



EPR Properties (EPR)

Updated March 2nd, 2020 by Josh Arnold

Key Metrics

Current Price:	\$59	5 Year CAGR Estimate:	12.2%	Market Cap:	\$4.7B
Fair Value Price:	\$64	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/30/20
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date:	04/15/20
Dividend Yield:	7.7%	5 Year Price Target	\$81	Years Of Dividend Growth:	10
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	2.0%

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 \$6.7 billion in investments across 300+ locations in 41 states, including over 250 tenants. Total revenue is in excess of \$650 million annually and the stock is valued at \$4.7 billion.

EPR reported Q4 and full-year earnings on February 24th and results were largely in line with expectations. Total revenue for the year came to \$652 million, up from \$640 million in 2018. However, property operating expenses doubled from \$30 million to \$60 million year-over-year, which crimped earnings. Lower joint venture income caused EPR to post lower operating profits for the year, as that metric fell by about a third. FFO came to \$5.44 per share on an adjusted basis, down from \$6.10 in 2018, which was a blockbuster year for the trust's earnings.

EPR issued guidance for 2020 of adjusted FFO-per-share of \$5.19 to \$5.39, so our initial estimate is for \$5.30. The trust expects an anticipated investment of \$1 billion in a new gaming venue for 2020 to help boost future growth. The trust said it would fund the investment with cash on hand, and also said it planned almost no dispositions for 2020. In addition, it raised the dividend from 37.5 cents monthly to 38.25 cents.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
AFFO	\$2.81	\$3.20	\$3.69	\$3.90	\$4.13	\$4.44	\$4.82	\$5.02	\$6.10	\$5.44	\$5.30	\$6.76
DPS	\$2.60	\$2.80	\$3.00	\$3.16	\$3.42	\$3.63	\$3.84	\$4.08	\$4.32	\$4.50	\$4.59	\$5.07
Shares¹	46	47	47	50	54	58	64	71	74	78	81	95

EPR has managed to grow nicely in the years since the financial crisis, which saw its AFFO fall 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 5% 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.

We see the dividend rising from \$4.59 today to \$5.07 by 2025. 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.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/AFFO	15.0	13.9	12.1	13.0	13.1	12.9	14.7	14.2	10.4	13.8	11.2	12.0
Avg. Yld.	6.2%	6.3%	6.7%	6.2%	6.3%	6.3%	5.4%	5.7%	6.8%	6.0%	7.7%	6.2%

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 times AFFO, which compares favorably to today's P/AFFO ratio of 11.2. As a result, we see EPR as modestly undervalued, which could drive a small tailwind to total returns in the coming years.

The yield is still very strong today at 7.7%, and is very high by historical standards. We see the yield declining over time as today's yield is well in excess of historical yields.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	93%	88%	81%	81%	83%	82%	80%	81%	71%	83%	87%	75%

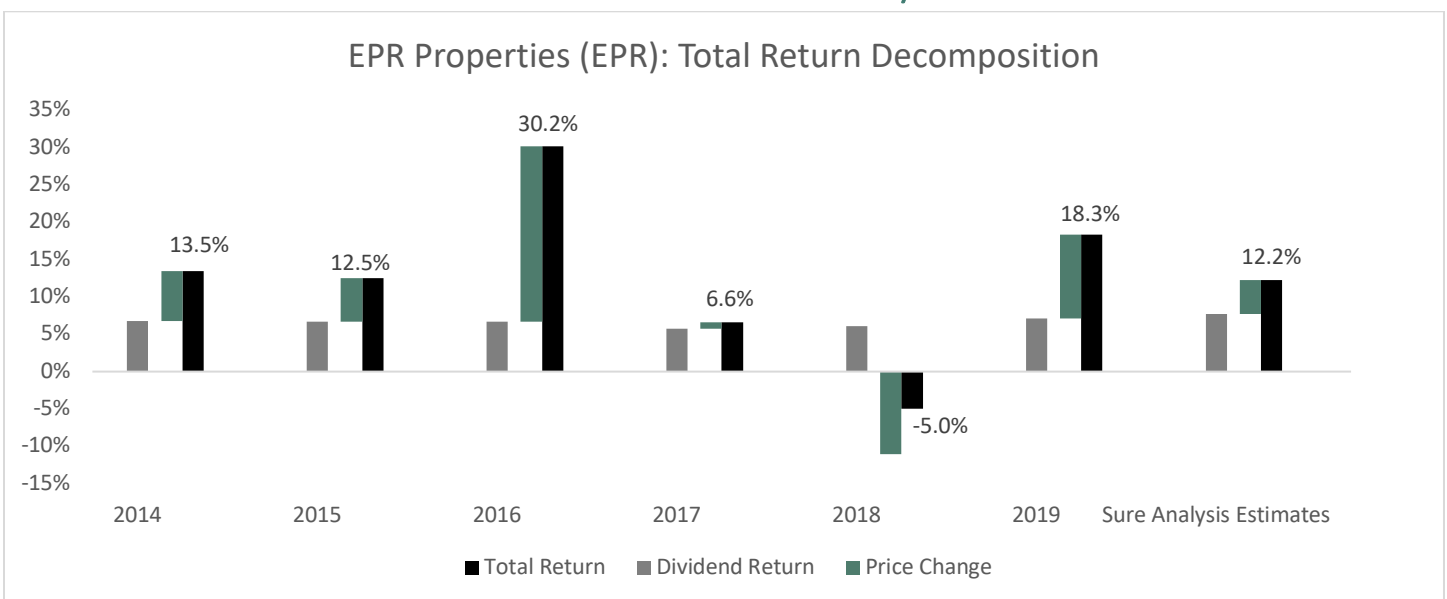
EPR's payout ratio is quite high, but it always will be given that it is a REIT. We see the payout ratio moderating in the coming years as AFFO growth outpaces dividend expansion, reducing the risk of a dividend cut.

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

EPR is somewhat undervalued in our view, following a huge selloff thus far in 2020. We also like its history of strong returns and its high yield. Total returns of 12.2% per annum could accrue from the 7.7% yield, 5% AFFO growth, and a small tailwind from a lower valuation. Given this, we rate EPR a buy due to the high yield and high projected total returns, and we find the stock even more attractive today with the share price at \$59.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	283	294	318	343	385	421	493	518	640	652
Gross Profit	260	269	293	317	360	398	471	487	610	591
Gross Margin	92.0%	91.8%	92.2%	92.4%	93.5%	94.4%	95.4%	94.0%	95.4%	90.7%
SG&A Exp.	18	20	23	26	28	50	38	43	49	46
D&A Exp.	43	43	47	54	67	90	108	133	153	172
Operating Profit	197	205	222	237	261	258	326	322	423	356
Operating Margin	69.7%	69.7%	69.7%	69.0%	67.9%	61.2%	66.0%	62.1%	66.0%	54.7%
Net Profit	115	115	122	180	180	195	225	263	267	202
Net Margin	40.6%	39.2%	38.2%	52.5%	46.7%	46.2%	45.6%	50.7%	41.7%	31.0%
Free Cash Flow	180	196	207	234	250	278	305	398	484	440
Income Tax				(14)	4	0	1	2	2	(3)

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	2,923	2,734	2,947	3,272	3,686	4,217	4,865	6,191	6,131	6,578
Cash & Equivalents	12	15	11	8	3	4	19	42	6	529
Accounts Receivable	40	33	40	44	48	62	75	83	85	85
Inventories	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Goodwill & Int. Ass.	36	N/A	N/A	N/A	N/A	9	15	29	42	45
Total Liabilities	1,292	1,236	1,487	1,584	1,760	2,143	2,679	3,264	3,266	3,572
Accounts Payable		36	65	72	82	92	120	137	168	123
Long-Term Debt	1,191	1,154	1,369	1,475	1,630	1,982	2,486	3,029	2,986	3,103
Shareholder's Equity	1,603	1,470	1,459	1,687	1,926	2,074	2,186	2,927	2,865	3,006
D/E Ratio	0.74	0.79	0.94	0.87	0.85	0.96	1.14	1.03	1.04	1.03

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.1%	4.1%	4.3%	5.8%	5.2%	4.9%	5.0%	4.8%	4.3%	3.2%
Return on Equity	7.5%	7.5%	8.3%	11.5%	9.9%	9.7%	10.6%	10.3%	9.2%	6.9%
ROIC	4.2%	4.2%	4.4%	6.0%	5.3%	5.1%	5.2%	4.9%	4.5%	3.4%
Shares Out.	46	47	47	50	54	58	64	71	74	78
Revenue/Share	6.21	6.26	6.75	7.12	7.07	7.22	7.77	7.27	8.61	8.49
FCF/Share	3.96	4.18	4.41	4.86	4.60	4.77	4.81	5.59	6.52	5.72

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

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