



Alexandria Real Estate Equities (ARE)

Updated January 30th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$121	5 Year CAGR Estimate:	13.0%	Market Cap:	\$22 B
Fair Value Price:	\$152	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	03/29/24
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.6%	Dividend Payment Date¹:	04/15/24
Dividend Yield:	4.2%	5 Year Price Target	\$193	Years Of Dividend Growth:	13
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	Buy

Overview & Current Events

Founded in 1994 and named after Alexandria, Egypt - in homage to the scientific capital of the ancient world - Alexandria Real Estate Equities owns and operates life science, technology and agtech campuses across North America. Key locations for this Real Estate Investment Trust (REIT) include Boston, San Francisco, New York, San Diego, Seattle, Maryland, and the Research Triangle (North Carolina). The \$22 billion market cap company focuses on high quality properties in prime locations.

Alexandria's business model has taken on renewed importance as a result of the COVID-19 pandemic, as a significant number of the company's life science tenants are working on solutions for the crisis and similar future crises.

On December 4th, 2023, Alexandria increased its quarterly dividend by 2.4% to \$1.27.

On January 29th, 2024, Alexandria reported fourth quarter 2023 results for the period ending December 31st, 2023. For the quarter, the company generated \$757 million in revenue, a 13% increase compared to Q4 2022. Adjusted funds from operations (FFO) totaled \$390 million or \$2.28 per share compared to \$354 million or \$2.14 per share in Q4 2022.

Alexandria ended the quarter with \$5.8 billion in liquidity. More than fifty percent of the company's tenants are investment-grade or publicly traded large cap businesses.

Alexandria provided 2024 guidance, expecting \$9.37 to \$9.57 in FFO, for a \$9.47 midpoint.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO	\$4.80	\$5.25	\$5.51	\$6.02	\$6.60	\$6.96	\$7.30	\$7.76	\$8.42	\$8.97	\$9.47	\$12.09
DPS	\$2.88	\$3.05	\$3.23	\$3.45	\$3.73	\$3.94	\$4.18	\$4.45	\$4.72	\$4.96	\$5.12	\$6.53
Shares²	71.1	71.5	76.1	91.6	111.0	120.8	136.0	147.5	161.7	170.9	180.0	200.0

Note that we are using adjusted FFO instead of earnings-per-share, as this better reflects the underlying earnings power of a REIT. Dating back to 2014, Alexandria has increased FFO per share by an average compound rate of 7.2% per annum and the dividend by 6.3% per annum. Impressively, the company has not failed to grow its FFO every year in the last decade.

Moving forward we believe Alexandria can continue to grow at a reasonable pace and we are expecting 5.0% intermediate-term growth, slightly below the company's historical rate. The company achieved \$1.4 billion in funding from dispositions and interest sales (non-core properties and properties which are not important to its mega campus strategy) from its value harvesting and asset recycling plan for 2023. This will enable the company to develop properties without requiring more joint venture partners. For 2024, Alexandria expects construction spending to be roughly \$2.25 billion.

The REIT has a unique "cluster model" which focuses on providing proximity to world-renowned academic institutions, leading scientific and managerial talent, and sophisticated investment capital. This, combined with new developments

¹ Estimate.

² In millions.

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and progress in life science, should provide a long runway for growth. Of course, issuing shares and managing the company's debt load are two counterbalancing factors.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	16.1	17.7	16.8	20	18.2	19.7	21.6	24.2	19.7	13.6	12.8	16.0
Avg. Yld.	3.7%	3.3%	3.5%	2.9%	3.1%	2.9%	2.6%	2.4%	2.7%	4.0%	4.2%	3.4%

In the last decade, shares of Alexandria have traded hands with an average multiple of about 18.8 times FFO. We are using 16 times FFO for a starting fair value baseline. Shares are presently trading at 12.8 times expected FFO which implies the potential for a moderate valuation tailwind in the next five years.

Meanwhile, the dividend has been increasing at a solid rate and should continue to aid in shareholder returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	60%	58%	59%	57%	57%	57%	57%	57%	56%	55%	54%	54%

Alexandria has put its competitive advantage on display in its FFO and dividend record during the past decade. This stems from focusing on quality properties in prime locations in a needed and growing industry. Moreover, the cluster model is a unique attribute that Alexandria continues to leverage very well.

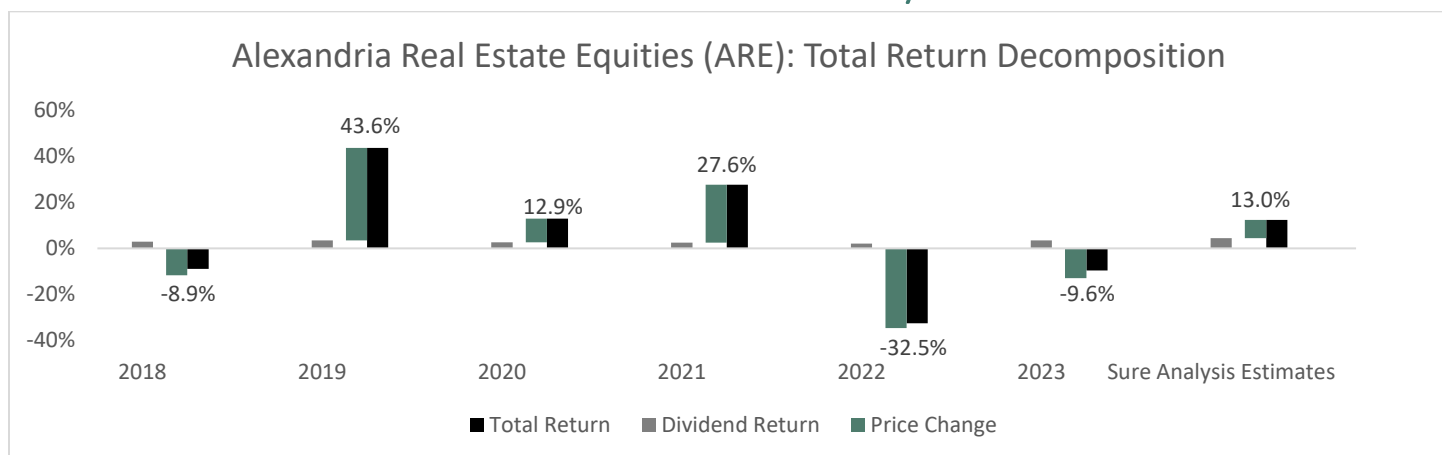
As of the last quarterly report, Alexandria had a net debt and preferred stock to adjusted EBITDA ratio of 5.1X and a fixed-charge ratio of 4.5X, which compares to its year-end goals of less than or equal to 5.1X and greater than or equal to 4.5X. We are encouraged by the quality of the company's tenants along with the idea that there are no debt maturities before 2025 and the weighted average remaining debt term is 12.8 years.

During the last recession, FFO dipped -23% in 2010 and the dividend was slashed from \$3.18 in 2008 down to \$1.50 in 2010. While the company performed well throughout the pandemic, this is something to keep in mind, nevertheless.

Final Thoughts & Recommendation

Shares are down 23% in the trailing one-year period, and the stock now trades 20% below our fair value estimate, thus offering some margin of safety. Alexandria offers quality properties in prime locations and has a very good track record. Total return potential comes in at 13.0% per annum, stemming from 5.0% FFO growth, a 4.2% starting yield and a potential valuation tailwind. We are reiterating our buy rating on ARE.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	720	820	922	1128	1327	1531	1886	2114	2589	2886
Gross Profit	501	558	643	802	946	1086	1355	1491	1806	2027
Gross Margin	70%	68%	70%	71%	71%	71%	72%	70.5%	69.8%	70.2%
SG&A Exp.	54	60	64	75	90	109	133	151	177	199
D&A Exp.	224	261	313	417	478	545	698	821	928	1000
Operating Profit	224	237	266	311	378	432	524	518	626	734
Operating Margin	31%	29%	29%	28%	28%	28%	28%	24.5%	24.2%	25.4%
Net Profit	102	144	-66	169	379	363	771	571	522	104
Net Margin	14%	18%	-7%	15%	29%	24%	41%	27%	20.1%	3.6%
Free Cash Flow	334	343	393	451	570	684	883	1010	1294	1631

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	8136	8881	10355	12104	14465	18391	22830	30220	35523	36770
Cash & Equivalents	86	125	125	254	234	190	569	361	825	618
Accounts Receivable	11	10	10	10	10	11	733	7.4	8	8
Total Liabilities	4241	4601	4984	5632	6581	8236	9395	11190	12840	14150
Accounts Payable	219	240	366	350	216	199	285	513	390	524
Long-Term Debt	3679	3936	4164	4765	5478	6777	7563	8792	10160	11320
Shareholder's Equity	3461	3608	4679	5875	7278	8866	11730	16190	18972	18470
D/E Ratio	0.96	0.99	0.85	0.80	0.75	0.76	0.65	0.54	0.54	0.61

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.3%	1.7%	-0.7%	1.5%	2.9%	2.2%	3.7%	2.2%	1.6%	0.29%
Return on Equity	2.9%	4.1%	-1.6%	3.2%	5.8%	4.5%	7.5%	4.1%	3.0%	0.55%
ROIC	1.4%	1.8%	-0.7%	1.6%	3.1%	2.4%	4.1%	2.3%	1.7%	0.31%
Shares Out.	71.2	71.5	76.1	92.1	103.3	112.5	126.5	147.5	161.7	170.9
Revenue/Share	10.12	11.46	12.11	12.25	12.85	13.61	14.91	14.34	16.02	16.88
FCF/Share	4.70	4.79	5.17	4.90	5.52	6.08	6.98	6.85	8.01	9.54

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

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