



Innovative Industrial Properties (IIPR)

Updated May 14th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$173	5 Year CAGR Estimate:	25.0%	Market Cap:	\$4.13B
Fair Value Price:	\$156	5 Year Growth Estimate:	25.0%	Ex-Dividend Date:	06/29/21
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date¹:	07/15/21
Dividend Yield:	3.3%	5 Year Price Target	\$476	Years Of Dividend Growth:	4
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	32% 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 \$4.13 billion REIT owns 69 properties in 18 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 May 5th, 2021, Innovative Industrial announced its Q1 earnings for the period ended March 31st, 2021. For the quarter, revenues and normalized AFFO/share were \$42.9 million and \$1.47, an increase of 103%, and 31.3%, respectively. The company delivered another quarter of explosive growth due to its four property acquisitions since the beginning of the year and contractual rental escalations at certain properties. AFFO/share grew at a slower rate due to the issued units that were offered to partially fund these purchases. As of May 5th, 100% of IIPR’s properties were leased with a weighted-average remaining lease term of approximately 16.7 years, which is utterly impressive. With its tenants enjoying resilient marijuana demand amid the stay-at-home economy, IIPR collected 100% of its contractual rent due for Q1.

The company has raised its quarterly dividend quarter-over-quarter consistently over the past few quarters, richly rewarding its stockholders in line with its performance trajectory. The latest increase to a DPS of \$1.32 represented a 6% increase compared to last quarter and a 32% compared to last year. While no financial guidance was provided, based on the company’s latest quarter and prudent acquisition assumptions, the company should be able to deliver FY2021 AAFO/share and DPS of \$6.50 and \$5.70, respectively, which could be 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	\$5.70	\$14.18
Shares³	---	---	---	---	---	1	3.4	7.3	10.7	19.27	26.1	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, IIPR acquired 20 properties in 2020 alone. With the schedule-1 drug being decriminalized in one state after the other, we expect can see the current growth rates to be sustained in the medium term.

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 32%. Its latest QoQ growth amounts to 6%.

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.



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In line with its AFFO growth, management has consistently raised the dividend once every couple of quarters. 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 the case, these figures will likely be more attractive, considering the trust's current triple-digit growth rates. Still, IIPR has 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	26.6	24.0
Avg. Yld.	---	---	---	---	---	---	3.4%	3.3%	2.8%	2.8%	3.3%	3.0%

Despite shares currently trading at the higher-end of their historical multiple, at around 26.6X FY2021's expected AFFOs, the multiple is quite reasonable, considering the company's explosive expansion. Shares are currently yielding around 3.3%, which is high given the that the REIT is undergoing such a rapid growth phase. We retain our fair valuation multiple at 24, expecting a natural compression in the medium term amid a possible growth slowdown.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	82%	90%	87%	89%	88%	72%

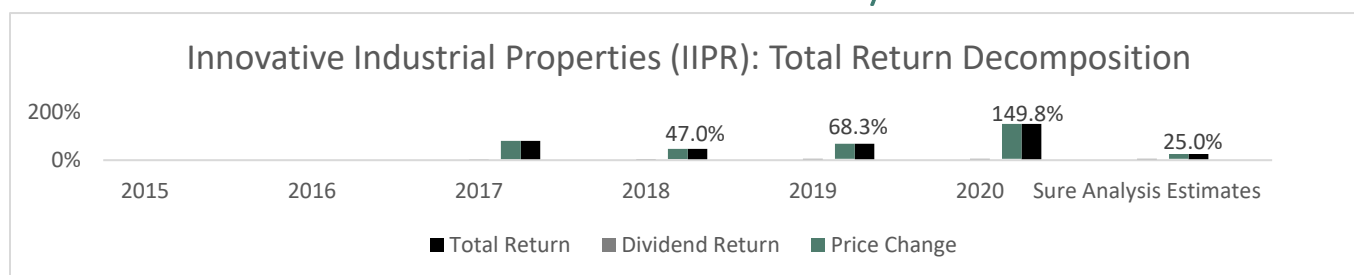
The company's seemingly high payout ratio is non-meaningful as AFFOs proliferate and only reflect this year's cash flows. Being the only listed pure-cannabis REIT, the company has a massive moat. With access to public markets, management can issue debt and equity much cheaper than its few private competitors. IIPR can build more durable and sustainable relationships with tenants as it possesses higher credibility and transparency.

With more states legalizing weed over time, the company is subject to a fantastic medium/long-term expansion trend. Despite the headwinds COVID-19 caused in many industries, IIPR was barely affected, continuing its proven acquisition-based growth model. Because of how new the cannabis sector is, its recession resiliency is untested to the passage of time and remains to be seen. Still, its average lease duration of 16.7 years is unparalleled to the industry. Not even the highest-quality, most mature REITs in the world get to enjoy such a lengthy lease profile, which adds to the dividend's safety.

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 IIPR's facilities. We expect the stock to keep delivering double-digit, market-beating returns of around 25% over the next few years by assuming prudent FY2021 financials. Hence, we rate shares as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	---	---	---	---	\$0.32	\$6.42	\$14.79	\$44.67	\$116.90
Gross Profit	---	---	---	---	\$0.23	\$6.30	\$14.34	\$43.35	\$111.94
Gross Margin	---	---	---	---	72.9%	98.2%	97.0%	97.1%	95.7%
SG&A Exp.	---	---	---	---	\$0.83	\$5.50	\$6.38	\$9.82	\$14.18
D&A Exp.	---	---	---	---	\$0.03	\$0.92	\$2.63	\$8.60	\$28.02
Operating Profit	---	---	---	---	-\$0.69	-\$0.11	\$5.34	\$24.94	\$69.74
Operating Margin	---	---	---	---	-213.4%	-1.7%	36.1%	55.8%	59.7%
Net Profit	---	---	---	---	-\$4.39	-\$0.07	\$6.99	\$23.48	\$65.73
Net Margin	---	---	---	---	-1368.2%	-1.1%	47.2%	52.6%	56.2%
Free Cash Flow	---	---	---	---	-\$28.34	\$5.02	\$15.69	\$44.93	\$110.81
Income Tax	---	---	---	---	\$0.32	\$6.42	\$14.79	\$44.67	---

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	---	---	---	\$63.33	\$80.03	\$281.47	\$745.86	\$1,768
Cash & Equivalents	---	---	---	---	\$33.00	\$11.76	\$13.05	\$82.24	\$126.01
Total Liabilities	---	---	---	---	\$2.89	\$6.48	\$17.17	\$197.85	\$243.11
Accounts Payable	---	---	---	---	\$0.07	\$1.08	\$4.40	\$28.39	\$41.14
Long-Term Debt	---	---	---	---	\$0.00	\$0.00	\$0.00	\$134.65	\$136.69
Shareholder's Equity	---	---	---	---	\$60.44	\$59.54	\$250.28	\$534.00	\$1,511
D/E Ratio	---	---	---	---	0.00	0.00	0.00	0.25	0.09

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	---	---	---	-0.1%	3.9%	4.6%	5.2%
Return on Equity	---	---	---	---	-14.5%	-0.1%	4.5%	6.0%	6.4%
ROIC	---	---	---	---	---	-0.1%	4.1%	5.0%	5.6%
Shares Out.	---	---	---	---	0.96	3.38	7.29	10.68	19.56
Revenue/Share	---	---	---	---	\$0.33	\$1.90	\$2.03	\$4.18	\$5.98
FCF/Share	---	---	---	---	-\$29.43	\$1.49	\$2.15	\$4.21	\$5.67

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

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