



Physicians Realty Trust (DOC)

Updated November 7th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$11.37	5 Year CAGR Estimate:	13.4%	Market Cap:	\$2.8 B
Fair Value Price:	\$15.15	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	01/03/24 ¹
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	5.9%	Dividend Payment Date:	01/18/24
Dividend Yield:	8.1%	5 Year Price Target	\$16.73	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

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 270 properties also includes diagnostic and outpatient treatment facilities, surgery centers and medical office buildings. Physicians Realty Trust generates annual revenues of ~\$527 million.

On October 30th, 2023, Physicians Realty Trust announced that it agreed to merge with Healthpeak Properties (PEAK) in an all-stock merger of equals valued at approximately \$21 billion. The new REIT should benefit from much greater scale and have annual savings of up to \$60 million by the end of the second year. The transaction should close in the first half of 2024.

Also on October 30th, 2023, Physicians Realty Trust reported third quarter results for the period ending September 30th, 2023. For the quarter, revenue grew 5.3% to \$138.5 million, beating estimates by \$2.2 million. Funds-from-operation, or FFO, of \$0.25 compared unfavorably to \$0.28 in the prior year, but was in-line estimates.

For the quarter, Medical Office Buildings, which comprise 97% of net leasable square footage, had same-store cash NOI growth of 1.5%. The portfolio was 94.7% leased at the end of the first quarter, up from 94.5% for the prior quarter. Weighted average leasing spreads for the third quarter was 6.7% and tenant retention totaled 77%. The trust completed \$16.8 million of investments during the quarter.

We continue to expect Physicians Realty Trust to generate funds-from-operation of \$1.01 in 2023, compared to prior estimates of \$1.00 and \$1.04 previously.

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	\$1.01	\$1.12
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	249	260

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 \$1.12 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.

¹ Estimated date

² In millions of shares

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/FFO	47.2	23.7	18.3	19.3	17.3	14.8	18.9	17.0	18.1	18.1	11.3	15.0
Avg. Yld.	1.8%	5.4%	5.3%	4.8%	5.1%	5.7%	4.9%	5.2%	4.9%	6.4%	8.1%	5.5%

Shares of Physicians Realty Trust have declined by \$3.16, or 21.7%, since our August 5th, 2023 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 the current share price and expected FFO for 2023, the stock has a P/FFO ratio of 11.3. If shares were to trade at our target multiple, then multiple expansion would add 5.9% to annual returns.

Physicians Realty Trust's current yield is 310 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%	91%	83%

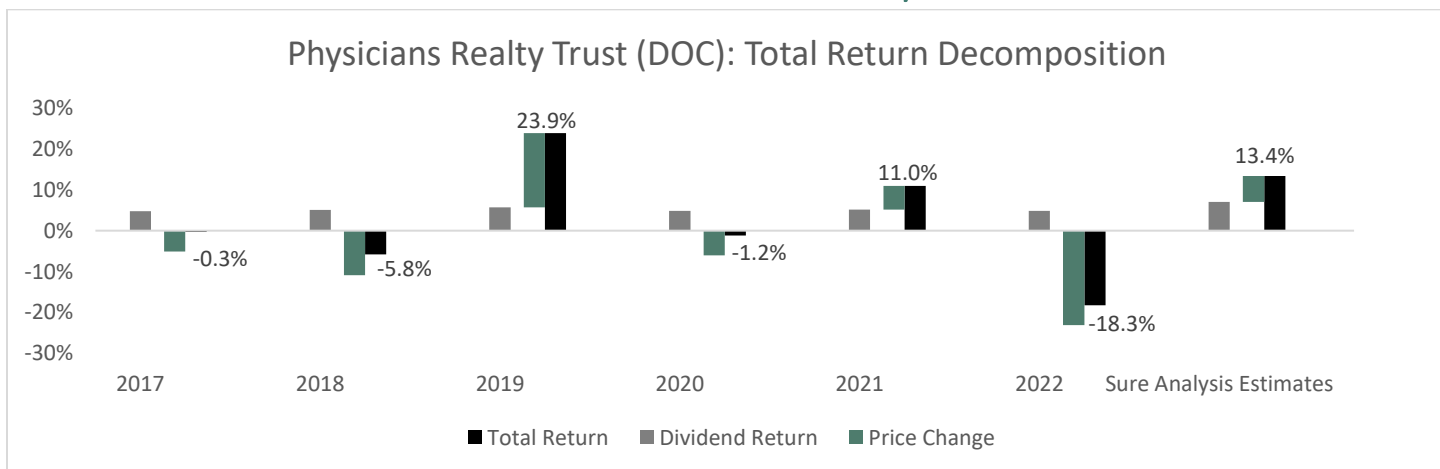
Real Estate Investment Trusts are required to distribute at least 90% of taxable income in the form of dividends, so Physicians Realty Trust's elevated payout ratios over the years should not be a major concern to investors. Those looking for dividend growth, however, will likely be disappointed with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

Following third quarter results, Physicians Realty Trust is now expected to return 13.4% annually, up from our previous estimate of 7.8%. This projection stems from a 2.0% FFO growth rate, an 8.1% starting dividend yield, and a mid-single-digit 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. The pending merger with Healthpeak should also be a positive for shareholders. Even after a surge in share price following the merger news, the stock still trades at a steep discount to our fair value estimate. As a result, we now rate shares of Physicians Realty Trust as a buy due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	17	53	129	241	344	423	415	438	458	527
Gross Profit	12	43	98	175	247	300	290	309	320	356
Gross Margin	72.7%	81.0%	76.0%	72.6%	71.8%	71.0%	69.9%	70.7%	70.0%	67.5%
SG&A Exp.	4	11	15	18	23	29	33	34	38	40
D&A Exp.	5	17	48	90	130	163	151	154	158	190
Operating Profit	4	15	38	70	98	113	111	126	125	126
Operating Margin	21.1%	28.1%	29.4%	29.1%	28.6%	26.7%	26.7%	28.8%	27.2%	23.9%
Net Profit	(2)	(4)	12	30	38	56	74	66	84	104
Net Margin	-13.1%	-7.6%	9.1%	12.4%	11.1%	13.3%	17.9%	15.1%	18.3%	19.8%
Free Cash Flow	1	12	54	116	157	174	161	199	215	219

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	293	812	1,639	2,888	4,164	4,143	4,347	4,414	5,183	5,097
Cash & Equivalents	56	16	3	15	3	19	2	3	10	8
Accounts Receivable	3	8	19	42	58	73	82	91	100	113
Goodwill & Int. Ass.	31	73	205	301	459	452	390	407	498	505
Total Liabilities	52	242	562	1,106	1,617	1,695	1,866	1,699	2,196	2,100
Accounts Payable	1	1	1	4	11	4	6	7	7	4
Long-Term Debt	43	216	484	991	1,477	1,533	1,634	1,439	1,912	1,818
Shareholder's Equity	205	535	1,021	1,738	2,473	2,380	2,409	2,641	2,836	2,870
LTD/E Ratio	0.21	0.40	0.47	0.57	0.60	0.64	0.68	0.54	0.67	0.63

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-1.1%	-0.7%	1.0%	1.3%	1.1%	1.4%	1.8%	1.5%	1.7%	2.0%
Return on Equity	-2.0%	-1.1%	1.5%	2.2%	1.8%	2.3%	3.1%	2.6%	3.1%	3.7%
ROIC	-1.2%	-0.8%	1.0%	1.4%	1.1%	1.4%	1.8%	1.6%	1.9%	2.1%
Shares Out.	12	37	77	130	168	188	194	216	228	240
Revenue/Share	1.32	1.61	1.69	1.85	2.04	2.25	2.17	2.07	2.05	2.20
FCF/Share	0.09	0.37	0.71	0.89	0.93	0.93	0.84	0.94	0.96	0.91

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

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