Innovative Industrial Properties (IIPR)

Updated February 28th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$195	**5 Year CAGR Estimate:**	21.9%	**Market Cap:**	$4.66B
Fair Value Price:	$156	**5 Year Growth Estimate:**	25.0%	**Ex-Dividend Date:**	03/30/21
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.4%	**Dividend Payment Date[1]:**	04/15/21
Dividend Yield:	2.8%	**5 Year Price Target**	$476	**Years Of Dividend Growth:**	4
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	24%[2]

Overview & Current Events

Innovative Industrial Properties, Inc. is a single-use "specialty REIT" that exclusively focuses on owning properties used for the cultivation and production of marijuana. Because the industry is in the midst of a legal transition, there are constraints on capital available to businesses engaged in the marijuana business. IIPR went public in a "loophole" time period. No other cannabis-related REITs have been approved for listing on the NYSE or the NASDAQ. Having the fortunate status as the only publicly traded marijuana REIT in the US has led to stunning returns and portfolio growth. The $4.66 billion trust owns 67 properties in 17 states. Amid the cannabis boom over the past few years, as well as its exclusivity in terms of the listing, which gives the trust access to public markets, Innovate Industrial Properties remains the fastest-growing REIT in the world.

On February 24th, 2021, the trust announced its Q4 earnings for the period ended December 31st, 2020. For the quarter, revenues and normalized AFFO/share were $37.1 million and $1.29, an increase of 110%, and 9.3%, respectively. The trust delivered another quarter of explosive growth due to once again acquiring four new properties and expanding one of its existing ones, totaling approximately 848,000 rentable square feet located in California, Florida, Massachusetts, and Washington. With its tenants enjoying resilient marijuana demand amid the stay-at-home economy, IIP collected 100% of its contractual rent due for Q4, as well as 100% of rental payments for the months of January and February. The company has no outstanding rental deferrals from the past year, which only a handful of REITs can claim. The trust raised its quarterly dividend multiple times during the year, tangibly rewarding its stockholders in line with its performance trajectory. While no financial guidance was provided, based on IIP's latest quarter and prudent acquisition assumptions, the company should be able to deliver FY2021 AAFO/share and DPS of $6.50 and $5.50, respectively, which should be quite a conservative estimate.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	---	---	---	---	---	$(0.62)	$0.67	$1.34	$3.27	$5.00	***$6.50***	***$19.84***
DPS	---	---	---	---	---	---	$0.55	$1.20	$2.83	$4.47	***$5.50***	***$13.69***
Shares[3]	---	---	---	---	---	1	3.4	7.3	10.7	19.27	***28***	***125***

Industrial Innovating properties has been snowballing, growing AFFO/share dramatically since the trust's IPO. Over the past three years, not a single quarter has seen less AFFO/share than the one before it, fueled by non-stop acquisitions. To capitalize on the growth of the cannabis sector, IIP acquired 20 properties in 2020 alone. With the schedule-1 drug being decriminalized in one state after the other, we expect growth to be sustained in the medium term. In line with its AFFO growth, management has been raising the dividend once every couple of quarters consistently. Payouts grew by an astonishing 58% in FY2020. We retain our AFFO/share and DPS medium-term CAGR at 25% and 20%, respectively, to be prudent. As we mentioned in previous reports, which has indeed been case, it's highly likely that these figures will be

[1] Estimated dates based on past dividend dates.
[2] IIP grows its DPS on a quarterly basis or semi-annual basis. YoY DPS growth is 24%. Its latest QoQ growth amounts to 6.0%.
[3] Share count is 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.

more attractive, considering the trust's current triple-digit growth rates. Still, IIP has a short trading history, and its acquisition-driven strategy may see availability headwinds in the future, hence our more reserved estimates.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	---	---	---	---	---	---	47.76	12.16	16.6	30.2	***30.0***	***24.0***
Avg. Yld.	---	---	---	---	---	---	3.4%	3.3%	2.8%	2.8%	***2.8%***	***2.9%***

Despite shares currently trading at the higher-end of its historical average, at around 30x FY2021's expected AFFOs, the multiple is quite reasonable, considering the trust's rapid expansion. Shares are currently yielding around 2.8%, which remains quite high a tangible returns for a trust undergoing such a rapid growth phase. We retain our fair valuation multiple from at 24, expecting a natural compression in the medium term amid a possible growth slowdown. IIP's growth continues beating investors' slowdown expectations, while rental collection could not have been reported any better, despite its tenants' start-up nature. Future positive valuation drivers include the Federal legalization of Cannabis through The MORE Act, as well. The bill would make marijuana federally legal across all states and remove the plant's categorization as a schedule-1 drug. The recent legalization of cannabis in Montana during the quarter is another step towards such a case.

Safety, Quality, Competitive Advantage, & Recession Resiliency

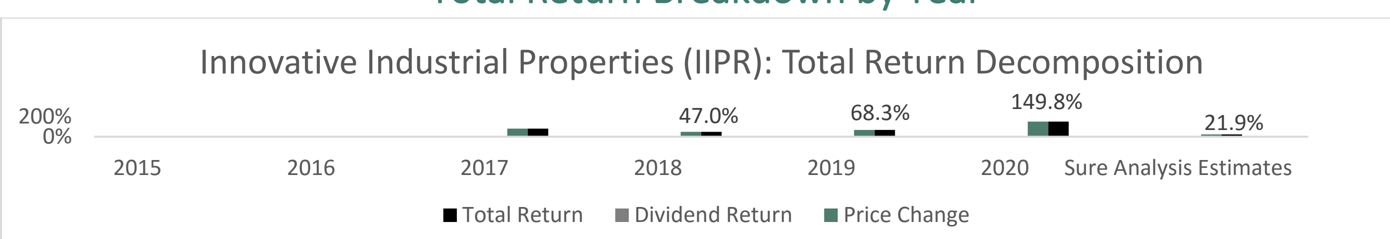
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	82%	90%	87%	89%	85%	***69%***

The trust's seemingly high payout ratio is non-meaningful as AFFOs proliferate and only reflect this year's cash flows. Being the only listed cannabis REIT, the trust has a massive moat. With access to public markets, management can issue debt and equity much cheaper than its few private competitors. IIPR can build more durable and sustainable relationships with tenants as it possesses higher credibility and transparency. Despite the headwinds COVID-19 caused in many industries, IIPR was barely affected, continuing its proven acquisition-based growth model. However, because of how new the cannabis sector is, its recession resiliency is untested to the passage of time and remains to be seen.

Final Thoughts & Recommendation

Innovative Industrial Properties is a genuinely unique investment case. Instead of guessing which cannabis-producing stock will be a long-term winner, investors can profit off of what every producer needs, which is specialized property. This way, the sector's growth can be taken advantage of while benefiting from the consistent rental cash flows from IIP's facilities. We believe that shares propose a special investment case that offers both the potential for substantial capital gains while stockholders get to enjoy a rapidly growing stream of distributable income. We expect the stock to keep delivering double-digit, market-beating returns of 20%+ over the next few years, despite us estimating an over-protective valuation compression and prudent FY2021 financials. Returns are likely to be higher, powered by the trust's unparalleled growth, as has been the case time after time over the past few years. Hence, we rate shares as a buy.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

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.

Innovative Industrial Properties (IIPR)

Updated February 28th, 2021 by Nikolaos Sismanis

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	---	---	---	---	---	$0.32	$6.42	$14.79	$44.67
Gross Profit	---	---	---	---	---	$0.23	$6.30	$14.34	$43.35
Gross Margin	---	---	---	---	---	72.9%	98.2%	97.0%	97.1%
SG&A Exp.	---	---	---	---	---	$0.83	$5.50	$6.38	$9.82
D&A Exp.	---	---	---	---	---	$0.03	$0.92	$2.63	$8.60
Operating Profit	---	---	---	---	---	-$0.69	-$0.11	$5.34	$24.94
Operating Margin	---	---	---	---	---	-213.4%	-1.7%	36.1%	55.8%
Net Profit	---	---	---	---	---	-$4.39	-$0.07	$6.99	$23.48
Net Margin	---	---	---	---	---	-1368.2%	-1.1%	47.2%	52.6%
Free Cash Flow	---	---	---	---	---	-$28.34	$5.02	$15.69	$44.93
Income Tax	---	---	---	---	---	$0.32	$6.42	$14.79	$44.67

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	---	---	---	---	---	$63.33	$80.03	$281.47	$745.86
Cash & Equivalents	---	---	---	---	---	$33.00	$11.76	$13.05	$82.24
Total Liabilities	---	---	---	---	---	$2.89	$6.48	$17.17	$197.85
Accounts Payable	---	---	---	---	---	$0.07	$1.08	$4.40	$28.39
Long-Term Debt	---	---	---	---	---	$0.00	$0.00	$0.00	$134.65
Shareholder's Equity	---	---	---	---	---	$60.44	$59.54	$250.28	$534.00
D/E Ratio	---	---	---	---	---	0.00	0.00	0.00	0.25

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	---	---	---	---	---	-0.1%	3.9%	4.6%
Return on Equity	---	---	---	---	---	-14.5%	-0.1%	4.5%	6.0%
ROIC	---	---	---	---	---	---	-0.1%	4.1%	5.0%
Shares Out.	---	---	---	---	---	0.96	3.38	7.29	10.68
Revenue/Share	---	---	---	---	---	$0.33	$1.90	$2.03	$4.18
FCF/Share	---	---	---	---	---	-$29.43	$1.49	$2.15	$4.21

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