



Physicians Realty Trust (DOC)

Updated February 22nd, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$14.80	5 Year CAGR Estimate:	8.1%	Market Cap:	\$3.3 B
Fair Value Price:	\$15.60	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	03/30/23 ¹
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	04/14/23
Dividend Yield:	6.2%	5 Year Price Target	\$17.22	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Hold

Physicians Realty Trust was organized in April of 2013. The real estate investment trust, based in Milwaukee, Wisconsin, acquires, develops, owns and manage healthcare properties. These properties are leased to physicians, hospital and healthcare delivery systems. The trust's portfolio of 269 properties also includes diagnostic and outpatient treatment facilities, surgery centers and medical office buildings. Physicians Realty Trust generates annual revenues of ~\$527 million.

On February 22nd, 2023, Physicians Realty Trust released fourth quarter and full year results for the period ending December 31st, 2022. For the quarter, revenue grew 14.2% to \$132.6 million and was \$2.3 million above expectations. Funds-from-operation, or FFO, of \$0.26 matched results in the prior year and were in-line with estimates. For the year, revenue improved 15.1% to \$526.7 million while FFO of \$1.04 matched results for 2021.

For the quarter, medical Office Buildings, which comprise 87% of net leasable square footage, had same-store cash NOI growth of 1.5%. The portfolio was 95% leased at the end of the third quarter, once again matching the prior quarter's figure. The trust executed 182,000 square feet of leasing activity during the quarter, with a weighted average lease of 5 years and had a weighted average leasing spread of 7.0% on 140,000 renewed square feet.

We expect Physicians Realty Trust to generate funds-from-operation of \$1.04 in 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	\$0.27	\$0.70	\$0.92	\$0.98	\$1.04	\$1.08	\$1.00	\$1.05	\$1.04	\$1.04	\$1.04	\$1.15
DPS	\$0.23	\$0.90	\$0.90	\$0.90	\$0.91	\$0.92	\$0.92	\$0.92	\$0.92	\$0.92	\$0.92	\$0.92
Shares²	12	37	77	130	168	188	194	216	228	240	240	250

FFO for Physicians Realty Trust has nearly quadrupled since becoming a publicly-traded trust. The trust has compounded FFO by a rate of 16.2% since forming, but much of this growth occurred in the early years of this time frame. Over the last five years, FFO has decreased 0.8% annually. It should be noted that though growth has slowed recently, Physicians Realty Trust has drastically increased its share count in order to fund acquisitions. FFO has remained consistent even as the share count increased. Erring on the side of caution, we raise our expected FFO growth rate slightly to 2.0%. Applying this growth rate by our expected FFO per share could lead to FFO of \$1.15 by 2028.

Physicians Realty Trust's dividend remained unchanged in 2015 and 2016, but was raised a \$0.01 in each of the next two years. Given the lack of dividend growth since its IPO, and the already-high payout ratio, we are not projecting dividend growth for the trust over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/FFO	47.2	23.7	18.3	19.3	17.3	14.8	18.9	17.0	18.1	18.1	14.2	15.0
Avg. Yld.	1.8%	5.4%	5.3%	4.8%	5.1%	5.7%	4.9%	5.2%	4.9%	6.4%	6.2%	5.3%

¹ Estimated date

² In millions of shares

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Shares of Physicians Realty Trust have increased by \$0.42, or 2.9%, since our November 5th, 2022 report. Physicians Realty Trust has traded with an average price-to-funds-from-operation ratio of 21.3 since becoming public. Removing the trust’s first year valuation, the average P/FFO ratio drops to 16.6. We have a 2028 target P/FFO ratio of 15 due to low expected FFO growth over the next five years. Based off of the current share price and expected FFO for 2023, the stock has a P/FFO ratio of 14.2. If shares were to trade at our target multiple, then valuation would add 1.1% to annual returns through 2028.

Physicians Realty Trust’s current yield is more than 100 basis points above the stock’s 10-year average yield of 5.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	85%	129%	98%	92%	88%	85%	92%	88%	88%	88%	88%	80%

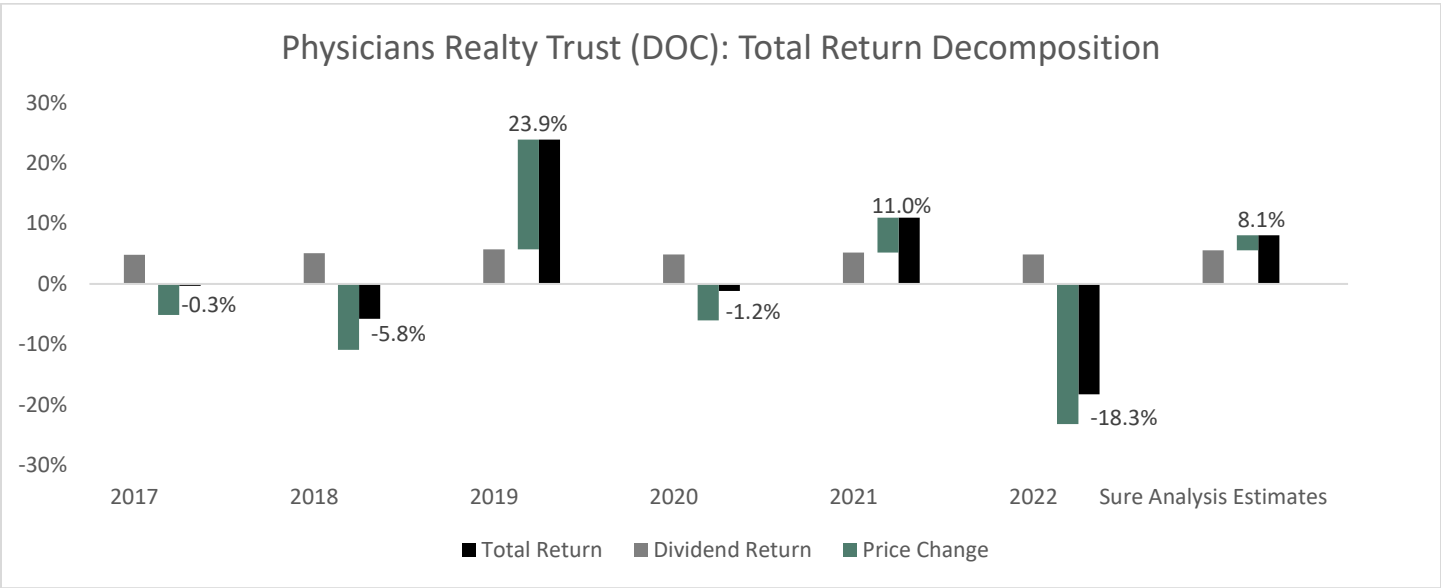
Real Estate Investment Trusts are required to distribute at least 90% of taxable income in the form of dividends, so Physicians Realty Trust’s elevated payout ratios over the years shouldn’t be a major concern to investors. Those looking for dividend growth, however, will likely be disappointed with the trust.

Physicians Realty Trust key competitive advantage is that its properties are likely to be in demand regardless of economic conditions; consumers will seek out medical care during all parts of the economic cycle. The trust has also shown the ability maintain FFO while simultaneously issuing stock to help finance transactions.

Final Thoughts & Recommendation

After fourth quarter results, Physicians Realty Trust is now expected to return 8.1% annually through 2028, down from our previous estimate of 8.8%. This projection stems from a 2.0% FFO growth rate, a 6.2% starting dividend yield, and a small tailwind from multiple expansion. Physicians Realty Trust continues to enjoy a strong occupancy rate and low, but steady growth for its Medical Office Buildings portfolio. We have lowered our five-year price target slightly to \$17.22 due to FFO estimates for the year. Income investors will likely find the yield attractive due to the high yield, if not the trust’s dividend growth. That said, we continue to rate shares of Physicians Realty Trust as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	13	17	53	129	241	344	423	415	438	458
Gross Profit	8	12	43	98	175	247	300	290	309	320
Gross Margin	63.6%	72.7%	81.0%	76.0%	72.6%	71.8%	71.0%	69.9%	70.7%	70.0%
SG&A Exp.	1	4	11	15	18	23	29	33	34	38
D&A Exp.	4	5	17	48	90	130	163	151	154	158
Operating Profit	3	4	15	38	70	98	113	111	126	125
Operating Margin	21.8%	21.1%	28.1%	29.4%	29.1%	28.6%	26.7%	26.7%	28.8%	27.2%
Net Profit	(2)	(2)	(4)	12	30	38	56	74	66	84
Net Margin	-11.7%	-13.1%	-7.6%	9.1%	12.4%	11.1%	13.3%	17.9%	15.1%	18.3%
Free Cash Flow	3	1	12	54	116	157	174	161	199	215

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	108	293	812	1,639	2,888	4,164	4,143	4,347	4,414	5,183
Cash & Equivalents	3	56	16	3	15	3	19	2	3	10
Accounts Receivable	1	3	8	19	42	58	73	82	91	100
Goodwill & Int. Ass.	6	31	73	205	301	459	452	390	407	498
Total Liabilities	88	52	242	562	1,106	1,617	1,695	1,866	1,699	2,196
Accounts Payable	2	1	1	1	4	11	4	6	7	7
Long-Term Debt	84	43	216	484	991	1,477	1,533	1,634	1,439	1,912
Shareholder's Equity	19	205	535	1,021	1,738	2,473	2,380	2,409	2,641	2,836
LTD/E Ratio	4.43	0.21	0.40	0.47	0.57	0.60	0.64	0.68	0.54	0.67

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	-1.3%	-1.1%	-0.7%	1.0%	1.3%	1.1%	1.4%	1.8%	1.5%	1.7%
Return on Equity	-7.4%	-2.0%	-1.1%	1.5%	2.2%	1.8%	2.3%	3.1%	2.6%	3.1%
ROIC	-1.5%	-1.2%	-0.8%	1.0%	1.4%	1.1%	1.4%	1.8%	1.6%	1.9%
Shares Out.	---	12	37	77	130	168	188	194	216	228
Revenue/Share	1.22	1.32	1.61	1.69	1.85	2.04	2.25	2.17	2.07	2.05
FCF/Share	0.25	0.09	0.37	0.71	0.89	0.93	0.93	0.84	0.94	0.96

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

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