



EPR Properties (EPR)

Updated August 20th, 2021, by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$50 | 5 Year CAGR Estimate: | 8.2% | Market Cap: | \$3.6 B |
| Fair Value Price: | \$39 | 5 Year Growth Estimate: | 8.0% | Ex-Dividend Date: | 08/30/21 |
| % Fair Value: | 128% | 5 Year Valuation Multiple Estimate: | -4.8% | Dividend Payment Date: | 09/15/21 |
| Dividend Yield: | 6.0% | 5 Year Price Target | \$58 | Years Of Dividend Growth: | N/A |
| Dividend Risk Score: | F | Retirement Suitability Score: | D | 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 \$6.5 billion in investments across 300+ locations in 44 states, including over 250 tenants. Total revenue should be around \$500 million this year, and the stock is valued at \$3.6 billion.

EPR reported second quarter earnings on July 27th, 2021, with results coming in much better than expected on both the top and bottom lines, as the trust continues to recover coming out of the shutdowns from 2020. The trust said cash collections continue to improve, and hit 85% of contractual cash revenue in Q2, which continued to improve subsequent to the end of the quarter. In addition, the trust's portfolio is now 99% open, with only a handful of theatre properties remaining closed.

Total revenue was up to \$125 million from \$106 million in the year-ago period, beating estimates by nearly \$13 million. EBITDAre was \$96.4 million, up from \$82.2 million in Q1, and up from \$77.2 million in the year-ago period. Adjusted FFO-per-share was 71 cents, beating estimates by 11 cents, and rising from 52 cents in Q1, and up from 44 cents in the year-ago period.

Our estimate of FFO-per-share now stands at \$2.80 for this year following very strong second quarter results, as well as bullish commentary from management. The trust has also reinstated its previously eliminated dividend at a run rate of 25 cents per share monthly, good for a \$3 per share annualized payout, and giving the stock a sizable yield.

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 | \$2.80 | \$4.11 |
| DPS | \$2.80 | \$3.00 | \$3.16 | \$3.42 | \$3.63 | \$3.84 | \$4.08 | \$4.32 | \$4.50 | \$1.51 | \$3.00 | \$3.48 |
| 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. That said, Q2 results seem to indicate the worst is behind EPR. We now expect 8% AFFO growth annually in the coming years.

¹ Share count 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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The dividend is now back at a rate of \$3 per share annually, which we believe will grow more slowly than AFFO given the very high current payout ratio. Even so, the stock yields 6% now, which is impressive given the trust went several months with no dividend payment.

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 | 17.9 | 14.0 |
| Avg. Yld. | 6.3% | 6.7% | 6.2% | 6.3% | 6.3% | 5.4% | 5.7% | 6.8% | 6.0% | 4.1% | 6.0% | 6.0% |

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, as investors are proving willing to pay a higher multiple for reopening stocks. At a current valuation of 17.9 times AFFO, we see EPR as overvalued.

The yield is back and is at 6% presently. We expect the combination of a potentially lower valuation, but higher dividend payments, to keep the yield essentially where it is today at 6%.

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% | 107% | 85% |

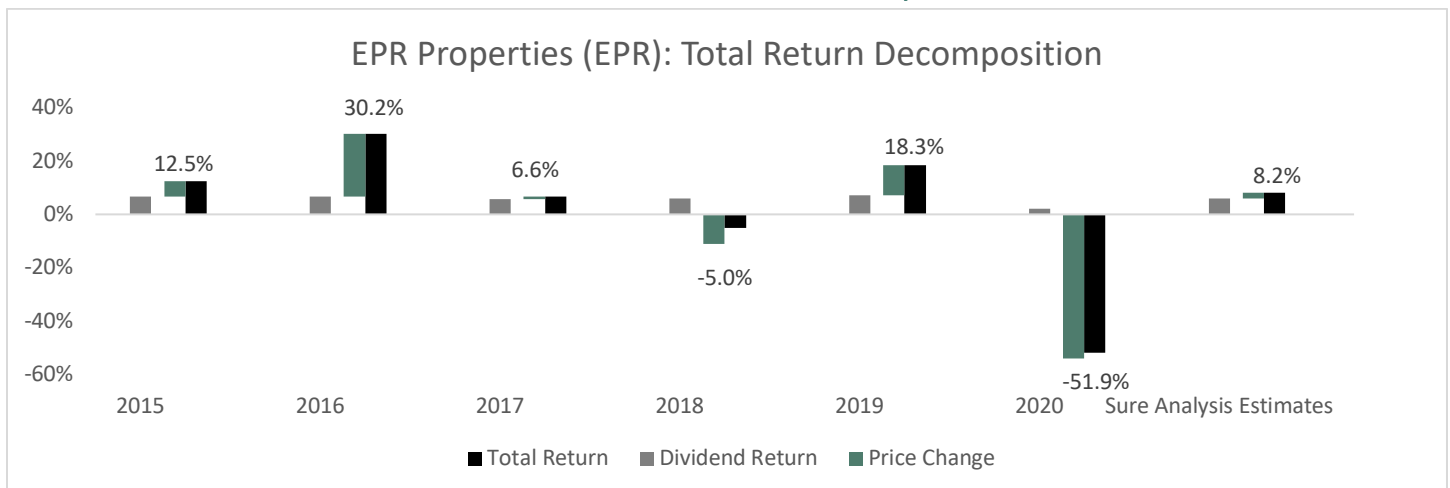
We are forecasting the payout ratio to rise back to 85% of AFFO by 2026, which is in line with most years in the past decade as we believe EPR will want to reduce the risk of another dividend suspension and/or cut.

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, or if they close again.

Final Thoughts & Recommendation

EPR is now overvalued in our view. However, we like the strong operating history and track record of capital returns, and the strong dividend is now back. With total projected returns at 8.2%, 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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