



Innovative Industrial Properties (IIPR)

Updated February 22nd, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	\$73	5 Year CAGR Estimate:	15.4%	Market Cap:	\$2.1 B
Fair Value Price:	\$85	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	03/27/25
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.2%	Dividend Payment Date¹:	04/15/25
Dividend Yield:	10.5%	5 Year Price Target	\$108	Years Of Dividend Growth:	7
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Innovative Industrial Properties is a specialized real estate investment trust (REIT) that focuses on owning and leasing properties used for the cultivation and production of cannabis. Given the industry's evolving legal landscape, cannabis businesses face significant constraints on access to traditional financing. IIPR went public during a period that allowed its listing, establishing itself as a leader in the space. While other cannabis-focused REITs have since entered the market, IIPR continues to benefit from its first-mover advantage, strong portfolio growth, and ongoing demand for real estate capital within the industry. The \$2.1 billion REIT owned 109 properties in 19 states at the end of 2024. Due to the cannabis boom over the past few years, as well as its exclusivity in terms of the listing giving the trust access to public markets, Innovate Industrial Properties is a truly unique REIT.

On January 30th, 2025, IIPR announced a resolution to PharmaCann's lease defaults, which included utilizing security deposits to cover unpaid rent, reducing base rent for nine properties, and transitioning two cultivation properties to new tenants; if the transition is not completed by August 1st, 2025, IIPR will regain full control of those properties

On February 19th, 2025, IIPR released its Q4 and full-year results for the period ending December 31st, 2024. For the quarter, revenues and normalized AFFO/share were \$76.7 million and \$2.22, down 3% and 2.6% year-over-year, respectively. The decline in revenues was due to: (i) lost rent and fees from properties repossessed or sold since 2023, (ii) lease amendments that adjusted and deferred rent on certain properties, and (iii) partial rent payments from some tenants, along with reclassified sales-type leases starting January 2024. These factors were offset by \$3.9 million from a disposition-contingent lease termination fee, revenue from new acquisitions, and contractual rent escalations. AFFO per share reflected the modest revenue decline, along with higher interest expenses, despite disciplined cost controls.

Subsequent to quarter end, IIPR executed a long-term lease for a 23,000-square-foot industrial property in Maryland acquired in Q4 for \$5.6 million, and signed additional leases, including 160,000 square feet in Pennsylvania. As the end of the year 98.3% of IIPR's properties were leased, with a weighted average remaining lease term of 13.7 years. We forecast AFFO/share of \$7.72 for FY2025. Our estimate reflects potential headwinds from PharmaCann's situation.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
AFFO	---	(\$0.62)	\$0.67	\$1.34	\$3.27	\$5.01	\$6.66	\$8.45	\$9.08	\$8.98	\$7.72	\$9.85
DPS	---	---	\$0.55	\$1.20	\$2.83	\$4.47	\$5.72	\$7.10	\$7.22	\$7.52	\$7.60	\$8.39
Shares²	---	1	3.4	7.3	10.7	19.4	23.9	27.3	28.0	28.2	28.2	35.0

Industrial Innovating Properties has seen AFFO/share grow dramatically since the trust's IPO. To capitalize on the growth of the cannabis sector, IIPR acquired 37 and nine properties in 2021 and 2022, respectively. With the schedule-1 drug being decriminalized in one state after the other, we expect to see the current growth rates sustained in the medium term. In line with its AFFO growth, management has consistently raised the dividend, often on a sequential basis. Payouts grew by just 1.7% in FY2023 and 4.2% in FY2024. We retain our AFFO/share growth estimate to 5%. This is

¹ Estimated dates based on past dividend dates.

² Share count is in millions.

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largely to be prudent against rising interest rates and the possibility of some of the company's tenants being unable to pay rent. We have also set our dividend per share growth estimate at 2%, reflecting the recent deceleration in dividend growth. As mentioned in previous reports, and it was once again proven in results over the past few years, these estimates will likely turn out to be prudent. Still, IIPR has short trading history, and its acquisition-driven strategy may see availability headwinds in the future, which also supports the case for our more reserved estimates.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/FFO	---	---	47.8	12.2	16.6	30.2	33.0	18.9	8.9	11.2	9.4	11.0
Avg. Yld.	---	---	3.4%	3.3%	2.8%	2.8%	2.6%	4.4%	9.0%	7.5%	10.5%	7.7%

IIPR's shares underwent a violent valuation multiple compression since 2021. The stock's P/FFO now stands at 9.4x our FY2025 expected AFFOs. We believe the stock is undervalued here. The REIT's financials remain robust, but we remain wary of the intricacies of its tenant base and higher interest rates. We retain our fair valuation multiple at 11X through 2030. Shares are now yielding 10.5%, which remains a hefty tangible return given IIPR's track record.

Safety, Quality, Competitive Advantage, & Recession Resiliency

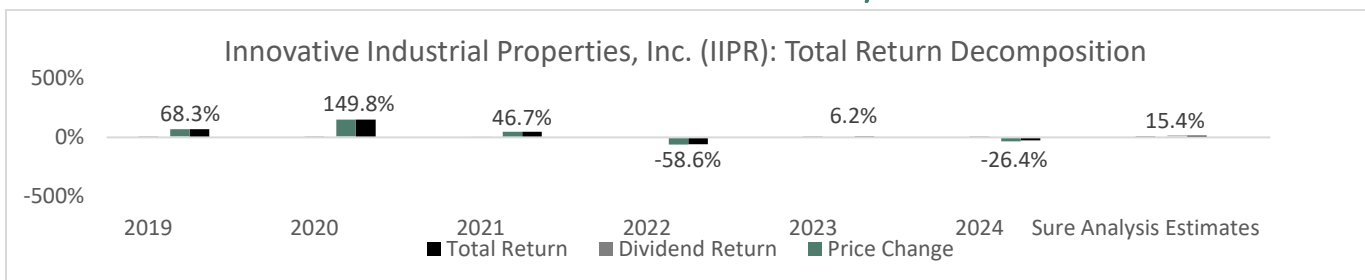
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	82%	90%	87%	89%	86%	84%	80%	84%	98%	85%

Despite the company's high payout ratio, we believe the dividend should remain well-covered. Last year's bold dividend increases reassure us of that. Regarding its qualities, being the only listed pure-cannabis REIT, the company has a massive moat. With access to public markets, management can issue debt and equity much cheaper than its few private competitors. IIPR can build more durable and sustainable relationships with tenants as it possesses higher credibility and transparency. With more states legalizing weed over time, the company is subject to a fantastic medium/long-term expansion trend. Despite the headwinds COVID-19 caused in many industries, IIPR was barely affected, continuing its proven acquisition-based growth model. That said, because of how new the cannabis sector is, its recession resiliency is untested to the passage of time and remains to be seen. And, despite its average lease duration standing at a fantastic 13.7 years, we are wary of the tenants' ability to commit to their leasing obligations. This is due to many of them facing financial hurdles as a result of the steep competition in the cannabis space, as well as the industry's razor-thin margins.

Final Thoughts & Recommendation

Innovative Industrial Properties is a genuinely unique investment case. Instead of guessing which cannabis-producing stock will be a long-term winner, investors can profit off of what every producer needs, which is specialized property. This way, the sector's growth can be taken advantage of while benefiting from the consistent rental cash flows from IIPR's facilities. While most cannabis producers still struggle to make money, IIPR continues to post robust results. We forecast an annualized return of 15.4% until 2030 driven by our growth estimates, the huge yield, and the potential of a valuation headwind. Shares earn a buy rating due to the REIT's unique qualities and near-double-digit return forecast.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	---	---	\$0.32	\$6.42	\$14.79	\$44.67	\$116.90	\$204.6	276.4	310
Gross Profit	---	---	\$0.23	\$6.30	\$14.34	\$43.35	\$111.94	\$200.1	266	285
Gross Margin	---	---	72.9%	98.2%	97.0%	97.1%	95.7%	97.8%	96.2%	91.9%
SG&A Exp.	---	---	\$0.83	\$5.50	\$6.38	\$9.82	\$14.18	\$22.96	38.52	43
D&A Exp.	---	---	\$0.03	\$0.92	\$2.63	\$8.60	\$28.02	\$41.78	61.30	67
Operating Profit	---	---	-\$0.69	-\$0.11	\$5.34	\$24.94	\$69.74	\$135.37	166	175
Operating Margin	---	---	-213.4%	-1.7%	36.1%	55.8%	59.7%	66.2%	60.1%	56.5%
Net Profit	---	---	-\$4.39	-\$0.07	\$6.99	\$23.48	\$65.73	\$113.99	154	166
Net Margin	---	---	-1368.2%	-1.1%	47.2%	52.6%	56.2%	55.7%	55.7%	53.5%
Free Cash Flow	---	---	-\$28.34	\$5.02	\$15.69	\$44.93	\$110.81	\$188.75	234	256
Income Tax	---	---	\$0.32	\$6.42	\$14.79	\$44.67	---	---	---	---

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	---	---	\$63.33	\$80.03	\$281.47	\$745.86	\$1,768	\$2,085	2,415	2,391
Cash & Equivalents	---	---	\$33.00	\$11.76	\$13.05	\$82.24	\$126.01	\$81.10	87	140
Total Liabilities	---	---	\$2.89	\$6.48	\$17.17	\$197.85	\$243.11	\$472.9	453	438
Accounts Payable	---	---	\$0.07	\$1.08	\$4.40	\$28.39	\$41.14	\$53.99	40	21
Long-Term Debt	---	---	\$0.00	\$0.00	\$0.00	\$134.65	\$136.69	\$326.09	302	301
Shareholder's Equity	---	---	\$60.44	\$59.54	\$250.28	\$534.00	\$1,511	\$1,598	1,948	1,939
LTD/E Ratio	---	---	0.00	0.00	0.00	0.25	0.09	0.20	0.15	0.15

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	---	---	---	-0.1%	3.9%	4.6%	5.2%	5.9%	6.9%	6.9%
Return on Equity	---	---	-14.5%	-0.1%	4.5%	6.0%	6.4%	7.3%	8.7%	8.5%
ROIC	---	---	---	-0.1%	4.1%	5.0%	5.6%	6.3%	7.4%	7.3%
Shares Out.	---	---	0.96	3.38	7.29	10.68	19.56	26.26	27.66	28.3
Revenue/Share	---	---	\$0.33	\$1.90	\$2.03	\$4.18	\$5.98	\$7.79	9.99	10.95
FCF/Share	---	---	-\$29.43	\$1.49	\$2.15	\$4.21	\$5.67	\$7.19	8.46	9.04

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

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