Healthpeak shareholders with about 77% of the combined firm.

With pre-existing relationships within the industry, Physicians Realty Trust brings its internal property management platform to the deal, allowing the two companies to have a competitive advantage in the market and ensuring that shareholders will immediately see the effects of the merger according to Scott Brinker (CEO and President of Healthpeak).

The deal was successfully advised by lead financial advisors including Bank of America Securities, KeyBanc Capital Markets, Barclays and Morgan Stanley. Additional financial advisors included BMO Capital Markets, JP Morgan, Mizuho Securities, RBC Capital Markets and Wells Fargo.



DEAL RATIONALE

- The combined company will be the leading real estate platform dedicated to healthcare discovery and delivery
- The new company will hold 52-million square feet of real estate with an extensive amount of this being situated in high growth areas like Dallas, Houston, Nashville, Phoenix & Denver
- As of Dec 31 2022, Physicians owned about 277 total properties while Healthpeak had about 450
- The combined companies will benefit from both companies' extensive relationships with the United States leading health systems as well as the internal property management platform that Physicians Realty has adopted
- The new company will have a broader footprint in strategically important markets and a higher-quality and diverse portfolio which Healthpeak management believes will quickly serve clients and shareholders better
- Deal expected to be immediately accretive
- Deal expected to generate \$40-million of run-rate synergies by end of year 1 and up to \$60million by end of year 2



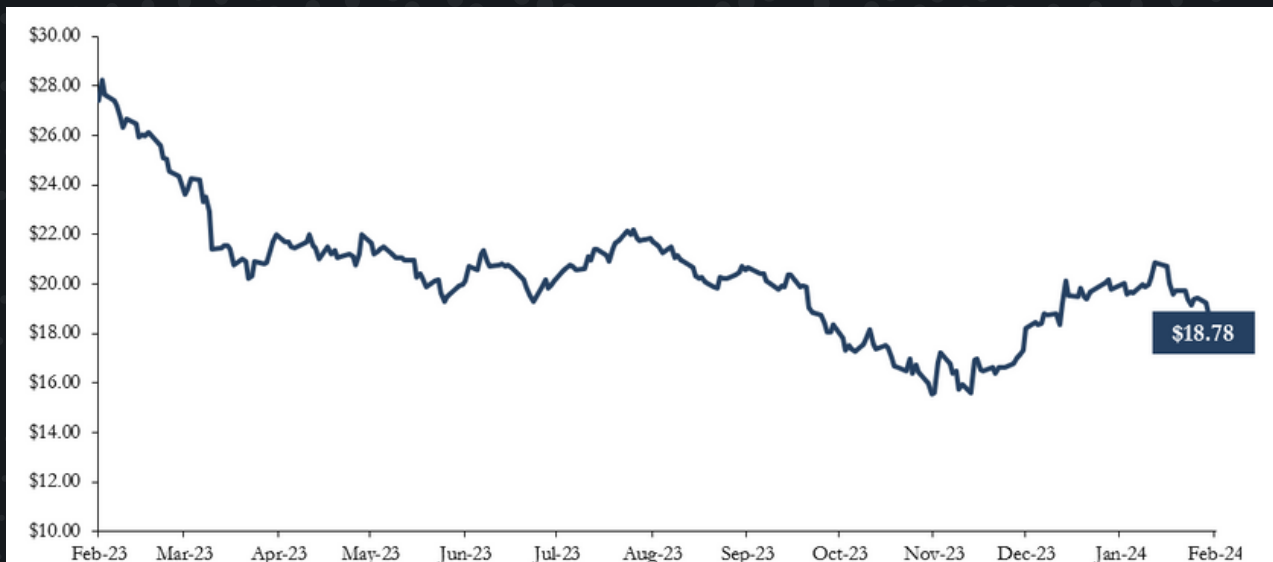
Acquirer Overview



Founded in 1985, Healthpeak is a healthcare real estate investment trust firm that invests in a variety of assets tied to the healthcare industry, including medical offices, senior homes, and laboratories. Particular emphasis in the past two decades has been placed on lab and outpatient medical care (healthcare consultation, procedure, or treatment that is administered to a patient without an overnight stay at a hospital or medical facility).

Entering the S&P 500 index in 2008, Healthpeak has grown to own and manage over \$20B in real estate assets.

SHARE PRICE MOVEMENTS





BUSINESS MODEL

As a healthcare real estate investment firm, much of Healthpeak's business model is built on the acquisition, development, lease, and potential resale of valuable healthcare real estate, with its portfolio of assets held through mortgage loans and joint ventures. In particular, the firm's model in the past twenty years has had a distinct focus on the acquisition of labs and outpatient medical care, sectors within which the firm has established a strong presence. Beyond its real estate assets, the firm also invests significantly in healthcare providers. Its pivot towards labs, outpatient medical care, and senior homes mirrors macro-level changes in the American healthcare market, namely a shift towards elderly care (with the home health care market in particular experiencing notable growth) and short-term medical treatments as opposed to more long-term strategies for patients involved in inpatient care.

KEY FINANCIALS (FY 2022)

Revenue: \$1.2B

EBITDA: \$936M

EBIT: \$728M

P/E Ratio: 10.6x

Market Capitalisation: \$10.2B

Share Price: \$18.57 (as of 1/2/24)

Net Income: \$516.4M



ESG ANALYSIS

Healthpeak has been adamant in its commitment to its ESG practices, with the year of 2022 alone seeing a 4.2% reduction in carbon emissions produced by its commercial operations. By committing to more sophisticated methods of economizing energy and reducing water usage, the firm has pledged itself to a series of 15-year science-based environmental goals to reduce CO2 emissions by 37.5% and water consumption by 10% by 2030. The company's commitment to providing a high standard of care to its consumers has produced a remarkable 86% tenant satisfaction rate in the year of 2022, surpassing the Kingsley index's industrial average of 84%.

Some of Healthpeak's most notable ESG-centric achievements include receiving theGRESB Global Healthcare Sector Leader's Green Star recognition for over 10 consecutive years, winning the Nareiet Healthcare Leader in the Light award on 9 occasions and being named to the Dow Jones Sustainability Index (DJSI) World Index 3 times.

When it comes to environmental impact, Healpeak has achieved a promising 16.1% reduction in greenhouse gas emissions since 2018, amounting to a cumulative saving of 38,210 CO2e metric tonnes: the equivalent of removing 8,053 cars from the road. Furthermore, they have achieved a 2.0% reduction in energy consumption over the past 4 years and consequently saved 20,625 megawatt hours.

In terms of social responsibility, Healpeak has proven its commitment to the welfare of the community by pairing with multiple local organisations and, in 2022 alone, donating over \$400,000 to charitable causes. In keeping with Healpeak's objective to have a positive impact on society, these funds were used to support elder communities, emergency disaster relief, healthcare, and education for underrepresented communities.



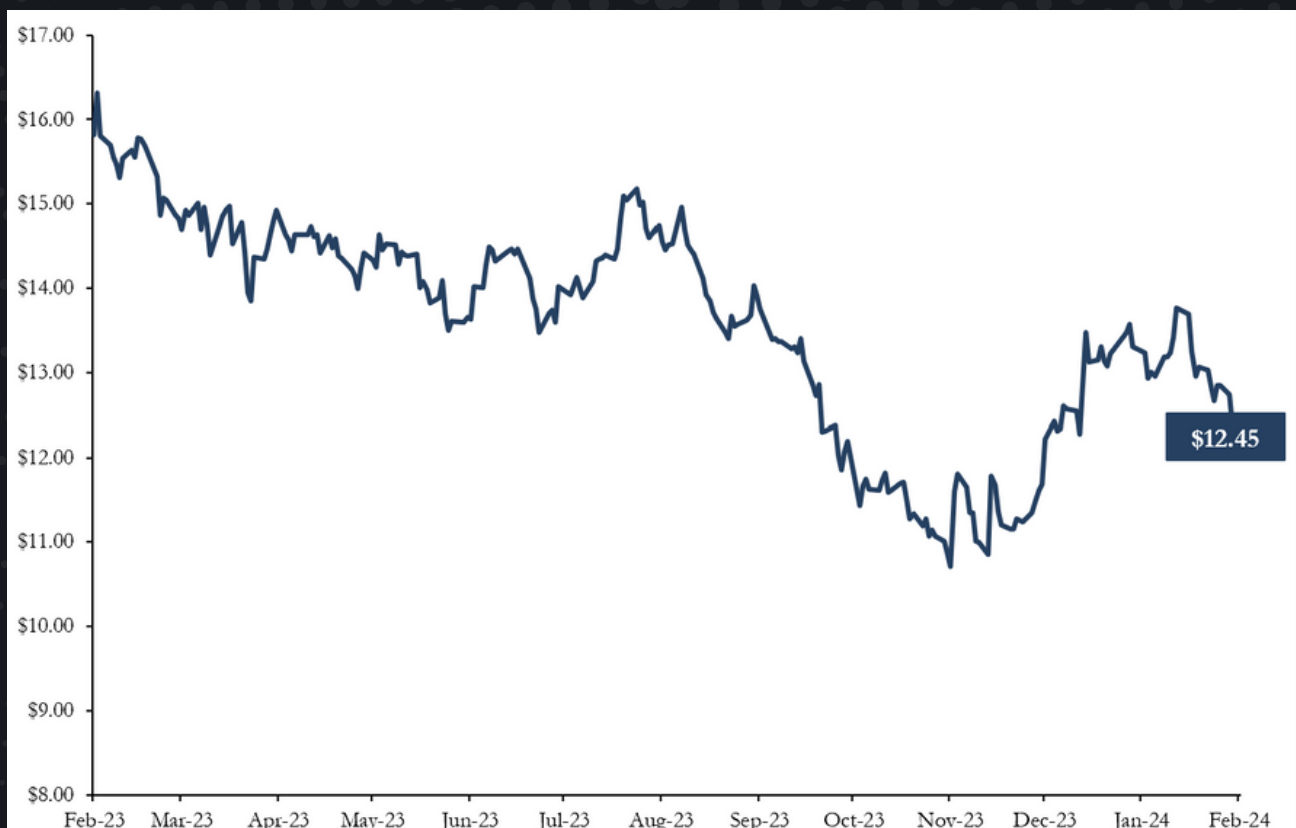
Target Overview



PHYSICIANS REALTY TRUST

Physicians Realty (listed on the New York Stock exchange as DOC) is a healthcare real estate firm that purchases, manages, develops, leases, and sells healthcare real estate to healthcare providers, in addition to providing capital to said providers. Currently focusing on stabilized medical offices, outpatient care, ambulatory surgery centers, and rehabilitation facilities, Physicians Realty manages a complex and highly diversified portfolio of healthcare real estate assets, both in terms of geography and functionality.

SHARE PRICE MOVEMENTS





BUSINESS MODEL

Physicians Realty manages a complex portfolio of real estate assets in continuous flux, with purchases, leases, and sales guided by the contemporary strategic direction of the firm. Preferring to acquire new healthcare facilities that meet their stringent acquisition criteria rather than developing new ones, the guiding principles of the firm's business model thus far appear to have been diversification, maintaining, in their own words, "a conservative balance sheet that is built for success in both good and bad economic environments". In a sector characterized by continual flux and developments such as healthcare, Physician Realty aims to target top-quality investments and deepen relationships with previous partners to continually deliver excellent shareholder returns.

KEY FINANCIALS (FY 2022)

Revenue: \$515.4M

EBITDA: \$315.3M

EBIT: \$125.7M

P/E ratio: 12.4x

Market capitalisation: \$3.0B

Share price: \$12.44 (as of 1/2/24)

Net income: \$110.0M



ESG ANALYSIS

Physicians Realty has expressed an unwavering commitment to promoting sustainability within the healthcare real estate ecosystem beyond the “greenwashing” one often finds conducted; they have pledged their commitment to the G2 sustainability philosophy, a practical approach that interweaves “going green” with capital initiatives, producing a holistic approach to ESG that ensures economic viability, operational efficiency, and natural resource conservation. Furthermore, the firm has received numerous accolades for its healthy workplace dynamics and social responsibility toward employees and clients, being featured on the 2023 Milwaukee Journal Sentinel’s “Top Workplaces” list and the 2023 “Modern Healthcare Best Places to Work” list.

Much like Healthpeak, Physicians Realty also boasts an impressive record of ESG-centered accolades and recognitions: they have won the 2022 CRE Insight Journal Excellence in Diversity, Equity, and Inclusion (DEI) Award, are a 2022 Energy Star Certification Nation Premier Member and obtained a Green Lease Leaders Platinum Certification (2022-2023), making them the only healthcare REIT to have one.

In line with its environmental goals, Physicians Realty made strides in achieving its objective of reducing 40% of its greenhouse emissions by 2030 by reaching this goal’s halfway point in 2022. This 20% emission reduction is equivalent to removing 3,265 cars off the road.

That being said, however, they still have some considerable progress to make on their water usage and waste diversion goals set for 2024. Currently, they stand at a 6% reduction in water use intensity of their aimed 15% reduction and a 6.8% increase in landfill waste diversion of a goal of a 20% increase. Physicians Realty has performed particularly well in the areas of social responsibility. They surpassed their philanthropic and fundraising endeavours by 10% (contributing \$408,800 to these efforts).



Valuation Analysis

COMPARABLE COMPANY ANALYSIS



[Please click on the table to access the full model](#)

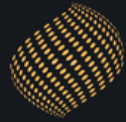


DISCOUNTED CASH FLOW ANALYSIS - PHYSICIANS REALTY TRUST

Implied Share Price Calculation	
Sum of PV of FCF	1,378,862
EV/EBITDA Multiple	15.0x
WACC	5.4%
Terminal Value	5,995,205
PV of Terminal Value	4,603,168
Enterprise Value	5,982,030
(+) Cash	7,730
(-) Debt	2,099,768
(-) Minority Interest	124,131
Equity Value	3,765,861
Diluted Shares Outstanding (K)	248,410
Implied Share Price	\$ 15.16

[Please click on the table to access the full model](#)

		Sensitivity Table				
		EV/EBITDA (x)				
		13.0x	14.0x	15.0x	16.0x	17.0x
WACC	3.4%	\$14.67	\$16.03	\$17.38	\$18.74	\$20.10
	4.4%	\$13.65	\$14.94	\$16.24	\$17.54	\$18.83
	5.4%	\$12.69	\$13.92	\$15.16	\$16.39	\$17.63
	6.4%	\$11.78	\$12.96	\$14.13	\$15.31	\$16.49
	7.4%	\$10.92	\$12.04	\$13.16	\$14.29	\$15.41

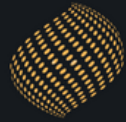


DISCOUNTED CASH FLOW ANALYSIS - HEALTHPEAK

Implied Share Price Calculation	
Sum of PV of FCF	2,821,050
EV/EBITDA Multiple	15.0x
WACC	4.8%
Terminal Value	21,759,215
PV of Terminal Value	17,246,014
Enterprise Value	20,067,065
(+) Cash	126,834
(-) Debt	6,408,386
(-) Minority Interest	527,897
Equity Value	13,257,616
Diluted Shares Outstanding (K)	539,147
Implied Share Price	\$ 24.59

[Please click on the table to access the full model](#)

		Sensitivity Table				
		EV/EBITDA (x)				
		13.0x	14.0x	15.0x	16.0x	17.0x
WACC	2.8%	\$23.45	\$25.79	\$28.14	\$30.49	\$32.84
	3.8%	\$21.84	\$24.08	\$26.32	\$28.55	\$30.79
	4.8%	\$20.32	\$22.46	\$24.59	\$26.72	\$28.85
	5.8%	\$18.89	\$20.92	\$22.96	\$24.99	\$27.03
	6.8%	\$17.53	\$19.47	\$21.42	\$23.36	\$25.30



MERGER MODEL

Post-merger EPS Calculation	
Revenues	2,563,345
Less: COGS	-
Gross Profit	2,563,345
Less: Operating Expense	1,165,124
Operating Expenses saved	35%
Less: Post-synergy Operating Expenses	757,331
Less: D&A	900,210
D&A saved	20%
Less: Post-synergy D&A	720,168
EBIT	1,085,846
Interest Foregone on Cash	132,000
PBT	953,846
Less: Income Tax	154,523
Net Income	799,323
Outstanding Diluted Shares of Combined Company	787,557
EPS of Combined Company	1.01
EPS of Acquirer Standalone	0.92
Accretive/Dilutive	Accretive
Accretive/Dilutive	\$0.09
Accretive/Dilutive (%)	10%

[Please click on the table to access the full model](#)



Deal Analysis

KEY BENEFITS OF THE DEAL

- **Transformative Scale:**
 - The merger will create a differentiated company that benefits from secular growth in the healthcare discovery and delivery
- **Complementary Expertise:**
 - Expands industry-leading relationships across the health system, biopharma and physician tenants
 - Combines the capabilities of property, asset management and leasing systems to establish a leading healthcare discovery and delivery platform
- **Broader and Deeper Relationships with increased Diversification:**
 - The combined real estate footprint overlaps into over 30 different markets
 - 7 of the top 10 tenants are investment-grade rated
- **Accretive Financial Impact:**
 - Deal expected to be immediately accretive
 - Pro forma leverage expected to be in the low 5x Net Debt/EBITDA range.
 - Deal expected to generate \$40-million of run-rate synergies by end of year 1 and up to \$60million by end of year 2



GLOSSARY

Enterprise Value: EV is the entire value of a firm equal to its equity value, plus net debt, plus any minority interest. It is the value of the firm's operating activities.

Terminal Growth Rate: Assumption of the rate that a company is expected to grow forever.

WACC: Cost of capital used to represent a firm's after-tax costs from all resources.

Premium: increased amount paid per share in comparison to the share price at the time of the M&A transaction.


EBITDA: A measure of a company's operating performance, representing earnings before interest, taxes, depreciation, and amortization.

Market Capitalisation: The total market value of a company's outstanding shares of stock, calculated by multiplying the current stock price by the total number of outstanding shares.



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