



# EPR Properties (EPR)

Updated August 17<sup>th</sup>, 2020 by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$33	<b>5 Year CAGR Estimate:</b>	10.1%	<b>Market Cap:</b>	\$2.4 B
<b>Fair Value Price:</b>	\$35	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	N/A
<b>% Fair Value:</b>	93%	<b>5 Year Valuation Multiple Estimate:</b>	1.4%	<b>Dividend Payment Date:</b>	N/A
<b>Dividend Yield:</b>	0.0%	<b>5 Year Price Target</b>	\$45	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	N/A	<b>Retirement Suitability Score:</b>	N/A	<b>Last Dividend Increase:</b>	N/A

## 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 \$6 billion in investments across 300+ locations in 41 states, including over 250 tenants. Total revenue should be around \$500 million this year, and the stock is valued at \$2.44 billion, or just half of its recent peak.

EPR reported second quarter earnings on August 5<sup>th</sup>, with results coming in worse than expected on the top and bottom lines. The trust reported adjusted revenue of \$106 million during the quarter, missing consensus by about \$10 million, and down sharply from \$162 million in the year-ago period. Adjusted EBITDA fell by nearly half, declining from \$141 million to \$78 million year-over-year.

Adjusted funds-from-operations came to 44 cents, well off of estimates of 63 cents, and down from \$1.37 in the year-ago period.

The trust reached agreements with customers representing 85% of its annualized pre-crisis contractual cash rent and interest payments, with no deferrals for 18% and deferral agreements for the balance of 67%. These adjustments are expected to lower annualized pre-crisis contractual cash rent and interest payments by around -6%. Through the early days of August, the trust reported its tenants paid 21% of pre-crisis contractual cash rent and interest payments, and 28% of July rent and interest.

We've cut our estimate of AFFO-per-share to \$3.15 from \$3.50 on weaker than expected Q2 results, as well as the murky outlook. However, we are using \$3.50 per share as estimated earnings power, which we use for fair value and valuation calculations.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>AFFO</b>	\$2.81	\$3.20	\$3.69	\$3.90	\$4.13	\$4.44	\$4.82	\$5.02	\$6.10	\$5.44	<b>\$3.15</b>	<b>\$4.47</b>
<b>DPS</b>	\$2.60	\$2.80	\$3.00	\$3.16	\$3.42	\$3.63	\$3.84	\$4.08	\$4.32	\$4.50	---	<b>\$2.44</b>
<b>Shares<sup>1</sup></b>	46	47	47	50	54	58	64	71	74	78	<b>82</b>	<b>95</b>

EPR managed to grow nicely in the years since the financial crisis, which saw its AFFO fall to just \$1.30 in 2009. From 2010 to 2019, EPR compounded AFFO at almost 8% annually, although growth hasn't been constant. We are estimating 5% growth from our earnings power estimate of \$3.50 for this year.

Any AFFO expansion will be partially offset by an ever-rising share count. EPR, like many REITs, issues stock to finance portfolio expansion. Previously EPR enjoyed exceedingly high occupancy rates, which afforded it pricing power and higher margins over time. We used to like EPR's exposure to experiential parts of the economy, but with extreme uncertainty surrounding these businesses, we're cautious on EPR's future.

<sup>1</sup> Share count in millions

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The trust's conversion of two of its preferred stock series into common shares will help improve margins over time, which is a development from late last year.

The dividend has been suspended, which we believe will last through 2020. We are currently forecasting a gradual return to a dividend of \$2.44 by 2025, although we note there is significant uncertainty here as well.

## 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	9.3	10.0
Avg. Yld.	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 10 times AFFO, which compares favorably to today's P/AFFO ratio of 9.3. As a result, we see EPR as modestly undervalued, which could drive a small tailwind to total returns in the coming years.

With the dividend suspended, income investors will want to skip EPR. However, we see the yield rising back to 5.5% by 2025 as AFFO stabilizes and cash flows return.

## 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%	---	55%

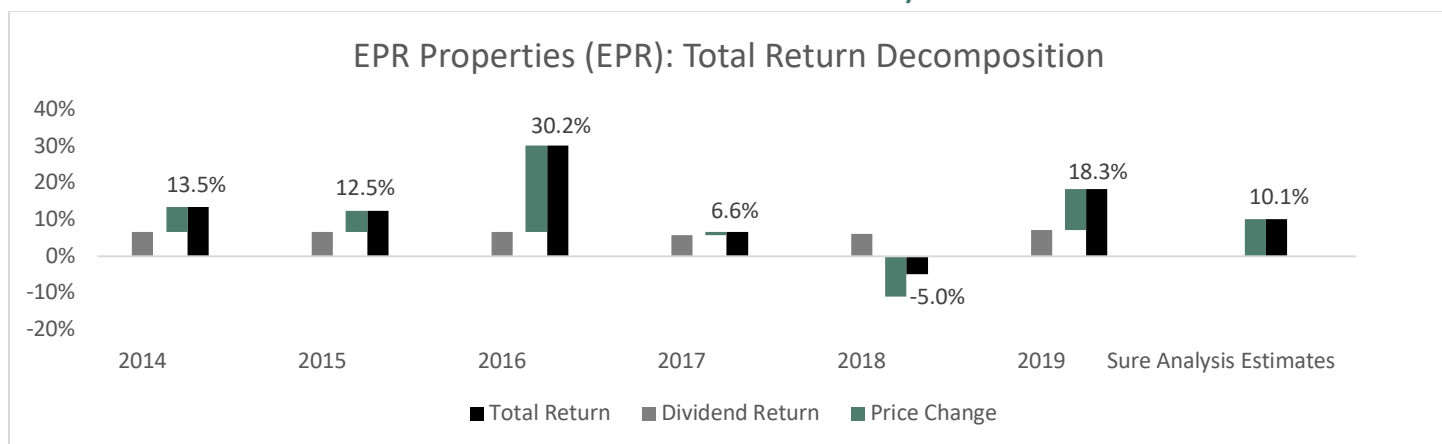
We are forecasting the payout ratio to rise back to 55% of AFFO by 2025, which is more conservative than most years in the past decade as we believe EPR will want to reduce the risk of another dividend suspension and/or cut.

EPR's competitive advantage is its 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, but we also note that the damage done to EPR's experiential tenants is enormous.

## Final Thoughts & Recommendation

EPR is somewhat undervalued in our view, following a huge selloff thus far in 2020. We like the strong operating history and track record of capital returns, but with the dividend out of the equation, and extreme uncertainty for its tenants, we see EPR as quite risky. With total projected returns at 10.1%, we are moving EPR to a hold rating from sell.

## 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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