



# EPR Properties (EPR)

Updated February 27<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$50	<b>5 Year CAGR Estimate:</b>	9.6%	<b>Market Cap:</b>	\$3.8 B
<b>Fair Value Price:</b>	\$55	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	02/25/22
<b>% Fair Value:</b>	91%	<b>5 Year Valuation Multiple Estimate:</b>	1.9%	<b>Dividend Payment Date:</b>	03/15/22
<b>Dividend Yield:</b>	6.7%	<b>5 Year Price Target</b>	\$61	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	12.0%

## 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 \$7 billion in investments across 300+ locations in 44 states, including over 250 tenants. Total revenue should be around \$600 million this year, and the stock is valued at \$3.8 billion.

EPR reported fourth quarter and full-year earnings on February 22<sup>nd</sup>, 2022, and results were well ahead of expectations on both the top and bottom lines. The trust reported fourth quarter FFO per-share of \$1.11, which was 15 cents ahead of expectations. In addition, earnings were more than triple that of the year-ago period, which saw just \$0.23 in FFO per-share. Revenue was \$155 million, which soared 66% year-over-year, and was nearly \$15 million ahead of expectations, and nearly double the year-ago period.

The trust had cash collections from customers of 97% of contractual cash revenue, which was up from just 90% in Q3. EPR also noted it reduced previously reserved loans by collecting against unperforming loans.

EPR guided for AFFO per-share of \$4.30 to \$4.50 for this year, and we've initiated guidance at the midpoint accordingly. The trust expects to spend ~\$600 million on investments for this year, helping to drive those results.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>AFFO</b>	\$3.69	\$3.90	\$4.13	\$4.44	\$4.82	\$5.02	\$6.10	\$5.44	\$1.43	\$3.09	<b>\$4.40</b>	<b>\$4.86</b>
<b>DPS</b>	\$3.00	\$3.16	\$3.42	\$3.63	\$3.84	\$4.08	\$4.32	\$4.50	\$1.51	\$1.50	<b>\$3.36</b>	<b>\$3.90</b>
<b>Shares<sup>1</sup></b>	47	50	54	58	64	71	74	78	75	75	<b>75</b>	<b>75</b>

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, Q4 results seem to indicate again that the worst is behind EPR, and guidance for 2022 was very bullish from management. However, we've reduced our growth estimate to just 2% as we see very strong earnings for 2022 as much more difficult to grow from in the years ahead.

The dividend is at a rate of \$3.36 per share annually, which we believe will grow somewhat in line with FFO. Even so, the stock yields 6.7% now, which is impressive given the trust went several months with no dividend payment. EPR raised its payout from 25 cents per share monthly to 28 cents in early-2022.

<sup>1</sup> 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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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/AFFO</b>	12.1	13.0	13.1	12.9	14.7	14.2	10.4	13.8	25.7	15.6	<b>11.4</b>	<b>12.5</b>
<b>Avg. Yld.</b>	6.7%	6.2%	6.3%	6.3%	5.4%	5.7%	6.8%	6.0%	4.1%	3.1%	<b>6.7%</b>	<b>6.4%</b>

EPR's normalized price-to-AFFO-per-share ratio, excluding 2009, has averaged 13.3 since 2010. We see fair value at 12.5 times AFFO, as we see conditions normalizing in the near future, and above-average multiples for reopening stocks fading away. At a current valuation of 11.4 times AFFO, we view EPR as slightly undervalued.

The yield is back and is at 6.7% presently following the most recent dividend increase. We expect the combination of a potentially lower valuation, but higher dividend payments, to keep the yield near the mid-6% area.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>Payout</b>	81%	81%	83%	82%	80%	81%	71%	83%	106%	49%	<b>76%</b>	<b>80%</b>

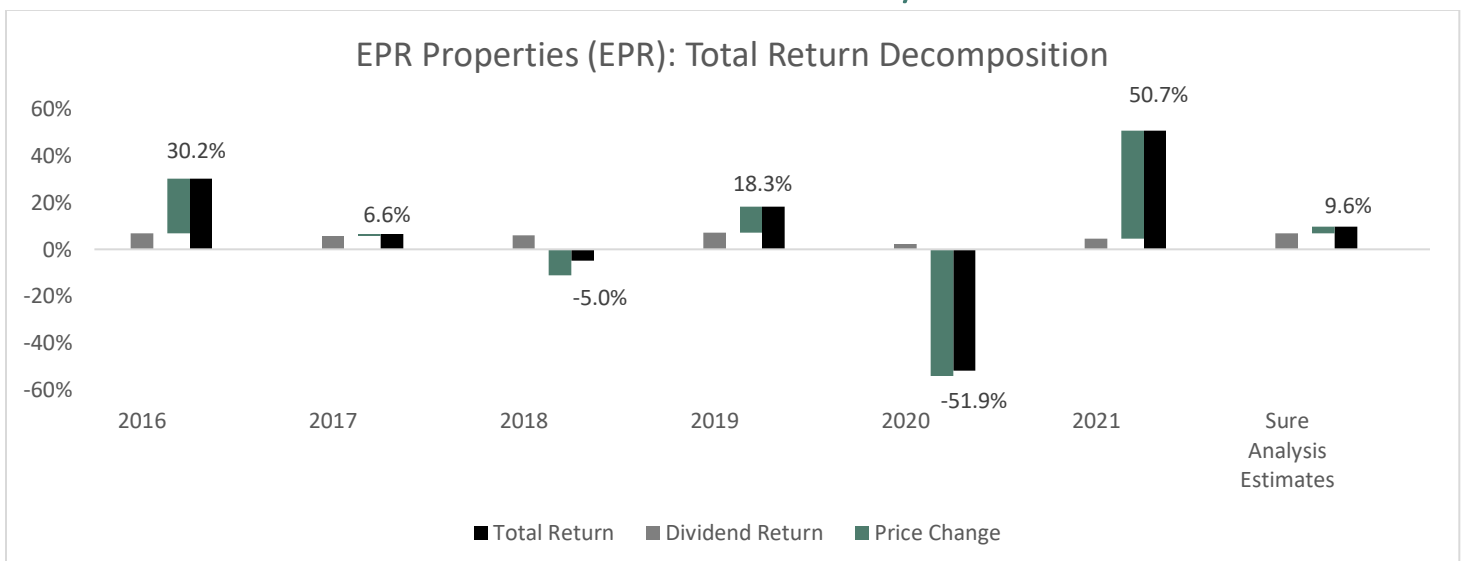
We are forecasting the payout ratio to decline to 80% of AFFO by 2027, which is in line with most years in the past decade as we believe EPR will want to reduce the risk of another dividend suspension and/or cut.

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 during the pandemic was enormous. We also note that EPR has no control over when its tenants reopen, in what capacity, or if they close again. Guidance for 2022 would suggest those fears have subsided.

## Final Thoughts & Recommendation

EPR is now undervalued in our view. We like the strong operating history and track record of capital returns, and the high dividend yield is making the stock attractive. With total projected returns at 9.6%, with most of it coming from its ample yield of 6.7%, we rate the stock a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	318	343	385	421	493	518	640	652	415	532
<b>Gross Profit</b>	293	317	360	398	471	487	610	591	356	475
<b>Gross Margin</b>	92.2%	92.4%	93.5%	94.4%	95.4%	94.0%	95.4%	90.7%	85.9%	89.3%
<b>SG&amp;A Exp.</b>	23	26	28	50	38	43	49	46	43	44
<b>D&amp;A Exp.</b>	47	54	67	90	108	133	153	172	170	164
<b>Operating Profit</b>	223	237	262	258	326	322	423	386	112	289
<b>Operating Margin</b>	70.2%	69.2%	68.1%	61.4%	66.0%	62.2%	66.1%	59.2%	27.1%	54.3%
<b>Net Profit</b>	122	180	180	195	225	263	267	202	(132)	99
<b>Net Margin</b>	38.2%	52.5%	46.7%	46.2%	45.6%	50.7%	41.7%	31.0%	-32%	18.5%
<b>Free Cash Flow</b>	207	234	250	278	305	398	484	440	65	307
<b>Income Tax</b>	---	(14)	4	0	1	2	2	(3)	17	2

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	2,947	3,272	3,686	4,217	4,865	6,191	6,131	6,578	6,704	5,801
<b>Cash &amp; Equivalents</b>	11	8	3	4	19	42	6	529	1,026	289
<b>Accounts Receivable</b>	40	44	48	62	75	83	85	85	116	76
<b>Goodwill &amp; Int. Ass.</b>	---	---	---	9	15	29	42	45	42	38
<b>Total Liabilities</b>	1,487	1,584	1,760	2,143	2,679	3,264	3,266	3,572	4,074	3,183
<b>Accounts Payable</b>	65	72	82	92	120	137	168	123	105	73
<b>Long-Term Debt</b>	1,369	1,475	1,630	1,982	2,486	3,029	2,986	3,103	3,694	2,804
<b>Shareholder's Equity</b>	1,459	1,687	1,926	2,074	2,186	2,927	2,865	3,006	2,630	2,618
<b>LTD/E Ratio</b>	0.94	0.87	0.85	0.96	1.14	1.03	1.04	1.03	1.40	1.07

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	4.3%	5.8%	5.2%	4.9%	5.0%	4.8%	4.3%	3.2%	-2.0%	1.6%
<b>Return on Equity</b>	8.3%	11.5%	9.9%	9.7%	10.6%	10.3%	9.2%	6.9%	-4.7%	3.8%
<b>ROIC</b>	4.4%	6.0%	5.3%	5.1%	5.2%	4.9%	4.5%	3.4%	-2.1%	1.7%
<b>Shares Out.</b>	47	50	54	58	64	71	74	78	75	75
<b>Revenue/Share</b>	6.75	7.12	7.07	7.22	7.77	7.27	8.61	8.49	5.46	7.11
<b>FCF/Share</b>	4.41	4.86	4.60	4.77	4.81	5.59	6.52	5.72	0.86	4.11

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

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