



Piedmont Office Realty Trust (PDM)

Updated February 11th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$6.62	5 Year CAGR Estimate:	13.7%	Market Cap:	\$777 M
Fair Value Price:	\$9.06	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	02/22/24
% Fair Value:	73%	5 Year Valuation Multiple Estimate:	6.5%	Dividend Payment Date:	03/15/24
Dividend Yield:	7.6%	5 Year Price Target	\$10	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Piedmont Office Realty Trust, Inc. owns, manages, develops, redevelops, and operates high-quality office properties located primarily in sub-markets within seven major Eastern U.S. office markets. The company derives most of its revenues from U.S. government entities, business services companies, and financial institutions in the Sunbelt region. PDM is fully integrated and self-managed. The company has local management offices in each of their markets. Piedmont trades on the NYSE under the ticker symbol PDM and is headquartered in Atlanta, Georgia. The office REIT has a market capitalization of \$777 million.

On July 26th, 2023, Piedmont Office Realty slashed its quarterly dividend by 41% to \$0.125, as increased interest expense weighed heavily on its results.

On February 7th, 2024, Piedmont reported fourth quarter 2023 results. The company reported core funds from operations (FFO) of \$0.41 per share for the quarter, an 18% decrease compared to last year's results in the fourth quarter, mostly due to an increase in interest expense.

PDM saw a 4.8% increase in same store net operating income on an accrual basis during the fourth quarter. The company leased 816,494 square feet in the quarter, including 154,755 square feet of new tenant leasing. As of December 31st, 2023, roughly 1.1 million square feet of executed leases were yet to commence or under rental abatement.

Leadership initiated its 2024 guidance, which sees core funds from operations in the range of \$1.46 to \$1.56 per share. Interest expense for the year is expected to climb by 18.5% due to higher interest rates.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
FFFO/S	\$1.49	\$1.60	\$1.67	\$1.75	\$1.73	\$1.79	\$1.89	\$1.97	\$2.00	\$1.74	\$1.51	\$1.67
DPS	\$0.81	\$0.84	\$0.84	\$1.34	\$0.84	\$0.84	\$0.84	\$0.84	\$0.84	\$0.76	\$0.50	\$0.53
Shares¹	154.6	150.9	145.6	145.4	130.6	126.2	126.1	123.9	123.5	123.8	124.0	130.0

Piedmont measures performance using core funds from operations (FFFO) per share, as it provides a more accurate representation of the REIT's cash flow rather than earnings per share (EPS), which can include a large amount of depreciation, or the gain on sale of real estate. In the last nine years, PDM grew its core FFO per share by 1.7% annually, however, in the last five years, this growth rate has turned into a -0.6% annual decline. While results have been relatively choppy at times, there exists a long term track record of positive growth. Given the ongoing struggles of the office real estate space due to the lingering effects of the COVID pandemic, upcoming lease expirations, and higher interest rates, we estimate PDM will grow core FFO at just 2.0% annually.

PDM will focus on growing its real estate concentration in its seven identified growth sub-markets of Atlanta, Boston, Dallas, Minneapolis, New York, Orlando, and Washington, D.C. The trust expects that working from home should diminish in the U.S. post covid and they are well-positioned to adapt to the updated workforce preferences. The trust

¹ In millions

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will recycle capital into assets within its targeted submarkets that should benefit from the migration trends that COVID has accelerated. Piedmont has sold more than \$1 billion of assets since early 2019 and redeployed into higher yielding assets, also increasing its exposure to the Sunbelt region. Currently there are approximately 1.1 million square feet in leases under an abatement period or yet to commence. Piedmont's share count, unlike most other REITs, has decreased over the long term, and this is a positive since core FFO is concentrated over a lower number of units, effectively increasing the core FFO per share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/FFO	12.3	11.5	12.1	11.9	10.8	11.5	9.0	9.1	6.9	4.1	4.4	6.0
Avg. Yld.	4.4%	4.5%	4.2%	4.0%	4.5%	4.1%	5.1%	4.7%	6.2%	11.5%	7.6%	5.3%

Piedmont's valuation has trended lower in recent years, with a nine and five year average price-to-core FFO of 9.9 and 8.1. Presently PDM trades at just 4.4 times estimated core FFO, and we believe the discount to be steep, thus we estimate the trust can benefit from a 6.5% tailwind to the valuation to reach 6.0 times core FFO.

Safety, Quality, Competitive Advantage, & Recession Resiliency

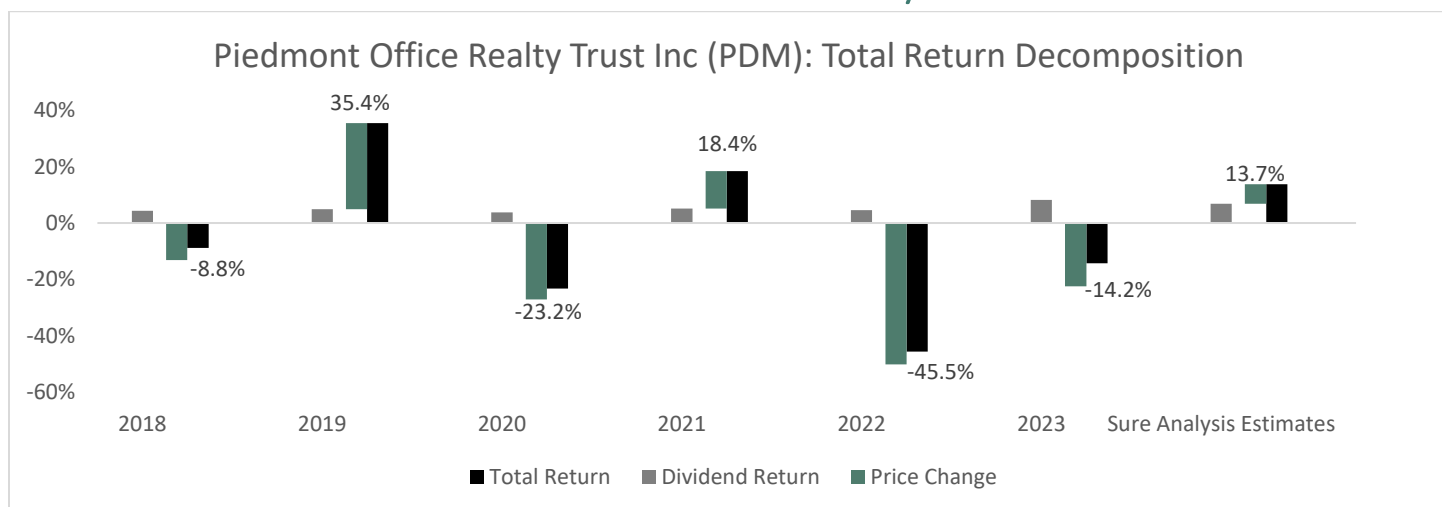
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	54%	53%	50%	77%	49%	47%	44%	43%	42%	43%	33%	32%

Despite appearing to have a sustainable payout ratio in the past decade, the forecasted increase in interest expense on Piedmont's operations going forward pushed it to slash its dividend by 41% in July 2023. The Trust had not been around during the start of the Great Recession, but we can assume that such a recession would be a risk. While office leases tend to be fairly stable, the pandemic and resulting remote work could result in a permanent paradigm shift, which would result in less office space being required. PDM does not possess any strong competitive advantage, but its focus on its identified growth submarkets is a strength.

Final Thoughts & Recommendation

Overall, we expect total returns of 13.7% annually, primarily driven by the 6.5% valuation tailwind and the high 7.6% dividend yield as well as 2% FFO per share growth. The company is trading at a massive discount, and hovers around 73% of our estimated fair value. As a result, we rate Piedmont Office Realty Trust as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	566	585	556	574	526	533	535	529	564	578
Gross Profit	327	343	335	352	317	322	320	318	338	343
Gross Margin	57.7%	58.6%	60.3%	61.3%	60.2%	60.4%	59.8%	60.1%	59.9%	59.3%
SG&A Exp.	24	30	27	29	30	38	27	30	29	29
D&A Exp.	195	196	202	193	166	178	195	199		
Operating Profit	108	117	105	128	116	101	89	81	84	77
Operating Margin	19.0%	20.0%	18.8%	22.3%	22.0%	19.0%	16.6%	15.3%	14.9%	13.4%
Net Profit	42	131	100	134	130	229	233	-1	147	-48
Net Margin	7.4%	22.5%	17.9%	23.3%	24.8%	43.0%	43.5%	-0.2%	26.0%	-8.4%
Free Cash Flow	48	105	122	163	131	105	81	120		

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,788	4,362	4,368	4,000	3,592	3,517	3,740	3,931	4,086	4,057
Cash & Equivalents	12	5	7	7	5	14	7	7	17	1
Accounts Receivable	175	174	163	157	148	141	160	166	177	192
Goodwill & Int. Ass.	250	189	199	177	177	173	190	193	197	136
Total Liabilities	2,476	2,238	2,270	2,013	1,880	1,698	1,842	2,143	2,236	2,334
Accounts Payable	134	128	165	115	94	117	112	114	110	132
Long-Term Debt	2,270	2,030	2,020	1,727	1,685	1,481	1,622	1,878	1,984	2,055
Shareholder's Equity	2,310	2,122	2,096	1,985	1,710	1,817	1,896	1,786	1,848	1,721
LTD/E Ratio	0.98	0.96	0.96	0.87	0.99	0.82	0.86	1.05	1.07	1.19

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.9%	2.9%	2.3%	3.2%	3.4%	6.4%	6.4%	0.0%	3.7%	-1.2%
Return on Equity	1.8%	5.9%	4.7%	6.5%	7.1%	13.0%	12.5%	-0.1%	8.1%	-2.7%
ROIC	0.9%	3.0%	2.4%	3.4%	3.7%	6.8%	6.8%	0.0%	3.9%	-1.3%
Shares Out.	154.6	150.9	145.6	145.4	130.6	126.2	126.1	124.0	123.5	123.7
Revenue/Share	3.66	3.88	3.82	3.95	4.03	4.23	4.24	4.26	4.56	4.67
FCF/Share	0.31	0.70	0.84	1.12	1.00	0.83	0.64	0.96		

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

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