



EPR Properties (EPR)

Updated August 4th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$74	5 Year CAGR Estimate:	12.1%	Volatility Percentile:	26.4%
Fair Value Price:	\$68	5 Year Growth Estimate:	8.0%	Momentum Percentile:	71.8%
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Growth Percentile:	75.8%
Dividend Yield:	6.0%	5 Year Price Target	\$99	Valuation Percentile:	40.7%
Dividend Risk Score:	X	Retirement Suitability Score:	X	Total Return Percentile:	70.3%

Overview & Current Events

EPR Properties is a specialty real estate investment trust, or REIT, that invests in properties in specific market segments that require industry knowledge to operate effectively. It selects properties it believes have strong return potential in Entertainment, Recreation, and Education. The REIT structures its investments as triple net, a structure that places the operating costs of the property on the tenants, not the REIT. The portfolio includes more than \$5 billion in investments across 300+ locations in 41 states, including over 250 tenants. Total revenue is in excess of \$600 million annually and the stock is valued at \$5.6 billion.

EPR reported Q2 earnings on 7/31/19 and results showed continuing strength. Management also narrowed its guidance range for funds-from-operations, or FFO, for the year to \$5.32 to \$5.48.

Rental revenue was up 15% year-over-year in Q2 as the trust continues to invest in new properties, as well as improving rates at its existing properties. Mortgage income plummeted in Q2, ceding roughly three-quarters of its 2018 Q2 performance, but that was because of a prepayment fee relating to a recreation segment mortgage note. This sent total revenue 13% lower year-over-year, but operationally, EPR remains very strong.

EPR received a relatively small amount of proceeds from mortgage repayments as well as divestitures in Q2, and invested \$392 million into its properties during the quarter. Total investment spending for the year was boosted to a range of \$700 million to \$850 million, and total divestiture proceeds were confirmed at \$300 million to \$400 million.

FFO-per-share declined 22% year-over-year to \$1.36 in Q2 as EPR continues to perform poorly relative a blockbuster year for earnings in 2018. Given that the guidance range was narrowed slightly, but the midpoint was unchanged, we've left our estimate at \$5.40 for this year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
AFFO	\$1.30	\$2.81	\$3.20	\$3.69	\$3.90	\$4.13	\$4.44	\$4.82	\$5.02	\$6.10	\$5.40	\$7.93
DPS	\$2.60	\$2.60	\$2.80	\$3.00	\$3.16	\$3.42	\$3.63	\$3.84	\$4.08	\$4.32	\$4.50	\$5.50
Shares	36.2	45.6	46.9	47.0	50.2	54.4	58.3	63.5	71.3	74.3	78.0	100.0

EPR has managed to grow nicely in the years since the financial crisis, which saw its AFFO plummet to just \$1.30 in 2009. Since 2010, when AFFO normalized, EPR has compounded AFFO at just over 10% annually, although growth hasn't been constant. We expect 8% annual growth in AFFO per share in the coming years, as we don't see 10%+ as sustainable.

We see AFFO expansion continuing to accrue from growth in the portfolio, which will be partially offset by an ever-rising share count. EPR, like many REITs, issues stock to finance portfolio expansion. In addition, it continues to enjoy exceedingly high occupancy rates, which affords it pricing power and boosts margins over time. We see EPR's growth profile as very attractive given its leverage to specialized segments of the economy that offer the trust high rates of returns. We note that gains in AFFO won't be constant, but over the long-term, EPR's growth rate looks to be well intact. The trust's conversion of two of its preferred stock series into common shares will help improve margins over time as well, which is a new development from earlier this year.

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We see the dividend rising from \$4.50 today to \$5.50 by 2024. EPR has raised its dividend each year since 2010 and we see no cause for the payout to stop rising as AFFO growth has been strong.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/AFFO	19.9	15.0	13.9	12.1	13.0	13.1	12.9	14.7	14.2	10.4	13.8	12.5
Avg. Yld.	10.0%	6.2%	6.3%	6.7%	6.2%	6.3%	6.3%	5.4%	5.7%	6.8%	6.0%	5.5%

EPR's normalized price-to-AFFO-per-share ratio, excluding 2009, has averaged 13.3 since 2010. We see fair value a bit more conservatively at 12.5 times AFFO, which compares unfavorably to today's P/AFFO ratio of 13.8. As a result, we see EPR as modestly overvalued, which could drive an average 1.9% headwind to total returns in the coming years.

The yield is still very strong today at 6.0%, but is somewhat low by historical standards. We see the yield remaining about where it is as growth in the payout could be largely offset by gains in the share price.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	200%	93%	88%	81%	81%	83%	82%	80%	81%	71%	83%	69%

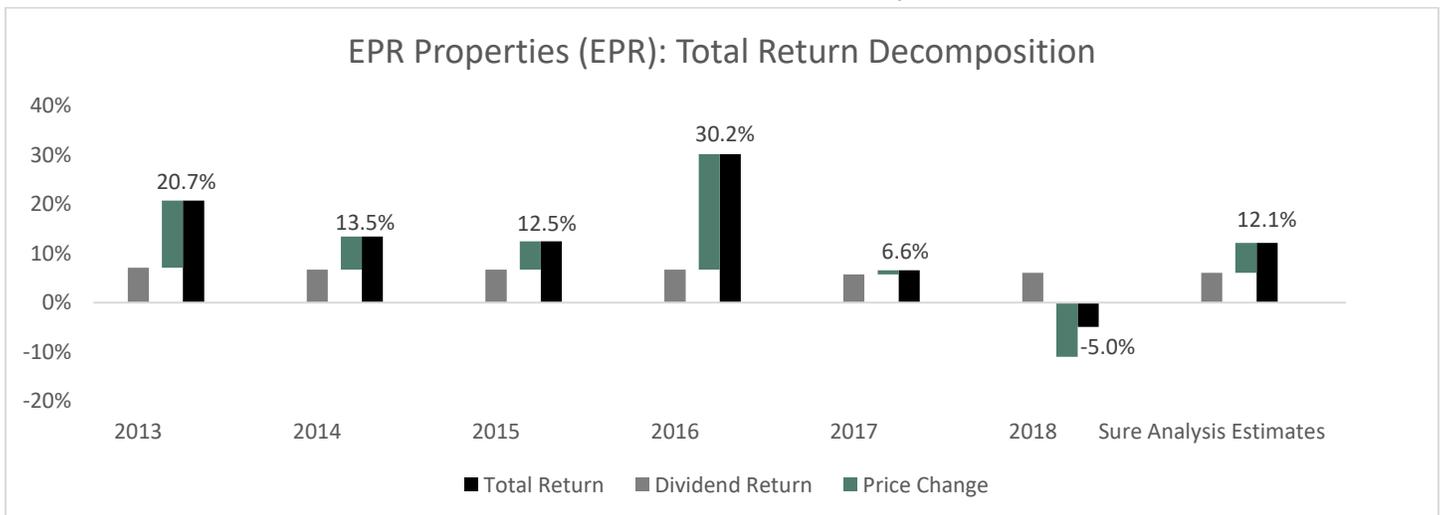
EPR's payout ratio is quite high, but it always will be given that it is a REIT. We see the payout ratio moderating in the coming years as AFFO growth outpaces dividend expansion, meaning there should be little risk of a cut.

EPR's competitive advantage is its extremely high-quality portfolio of specialized properties. EPR has methodically identified the most profitable properties through years of experience and focuses its investments in these areas. It certainly isn't immune to recessions, but it remained profitable during the worst of the financial crisis and continued to pay its dividend. We see EPR as one of the better-run REITs in our coverage universe for these reasons.

Final Thoughts & Recommendation

Although EPR is somewhat overvalued in our view, we like its history of strong returns and its high yield. Total returns of 12.1% could accrue from the 6% yield, 8% AFFO growth, and a 1.9% headwind from a lower valuation. Given this, we rate EPR a buy due to the high yield and high projected total returns, although investors may want to wait until the stock is closer to fair value before initiating a position.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	193	283	294	318	343	385	421	493	576	701
Gross Profit	N/A	260	269	293	317	360	398	471	544	670
Gross Margin	0.0%	92.0%	91.8%	92.2%	92.4%	93.5%	94.4%	95.4%	94.5%	95.6%
SG&A Exp.	15	18	20	23	26	28	50	38	43	49
D&A Exp.	42	43	43	47	54	67	90	108	133	153
Operating Profit	N/A	197	205	222	237	261	258	326	368	467
Operating Margin	0.0%	69.7%	69.7%	69.7%	69.0%	67.9%	61.2%	66.0%	63.8%	66.7%
Net Profit	8	115	115	122	180	180	195	225	263	267
Net Margin	4.1%	40.6%	39.2%	38.2%	52.5%	46.7%	46.2%	45.6%	45.7%	38.1%
Free Cash Flow	-6	180	196	207	234	250	278	305	398	484
Income Tax	N/A	N/A	N/A	N/A	-14	4	0	1	2	2

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	2681	2923	2734	2947	3272	3686	4217	4865	6191	6131
Cash & Equivalents	23	12	15	11	8	3	4	19	42	6
Accounts Receivable	31	40	33	40	44	48	62	75	83	88
Inventories	N/A	N/A	5	3	N/A	N/A	N/A	N/A	N/A	N/A
Goodwill & Int. Ass.	7	36	N/A	N/A	N/A	N/A	9	15	29	42
Total Liabilities	1213	1292	1236	1487	1584	1760	2143	2679	3264	3266
Accounts Payable	N/A	N/A	36	65	72	82	92	120	137	168
Long-Term Debt	1141	1191	1154	1369	1475	1630	1982	2486	3029	2986
Shareholder's Equity	1473	1603	1470	1459	1687	1926	2074	2186	2927	2865
D/E Ratio	0.78	0.74	0.79	0.94	0.87	0.85	0.96	1.14	1.03	1.04

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.3%	4.1%	4.1%	4.3%	5.8%	5.2%	4.9%	5.0%	4.8%	4.3%
Return on Equity	0.6%	7.5%	7.5%	8.3%	11.5%	9.9%	9.7%	10.6%	10.3%	9.2%
ROIC	0.3%	4.2%	4.2%	4.4%	6.0%	5.3%	5.1%	5.2%	4.9%	4.5%
Shares Out.	36.2	45.6	46.9	47.0	50.2	54.4	58.3	63.5	71.3	74.3
Revenue/Share	5.34	6.21	6.26	6.75	7.12	7.07	7.22	7.77	8.08	9.43
FCF/Share	-0.16	3.96	4.18	4.41	4.86	4.60	4.77	4.81	5.59	6.52

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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