



# EPR Properties (EPR)

Updated February 28<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$41	<b>5 Year CAGR Estimate:</b>	12.7%	<b>Market Cap:</b>	\$3.1 B
<b>Fair Value Price:</b>	\$52	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	03/29/23 <sup>1</sup>
<b>% Fair Value:</b>	78%	<b>5 Year Valuation Multiple Estimate:</b>	5.0%	<b>Dividend Payment Date:</b>	04/15/23
<b>Dividend Yield:</b>	8.0%	<b>5 Year Price Target</b>	\$58	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 about \$650 million this year, and the stock is valued at \$3.1 billion.

EPR reported fourth quarter and full-year earnings on February 22<sup>nd</sup>, 2023, and results were better than expected on both the top and bottom lines. Funds-from-operations came to \$1.27 per share, which was nine cents ahead of expectations. Revenue was up 15% year-over-year to \$179 million, which was \$23 million ahead of estimates.

EPR said it cannot provide guidance for this year given that one of its major tenants – Regal – is in the midst of bankruptcy proceedings. EPR did note it has thus far received all scheduled rent and deferral payments from Regal, but noted the inherent risk involved for EPR.

Investment spending was roughly flat at \$81 million, and the REIT also committed an additional \$250 million in experiential development and redevelopment projects over the next two years.

Adjusted EBITDAre was \$132.5 million, up from \$129.1 million in Q3, and \$122.7 million in the year-ago period. We start the year at \$4.75 in FFO-per-share, roughly equal to last year.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>AFFO</b>	\$3.90	\$4.13	\$4.44	\$4.82	\$5.02	\$6.10	\$5.44	\$1.43	\$3.09	\$4.69	<b>\$4.75</b>	<b>\$5.24</b>
<b>DPS</b>	\$3.16	\$3.42	\$3.63	\$3.84	\$4.08	\$4.32	\$4.50	\$1.51	\$1.50	\$3.25	<b>\$3.30</b>	<b>\$3.47</b>
<b>Shares<sup>2</sup></b>	50	54	58	64	71	74	78	75	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, 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, 2022 results seem to indicate that the worst is behind EPR, although issues like the Regal bankruptcy remain. However, we've reiterating our growth estimate at just 2% as we see very strong earnings for 2023 as much more difficult to grow from in the years ahead.

<sup>1</sup> Estimated date

<sup>2</sup> 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% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	13.0	13.1	12.9	14.7	14.2	10.4	13.8	25.7	15.6	7.9	8.6	11.0
Avg. Yld.	6.2%	6.3%	6.3%	5.4%	5.7%	6.8%	6.0%	4.1%	3.1%	8.6%	8.0%	6.0%

EPR's normalized price-to-AFFO-per-share ratio, excluding 2009, has averaged 13.3 since 2010. We see fair value at 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 at a very impressive 8% presently following the most recent dividend increase, and action in the share price. We expect the combination of a potentially higher valuation and higher dividend payments to keep the yield at least above 6%.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	81%	83%	82%	80%	81%	71%	83%	106%	49%	69%	70%	66%

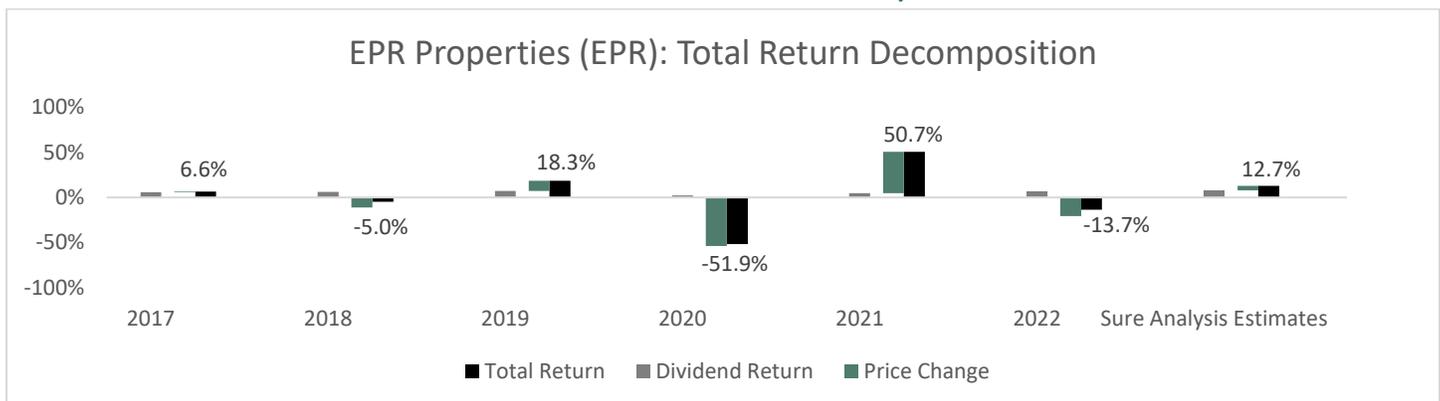
We are forecasting the payout ratio to decline to 66% of AFFO by 2028, which is in line with most years in the past decade as we believe EPR will want to reduce the risk of another dividend suspension and/or cut.

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.

## 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% is making the stock attractive, even with modest 2% growth. With total projected returns at 12.7%, we are reiterating EPR at a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	343	385	421	493	518	640	652	415	532	658
<b>Gross Profit</b>	317	360	398	471	487	610	591	356	475	602
<b>Gross Margin</b>	92.4%	93.5%	94.4%	95.4%	94.0%	95.4%	90.7%	85.9%	89.3%	91.5%
<b>SG&amp;A Exp.</b>	26	28	50	38	43	49	46	43	44	52
<b>D&amp;A Exp.</b>	54	67	90	108	133	153	172	170	164	163
<b>Operating Profit</b>	237	262	258	326	322	423	386	112	289	342
<b>Operating Margin</b>	69.2%	68.1%	61.4%	66.0%	62.2%	66.1%	59.2%	27.1%	54.3%	52.0%
<b>Net Profit</b>	180	180	195	225	263	267	202	(132)	99	176
<b>Net Margin</b>	52.5%	46.7%	46.2%	45.6%	50.7%	41.7%	31.0%	-32%	18.5%	26.7%
<b>Free Cash Flow</b>	234	250	278	305	398	484	440	65	307	442
<b>Income Tax</b>	(14)	4	0	1	2	2	(3)	17	2	1

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	3,272	3,686	4,217	4,865	6,191	6,131	6,578	6,704	5,801	5,759
<b>Cash &amp; Equivalents</b>	8	3	4	19	42	6	529	1,026	289	108
<b>Accounts Receivable</b>	44	48	62	75	83	85	85	116	76	54
<b>Goodwill &amp; Int. Ass.</b>	---	---	9	15	29	42	45	42	38	37
<b>Total Liabilities</b>	1,584	1,760	2,143	2,679	3,264	3,266	3,572	4,074	3,183	3,223
<b>Accounts Payable</b>	72	82	92	120	137	168	123	105	73	80
<b>Long-Term Debt</b>	1,475	1,630	1,982	2,486	3,029	2,986	3,103	3,694	2,804	2,810
<b>Shareholder's Equity</b>	1,687	1,926	2,074	2,186	2,927	2,865	3,006	2,630	2,618	2,536
<b>LTD/E Ratio</b>	0.87	0.85	0.96	1.14	1.03	1.04	1.03	1.40	1.07	1.11

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	5.8%	5.2%	4.9%	5.0%	4.8%	4.3%	3.2%	-2.0%	1.6%	3.0%
<b>Return on Equity</b>	11.5%	9.9%	9.7%	10.6%	10.3%	9.2%	6.9%	-4.7%	3.8%	6.8%
<b>ROIC</b>	6.0%	5.3%	5.1%	5.2%	4.9%	4.5%	3.4%	-2.1%	1.7%	3.3%
<b>Shares Out.</b>	50	54	58	64	71	74	78	75	75	75
<b>Revenue/Share</b>	7.12	7.07	7.22	7.77	7.27	8.61	8.49	5.46	7.11	8.77
<b>FCF/Share</b>	4.86	4.60	4.77	4.81	5.59	6.52	5.72	0.86	4.11	5.89

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

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