



EPR Properties (EPR)

Updated November 19th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$40	5 Year CAGR Estimate:	13.3%	Market Cap:	\$3.0 B
Fair Value Price:	\$51	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	11/29/22
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.0%	Dividend Payment Date:	12/15/22
Dividend Yield:	8.3%	5 Year Price Target	\$56	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

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 almost \$7 billion in investments across 300+ locations in 44 states, including over 250 tenants. Total revenue should be just over \$600 million this year, and the stock is valued at \$3 billion.

EPR reported third quarter earnings on November 2nd, 2022, and results were better than expected on both the top and bottom lines. Funds-from-operations came to \$1.22 per share, which was nine cents better than expected. Revenue was up almost 16% to \$161 million, and beat estimates by \$6 million. The REIT also boosted guidance for this year slightly to a new range of FFO per-share of \$4.50 to \$4.68.

Management said the portfolio is as strong as ever, and that rent and interest coverage are both at levels that exceed the same period in 2019, pre-COVID.

Investment spending was \$82 million during the quarter, and the REIT committed \$250 million for experiential development and redevelopment projects. These should come online in the next two years, and importantly, without the need to raise external capital.

Given the slight boost to guidance, we've added a nickel to our estimate for this year to \$4.65 in FFO-per-share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	\$3.69	\$3.90	\$4.13	\$4.44	\$4.82	\$5.02	\$6.10	\$5.44	\$1.43	\$3.09	\$4.65	\$5.13
DPS	\$3.00	\$3.16	\$3.42	\$3.63	\$3.84	\$4.08	\$4.32	\$4.50	\$1.51	\$1.50	\$3.30	\$3.83
Shares¹	47	50	54	58	64	71	74	78	75	75	75	75

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, with a recovery in 2021.

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, Q3 results seem to indicate again that the worst is behind EPR, and guidance for 2022 was very bullish from management including ramping investment spending to expand the portfolio. However, we've reiterating our growth estimate at just 2% as we see very strong earnings for 2022 as much more difficult to grow from in the years ahead.

¹ Share count in millions

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The dividend is at a rate of \$3.30 per share annually, which we believe will grow somewhat in line with FFO. Even so, the stock yields 8.3% 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 27.5 cents in early-2022.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	12.1	13.0	13.1	12.9	14.7	14.2	10.4	13.8	25.7	15.6	8.6	11.0
Avg. Yld.	6.7%	6.2%	6.3%	6.3%	5.4%	5.7%	6.8%	6.0%	4.1%	3.1%	8.3%	6.8%

EPR's normalized price-to-AFFO-per-share ratio, excluding 2009, has averaged 13.3 since 2010. We see fair value at 11 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 8.6 times AFFO, we view EPR as undervalued.

The yield is up to a very impressive 8.3% presently following the most recent dividend increase, and decline in the share price. We expect the combination of a potentially lower valuation, but higher dividend payments, to keep the yield at least above 6%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	81%	81%	83%	82%	80%	81%	71%	83%	106%	49%	71%	75%

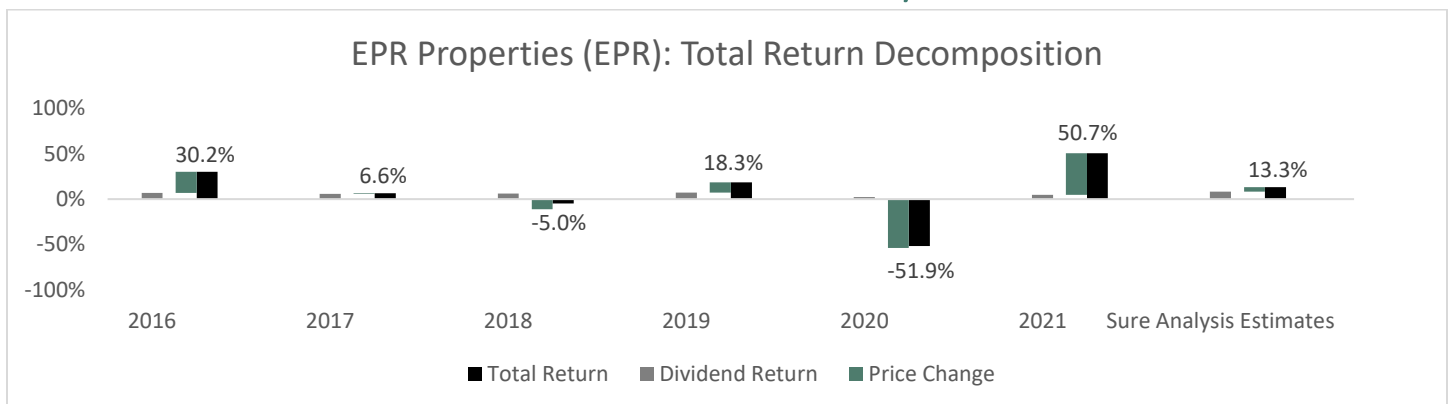
We are forecasting the payout ratio to increase to 75% of AFFO by 2027, which is in line with most years in the past decade as we believe EPR will want to reduce the risk of another dividend suspension and/or cut.

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 undervalued in our view, driving a potential 5% tailwind. We like the strong operating history and track record of capital returns, and the high dividend yield of 8.3% is making the stock attractive, even with modest 2% growth. With total projected returns at 13.3%, we are reiterating EPR at a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,947	3,272	3,686	4,217	4,865	6,191	6,131	6,578	6,704	5,801
Cash & Equivalents	11	8	3	4	19	42	6	529	1,026	289
Accounts Receivable	40	44	48	62	75	83	85	85	116	76
Goodwill & Int. Ass.	---	---	---	9	15	29	42	45	42	38
Total Liabilities	1,487	1,584	1,760	2,143	2,679	3,264	3,266	3,572	4,074	3,183
Accounts Payable	65	72	82	92	120	137	168	123	105	73
Long-Term Debt	1,369	1,475	1,630	1,982	2,486	3,029	2,986	3,103	3,694	2,804
Shareholder's Equity	1,459	1,687	1,926	2,074	2,186	2,927	2,865	3,006	2,630	2,618
LTD/E Ratio	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
Return on Assets	4.3%	5.8%	5.2%	4.9%	5.0%	4.8%	4.3%	3.2%	-2.0%	1.6%
Return on Equity	8.3%	11.5%	9.9%	9.7%	10.6%	10.3%	9.2%	6.9%	-4.7%	3.8%
ROIC	4.4%	6.0%	5.3%	5.1%	5.2%	4.9%	4.5%	3.4%	-2.1%	1.7%
Shares Out.	47	50	54	58	64	71	74	78	75	75
Revenue/Share	6.75	7.12	7.07	7.22	7.77	7.27	8.61	8.49	5.46	7.11
FCF/Share	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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