



EPR Properties (EPR)

Updated June 1st, 2021 by Josh Arnold

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	7.2%	Market Cap:	\$3.7 B
Fair Value Price:	\$49	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	N/A
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.4%	Dividend Payment Date:	N/A
Dividend Yield:	N/A	5 Year Price Target	\$63	Years Of Dividend Growth:	N/A
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	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 about \$5.9 billion in investments across 300+ locations in 44 states, including over 250 tenants. Total revenue should be just over \$460 million this year, and the stock is valued at \$3.7 billion.

EPR reported first quarter earnings on May 5th, 2021, and results were ahead of expectations on the top and bottom lines, as the trust continues to benefit from the reopening of the economy in the US. Q1 cash collections were still just 72% of pre-COVID contractual cash revenue, but improved to 77% in April, which is part of Q2. The trust said 96% of its non-theater locations were open for business, while ~71% of its theaters were open in some capacity. It also said that by the end of May substantially all of its theaters were open.

Adjusted funds-from-operations came to 52 cents per share in Q1, which was well ahead of 23 cents in Q4 and estimates for just 34 cents, but still sharply lower than the \$1.14 produced a year ago.

Total revenue was \$112 million, which was ahead of estimates for \$101 million, and up from \$93 million in Q4. However, the year-ago period saw revenue of \$151 million, so EPR has some room yet to go. The trust's preferred operating income measure – EBITDAre – was \$82 million in Q1, up from \$70 million in Q4, but down from \$131 million in last year's Q1.

We've slightly boosted our estimate of AFFO-per-share for this year to \$2.40 after better-than-expected Q1 results but note that EPR is a long way from pre-COVID conditions still.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	\$3.20	\$3.69	\$3.90	\$4.13	\$4.44	\$4.82	\$5.02	\$6.10	\$5.44	\$1.43	\$2.40	\$4.47
DPS	\$2.80	\$3.00	\$3.16	\$3.42	\$3.63	\$3.84	\$4.08	\$4.32	\$4.50	\$1.51	---	\$2.44
Shares¹	47	47	50	54	58	64	71	74	78	75	75	85

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. Of course, 2020 proved to be a significantly down 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, even after a full reopening.

The dividend has been suspended, which we believe will last through 2021. We are currently forecasting a gradual return to a dividend of \$2.44 by 2026, although we note there is significant uncertainty here as well.

¹ Share count in millions

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We are estimating 5% growth from our earnings power estimate of \$3.50 for this year.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	13.9	12.1	13.0	13.1	12.9	14.7	14.2	10.4	13.8	25.7	14.3	14.0
Avg. Yld.	6.3%	6.7%	6.2%	6.3%	6.3%	5.4%	5.7%	6.8%	6.0%	4.1%	---	3.9%

EPR's normalized price-to-AFFO-per-share ratio, excluding 2009, has averaged 13.3 since 2010. We see fair value at 14 times AFFO, which is up from 12 at the time of our last report, as investors are proving willing to pay a higher multiple for reopening stocks. At a current valuation of 14.3 times earnings power, we see EPR as essentially fairly valued.

With the dividend suspended, income investors will want to skip EPR. However, we see the yield rising back to 3.9% by 2026 as AFFO stabilizes and cash flows return.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	88%	81%	81%	83%	82%	80%	81%	71%	83%	106%	---	55%

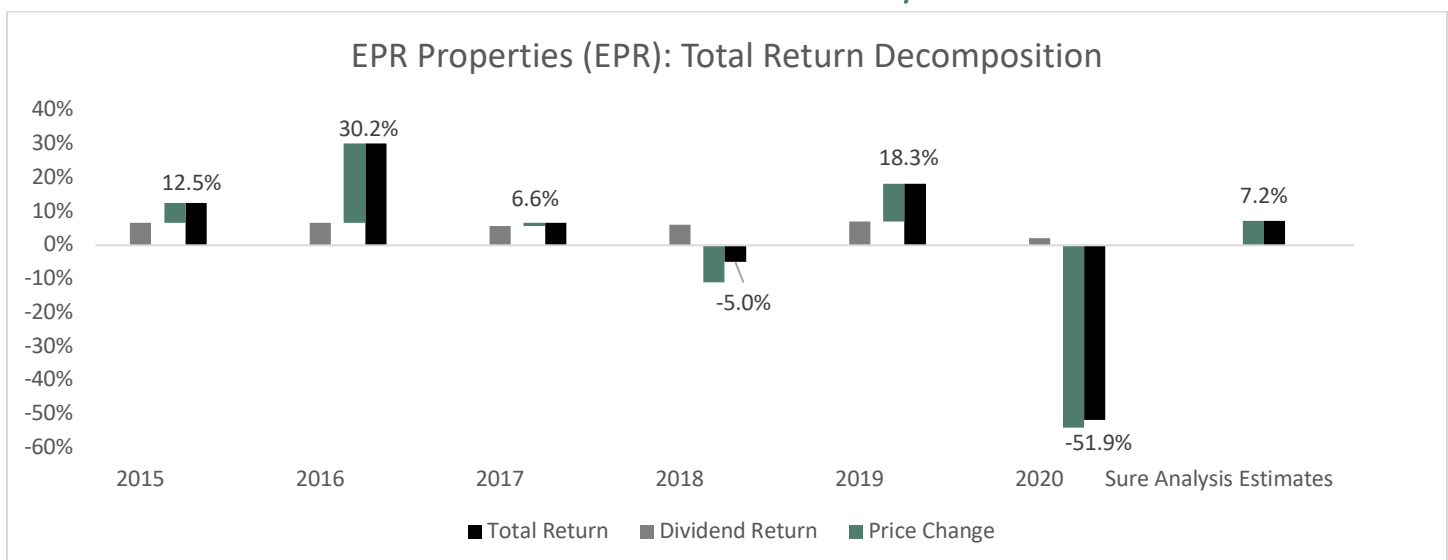
We are forecasting the payout ratio to rise back to 55% of AFFO by 2026, which is more conservative than most years in the past decade as we believe EPR will want to reduce the risk of another dividend suspension and/or cut.

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. We also note that EPR has no control over when its tenants reopen.

Final Thoughts & Recommendation

EPR is now fairly valued in our view. 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 7.2%, shares continue to earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	294	318	343	385	421	493	518	640	652	415
Gross Profit	269	293	317	360	398	471	487	610	562	340
Gross Margin	91.8%	92.2%	92.4%	93.5%	94.4%	95.4%	94.0%	95.4%	86.1%	81.9%
SG&A Exp.	20	23	26	28	50	38	43	49	46	43
D&A Exp.	43	47	54	67	90	108	133	153	172	170
Operating Profit	205	222	237	261	258	326	322	423	356	96
Operating Margin	69.7%	69.7%	69.0%	67.9%	61.2%	66.0%	62.1%	66.0%	54.7%	23.1%
Net Profit	115	122	180	180	195	225	263	267	202	(132)
Net Margin	39.2%	38.2%	52.5%	46.7%	46.2%	45.6%	50.7%	41.7%	31.0%	-31.8%
Free Cash Flow	196	207	234	250	278	305	398	484	440	65
Income Tax	---	---	(14)	4	0	1	2	2	(3)	17

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2,734	2,947	3,272	3,686	4,217	4,865	6,191	6,131	6,578	6,704
Cash & Equivalents	15	11	8	3	4	19	42	6	529	1,026
Accounts Receivable	33	40	44	48	62	75	83	85	85	116
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	9	15	29	42	45	42
Total Liabilities	1,236	1,487	1,584	1,760	2,143	2,679	3,264	3,266	3,572	4,074
Accounts Payable	36	65	72	82	92	120	137	168	123	105
Long-Term Debt	1,154	1,369	1,475	1,630	1,982	2,486	3,029	2,986	3,103	3,694
Shareholder's Equity	1,470	1,459	1,687	1,926	2,074	2,186	2,927	2,865	3,006	2,630
D/E Ratio	0.79	0.94	0.87	0.85	0.96	1.14	1.03	1.04	1.03	1.40

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.1%	4.3%	5.8%	5.2%	4.9%	5.0%	4.8%	4.3%	3.2%	-2.0%
Return on Equity	7.5%	8.3%	11.5%	9.9%	9.7%	10.6%	10.3%	9.2%	6.9%	-4.7%
ROIC	4.2%	4.4%	6.0%	5.3%	5.1%	5.2%	4.9%	4.5%	3.4%	-2.1%
Shares Out.	47	47	50	54	58	64	71	74	78	75
Revenue/Share	6.26	6.75	7.12	7.07	7.22	7.77	7.27	8.61	8.49	5.46
FCF/Share	4.18	4.41	4.86	4.60	4.77	4.81	5.59	6.52	5.72	0.86

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

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