Alexandria Real Estate Equities (ARE)

Updated September 1st, 2020 by Eli Inkrot

Key Metrics

Current Price:	$168	**5 Year CAGR Estimate:**	3.7%	**Market Cap:**	$20.9 B
Fair Value Price:	$131	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	09/29/20
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.7%	**Dividend Payment Date:**	10/15/20
Dividend Yield:	2.5%	**5 Year Price Target**	$176	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	6.0%

Overview & Current Events

Founded in 1994 and named after Alexandria, Egypt - in homage to the scientific capital of the ancient world - Alexandria Real Estate Equities owns and operates life science, technology and agtech campuses across North America. Key locations for this Real Estate Investment Trust (REIT) include Boston, San Francisco, New York, San Diego, Seattle, Maryland and the Research Triangle (North Carolina). The $21 billion market cap company focuses on high quality properties in prime locations.

On July 27th, 2020 Alexandria reported Q2 2020 results for the period ending June 30th, 2020. For the quarter the company generated $437.0 million in revenue, representing an increase of 16.9% compared to Q2 2019, as the company's business model has taken on renewed importance amid the COVID-19 pandemic. Over 80 of Alexandria's life science tenants are working on solutions for the crisis. Net income equaled $226.6 million or $1.82 per share versus $76.3 million or $0.68 per share in the year ago period. Meanwhile, Funds From Operations (FFO) totaled $225.0 million or $1.81 per share compared to $192.7 million or $1.73 in Q2 2019. Per share results grew at a notably slower rate due to an increasing share count.

Alexandria ended the quarter with $4.2 billion in liquidity. Fifty-one percent of the company's tenants are investment-grade or publicly traded large cap businesses, with 74% of its properties in AAA locations. Occupancy came in at 94.8%, while 99.4% of June rent was collected.

Alexandria also provided updated 2020 guidance. The company expects $3.00 to $3.08 in earnings-per-share, $8.16 to $8.24 in FFO and $7.26 to $7.34 in adjusted FFO. We have used the midpoint of adjusted FFO in our forecast.

On September 1st, 2020 Alexandria declared a $1.06 quarterly dividend, marking $4.18 in annual dividends for the 12 months ending September 30th, 2020. This represents a 6% year-over-year increase.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO	$3.56	$4.39	$4.31	$4.33	$4.80	$5.25	$5.51	$6.02	$6.60	$6.96	***$7.30***	***$9.77***
DPS	$1.50	$1.86	$2.09	$2.61	$2.88	$3.05	$3.23	$3.45	$3.73	$3.94	***$4.24***	***$5.70***
Shares[1]	48.4	59.1	62.2	68.0	71.1	71.5	76.1	91.6	111.0	120.8	***125.0***	***160.0***

Note that we are using FFO instead of earnings-per-share, as this better reflects the underlying earnings power of a REIT. Dating back to 2010, Alexandria has increased FFO per share by an average compound rate of 7.7% per annum and the dividend by more than 11% per annum. However, there is an important caveat: both of these metrics were coming off subdued levels after the last recession. Since 2011 the FFO growth rate has been just under 6% per year.

Moving forward we believe Alexandria can continue to grow at a solid pace and we are expecting 6% intermediate-term growth, in-line with what we have seen lately. This could be too conservative given that the current crisis appears to be helping, not hurting the business. Alexandria provides critical infrastructure for the companies that are battling the COVID-19 pandemic. Moreover, the REIT has a unique "cluster model" which focuses on providing close proximity to world-renowned academic institutions, leading scientific and managerial talent and sophisticated investment capital.

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[1] In millions.

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This, combined with new developments and progress in life science, should provide a long runway for growth. Of course, consistently issuing shares and managing the company's debt load are two counterbalancing factors.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/FFO	18.5	16.1	16.4	16.1	16.1	17.7	16.8	20.0	18.2	19.7	***22.9***	***18.0***
Avg. Yld.	2.3%	2.6%	3.0%	3.7%	3.7%	3.3%	3.5%	2.9%	3.1%	2.9%	***2.5%***	***3.2%***

In the last decade shares of Alexandria have traded hands with an average multiple of 17 to 18 times FFO. We are using 18 times FFO as a starting fair value baseline. With shares presently trading hands near 23 times FFO this implies the possibility for a moderate valuation headwind.

Meanwhile, the dividend has been increasing at a solid rate and should continue to aid in shareholder returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	42%	42%	48%	60%	60%	58%	59%	57%	57%	57%	***58%***	***58%***

Alexandria has put its competitive advantage on display in its FFO and dividend record during the past decade. This stems from focusing on quality properties in prime locations in a needed and growing industry. Moreover, the cluster model is a unique attribute that Alexandria continues to leverage very well.

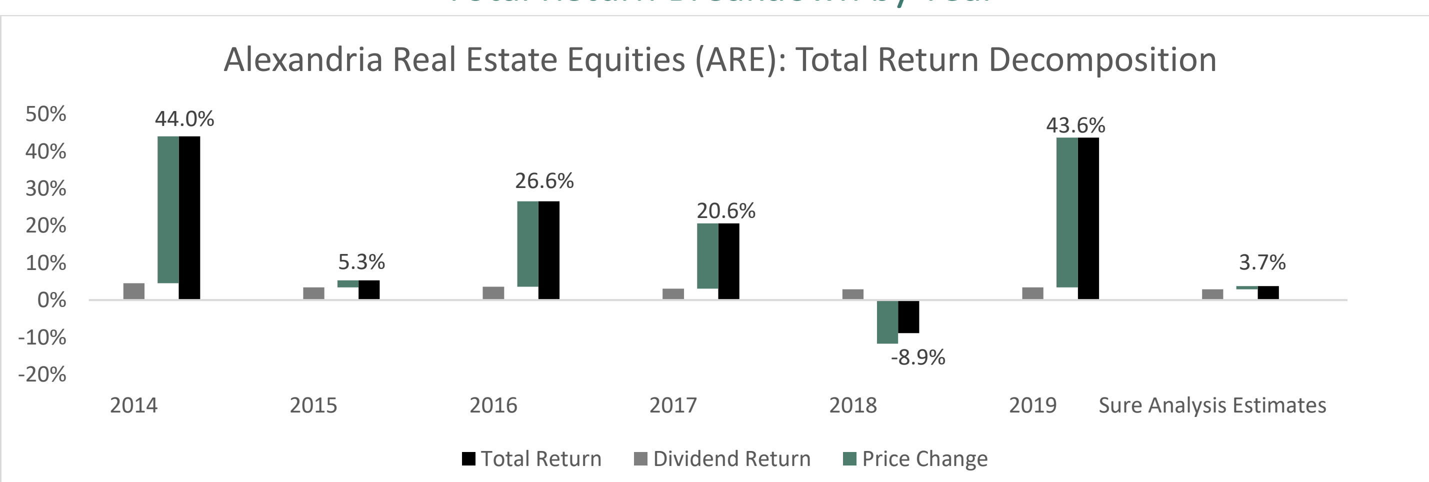
As of the last quarterly report, Alexandria had a net debt-to-EBITDA ratio of 5.8x and a fixed-charge ratio of 4.2x. These metrics could be better, but we are encouraged by the quality of the company's tenants along with the idea that there is zero debt maturing before 2023 and the weighted average remaining debt term is 9.9 years.

During the last recession, FFO dipped 23% in 2010 and dividend was slashed from $3.18 in 2008 down to $1.50 in 2010. While the company is fairing much better in the current crisis, this is something to keep in mind, nevertheless.

Final Thoughts & Recommendation

Alexandra offers quality properties in prime locations and has a very good track record. Moreover, the company's campuses have become a critical component of the battle against the COVID-19 pandemic. With that being said, the valuation does leave a bit to be desired in our view. Total return potential comes in at 3.7% per annum, stemming from 6% growth and a 2.5% starting yield, offset by the potential for a valuation headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	458	533	559	621	720	820	922	1128	1327	1531
Gross Profit	335	375	386	432	501	558	643	802	946	1086
Gross Margin	73%	70%	69%	70%	70%	68%	70%	71%	71%	71%
SG&A Exp.	34	41	48	49	54	60	64	75	90	109
D&A Exp.	127	158	192	191	224	261	313	417	478	545
Operating Profit	179	183	153	194	224	237	266	311	378	432
Operating Margin	39%	34%	27%	31%	31%	29%	29%	28%	28%	28%
Net Profit	135	131	102	136	102	144	-66	169	379	363
Net Margin	30%	25%	18%	22%	14%	18%	-7%	15%	29%	24%
Free Cash Flow	227	247	306	313	334	343	393	451	570	684

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5906	6574	7150	7530	8136	8881	10355	12104	14465	18391
Cash & Equivalents	91	79	141	58	86	125	125	254	234	190
Accounts Receivable		7	8	10	11	10	10	10	10	11
Total Liabilities	2920	3157	3662	3565	4241	4601	4984	5632	6581	8236
Accounts Payable		86	106	98	219	240	366	350	216	199
Long-Term Debt	2584	2779	3182	3061	3679	3936	4164	4765	5478	6777
Shareholder's Equity	2549	2995	3062	3537	3461	3608	4679	5875	7278	8866
D/E Ratio	0.88	0.82	0.92	0.78	0.96	0.99	0.85	0.80	0.75	0.76

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.4%	2.1%	1.5%	1.9%	1.3%	1.7%	-0.7%	1.5%	2.9%	2.2%
Return on Equity	6.0%	4.7%	3.4%	4.1%	2.9%	4.1%	-1.6%	3.2%	5.8%	4.5%
ROIC	2.5%	2.2%	1.6%	2.0%	1.4%	1.8%	-0.7%	1.6%	3.1%	2.4%
Shares Out.	48.4	59.1	62.2	68.0	71.2	71.5	76.1	92.1	103.3	112.5
Revenue/Share	9.46	9.02	8.99	9.13	10.12	11.46	12.11	12.25	12.85	13.61
FCF/Share	4.69	4.18	4.92	4.60	4.70	4.79	5.17	4.90	5.52	6.08

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