



EPR Properties (EPR)

Updated August 11th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	12.7%	Market Cap:	\$3.2 B
Fair Value Price:	\$56	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	09/29/23 ¹
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.3%	Dividend Payment Date:	10/15/23
Dividend Yield:	7.7%	5 Year Price Target	\$61	Years Of Dividend Growth:	2
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 about \$7 billion in investments across 300+ locations in 44 states, including over 250 tenants. Total revenue should be about \$600 million this year, and the stock is valued at \$3.2 billion.

EPR posted second quarter earnings on August 2nd, 2023, and results were better than expected on both the top and bottom lines. In addition, the company noted it had successfully restructured leases with the majority of bankrupt theater tenants.

The company noted it now has a master lease agreement in place for 41 of the 57 Regal locations, as well as collecting \$7.3 million in deferred rent. The company's theater tenants are the last major holdout of COVID headwinds, so we see this as a big positive.

FFO-per-share came to \$1.28, which was two cents ahead of estimates. Revenue was up 8% to \$173 million, which was more than \$20 million ahead of estimates. EPR ended the quarter with \$100 million in cash on hand, and no borrowings on its revolving credit facility. We now see \$5.05 in adjusted FFO-per-share after Q2 results.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO	\$3.90	\$4.13	\$4.44	\$4.82	\$5.02	\$6.10	\$5.44	\$1.43	\$3.09	\$4.69	\$5.05	\$5.58
DPS	\$3.16	\$3.42	\$3.63	\$3.84	\$4.08	\$4.32	\$4.50	\$1.51	\$1.50	\$3.25	\$3.30	\$3.47
Shares²	50	54	58	64	71	74	78	75	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 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, and the Regal restructuring is a big step forward. 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.

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 7.7% 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 27.5 cents in early-2022.

¹ Estimated date

² 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	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	8.5	11.0
Avg. Yld.	6.2%	6.3%	6.3%	5.4%	5.7%	6.8%	6.0%	4.1%	3.1%	8.6%	7.7%	5.7%

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 8.5 times AFFO, we view EPR as undervalued.

The yield is at a very impressive 7.7% 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 near 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%	65%	62%

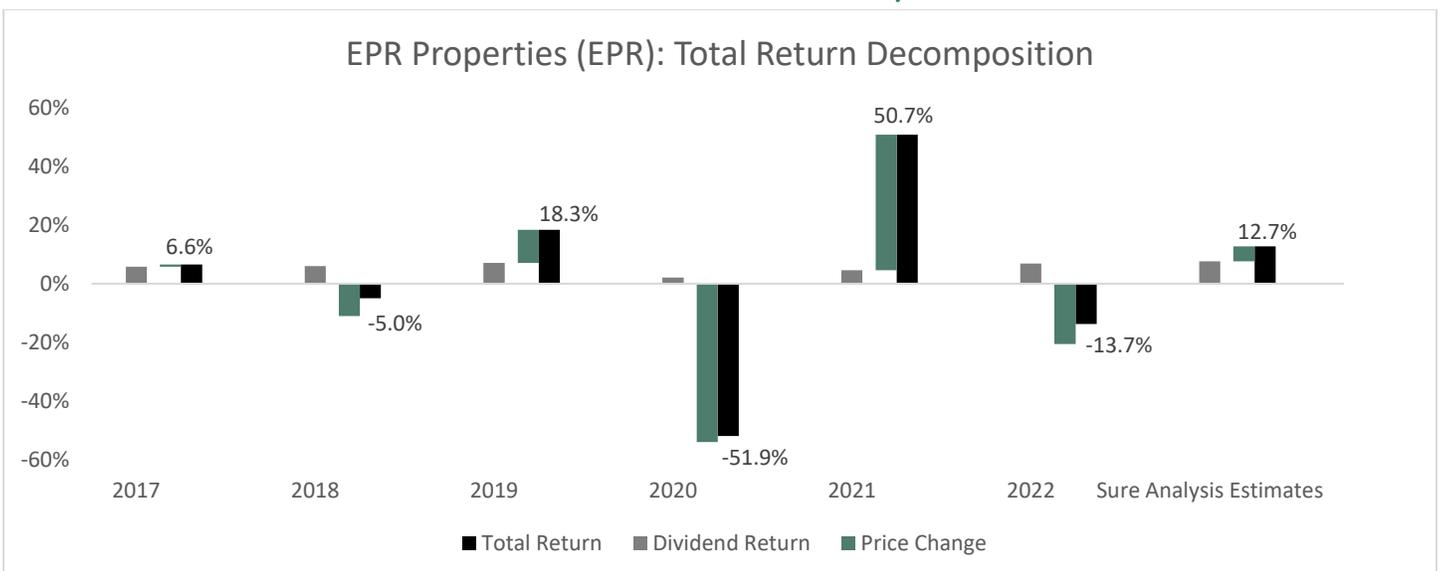
We are forecasting the payout ratio to decline to 62% of AFFO by 2028, which is in line with most years in the past decade as we believe EPR will want to reduce the risk of another dividend suspension and/or cut.

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.

Final Thoughts & Recommendation

EPR is undervalued in our view, driving a potential 5.3% tailwind. We like the strong operating history and track record of capital returns, and the high dividend yield of 7.7% 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
Revenue	343	385	421	493	518	640	652	415	532	658
Gross Profit	317	360	398	471	487	610	591	356	475	602
Gross Margin	92.4%	93.5%	94.4%	95.4%	94.0%	95.4%	90.7%	85.9%	89.3%	91.5%
SG&A Exp.	26	28	50	38	43	49	46	43	44	52
D&A Exp.	54	67	90	108	133	153	172	170	164	163
Operating Profit	237	262	258	326	322	423	386	112	289	342
Operating Margin	69.2%	68.1%	61.4%	66.0%	62.2%	66.1%	59.2%	27.1%	54.3%	52.0%
Net Profit	180	180	195	225	263	267	202	(132)	99	176
Net Margin	52.5%	46.7%	46.2%	45.6%	50.7%	41.7%	31.0%	-32%	18.5%	26.7%
Free Cash Flow	234	250	278	305	398	484	440	65	307	442
Income Tax	(14)	4	0	1	2	2	(3)	17	2	1

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,272	3,686	4,217	4,865	6,191	6,131	6,578	6,704	5,801	5,759
Cash & Equivalents	8	3	4	19	42	6	529	1,026	289	108
Accounts Receivable	44	48	62	75	83	85	85	116	76	54
Goodwill & Int. Ass.	---	---	9	15	29	42	45	42	38	37
Total Liabilities	1,584	1,760	2,143	2,679	3,264	3,266	3,572	4,074	3,183	3,223
Accounts Payable	72	82	92	120	137	168	123	105	73	80
Long-Term Debt	1,475	1,630	1,982	2,486	3,029	2,986	3,103	3,694	2,804	2,810
Shareholder's Equity	1,687	1,926	2,074	2,186	2,927	2,865	3,006	2,630	2,618	2,536
LTD/E Ratio	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
Return on Assets	5.8%	5.2%	4.9%	5.0%	4.8%	4.3%	3.2%	-2.0%	1.6%	3.0%
Return on Equity	11.5%	9.9%	9.7%	10.6%	10.3%	9.2%	6.9%	-4.7%	3.8%	6.8%
ROIC	6.0%	5.3%	5.1%	5.2%	4.9%	4.5%	3.4%	-2.1%	1.7%	3.3%
Shares Out.	50	54	58	64	71	74	78	75	75	75
Revenue/Share	7.12	7.07	7.22	7.77	7.27	8.61	8.49	5.46	7.11	8.77
FCF/Share	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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