



EPR Properties (EPR)

Updated September 1st, 2024, by Josh Arnold

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	11.1%	Market Cap:	\$3.6 B
Fair Value Price:	\$53	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	09/30/24 ¹
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Dividend Payment Date:	10/16/24
Dividend Yield:	7.3%	5 Year Price Target	\$62	Years Of Dividend Growth:	3
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 in excess of \$600 million this year, and the stock is valued at \$3.6 billion.

EPR posted second quarter earnings on July 31st, 2024, and results were about as expected. The REIT posted adjusted funds-from-operations of \$1.20, while revenue was flat year-over-year at \$173 million.

Management noted demand for all of its tenant categories remained strong. Total operating expenses increased to \$95 million from \$87 million in Q1, but was much lower than \$126 million in last year's Q2.

Investment spending was \$47 million, bringing year-to-date investment spending to \$133 million. The REIT also has \$180 million committed for further experiential development and redevelopment projects, which are expected to be funded and completed over the next two years.

We now see \$4.85 in adjusted funds-from-operations after Q2 results, which would be just under what was produced for 2023.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO	\$4.13	\$4.44	\$4.82	\$5.02	\$6.10	\$5.44	\$1.43	\$3.09	\$4.69	\$5.18	\$4.85	\$5.62
DPS	\$3.42	\$3.63	\$3.84	\$4.08	\$4.32	\$4.50	\$1.51	\$1.50	\$3.25	\$3.30	\$3.42	\$3.59
Shares²	54	58	64	71	74	78	75	75	75	76	76	76

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 that continues today.

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. That said, 2022/2023 results seem to indicate that the worst is behind EPR, and the Regal restructuring is a big step forward. We're moving our growth estimate to 3% as we think EPR's current level of earnings is sustainable, but tough to grow meaningfully from for the time being.

The dividend is at a rate of \$3.42 per share annually, which we believe will grow somewhat in the years to come. The stock yields 7.3% now, which is impressive given the trust went several months with no dividend payment. EPR raised its

¹ Estimated date

² Share count in millions

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payout from 25 cents per share monthly to 27.5 cents in early-2022, and once again in early-2024. In addition, the dividend is paid monthly, rather than quarterly.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/AFFO	13.1	12.9	14.7	14.2	10.4	13.8	25.7	15.6	7.9	9.4	9.7	11.0
Avg. Yld.	6.3%	6.3%	5.4%	5.7%	6.8%	6.0%	4.1%	3.1%	8.6%	6.8%	7.3%	5.8%

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 as having normalized for the most part. At a current valuation of 9.7 times AFFO, we view EPR as quite undervalued.

The yield is at a very impressive 7.3% 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 around 6%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	83%	82%	80%	81%	71%	83%	106%	49%	69%	64%	71%	64%

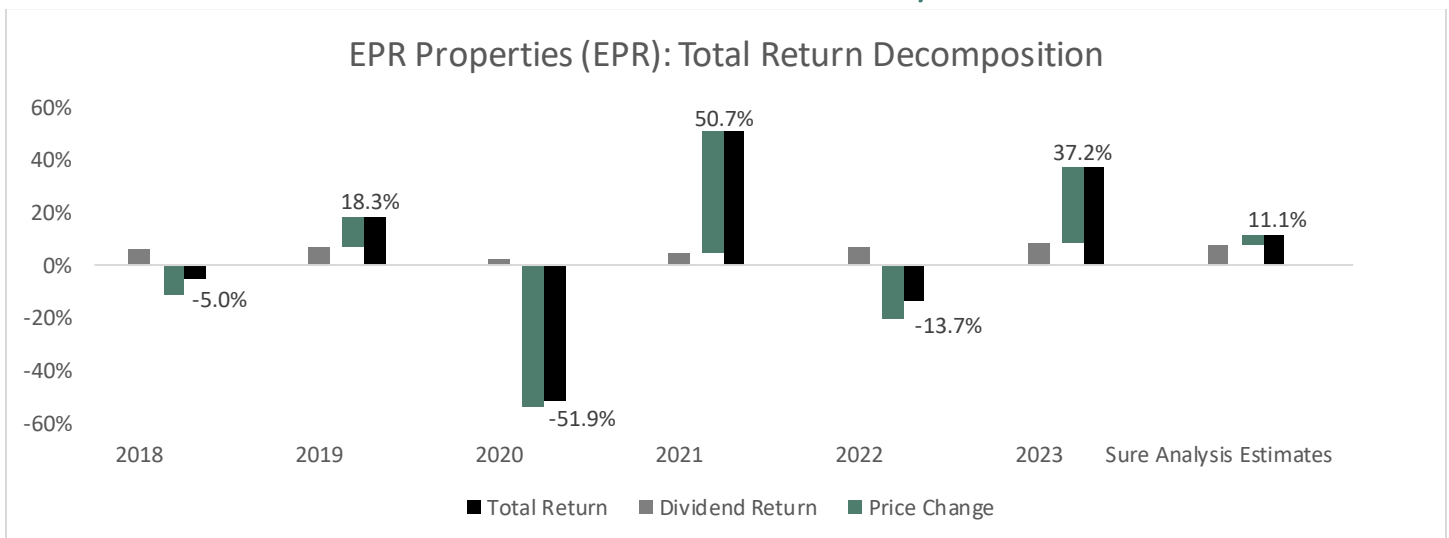
We are forecasting the payout ratio to decline to 64% of AFFO by 2029, which is in line with most years in the past decade as we believe EPR will want to reduce the risk of another dividend suspension and/or cut.

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 2.6% tailwind. We like the strong operating history and track record of capital returns, and the high dividend yield of 7.3% is making the stock attractive, even with little or no growth. With total projected returns at 11.1%, we are reiterating the stock at a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	385	421	493	518	640	652	415	532	611	660
Gross Profit	360	398	471	487	610	591	356	475	555	602
Gross Margin	93.5%	94.4%	95.4%	94.0%	95.4%	90.7%	85.9%	89.3%	91.5%	91.2%
SG&A Exp.	28	50	38	43	49	46	43	44	52	56
D&A Exp.	67	90	108	133	153	172	170	164	163	167
Operating Profit	262	258	326	322	423	386	112	289	342	378
Operating Margin	68.1%	61.4%	66.0%	62.2%	66.1%	59.2%	27.1%	54.3%	52.0%	57.3%
Net Profit	180	195	225	263	267	202	(132)	99	176	173
Net Margin	46.7%	46.2%	45.6%	50.7%	41.7%	31.0%	-32%	18.5%	26.7%	26.2%
Free Cash Flow	250	278	305	398	484	440	65	307	442	447
Income Tax	4	0	1	2	2	(3)	17	2	1	2

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,686	4,217	4,865	6,191	6,131	6,578	6,704	5,801	5,759	5701
Cash & Equivalents	3	4	19	42	6	529	1,026	289	108	78
Accounts Receivable	48	62	75	83	85	85	116	76	54	64
Goodwill & Int. Ass.	---	9	15	29	42	45	42	38	37	35
Total Liabilities	1,760	2,143	2,679	3,264	3,266	3,572	4,074	3,183	3,223	3247
Accounts Payable	82	92	120	137	168	123	105	73	80	95
Long-Term Debt	1,630	1,982	2,486	3,029	2,986	3,103	3,694	2,804	2,810	2816
Shareholder's Equity	1,926	2,074	2,186	2,927	2,865	3,006	2,630	2,618	2,536	2454
LTD/E Ratio	0.85	0.96	1.14	1.03	1.04	1.03	1.40	1.07	1.11	1.1475

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.2%	4.9%	5.0%	4.8%	4.3%	3.2%	-2.0%	1.6%	3.0%	3.0%
Return on Equity	9.9%	9.7%	10.6%	10.3%	9.2%	6.9%	-4.7%	3.8%	6.8%	6.9%
ROIC	5.3%	5.1%	5.2%	4.9%	4.5%	3.4%	-2.1%	1.7%	3.3%	3.3%
Shares Out.	54	58	64	71	74	78	75	75	75	76
Revenue/Share	7.07	7.22	7.77	7.27	8.61	8.49	5.46	7.11	8.14	8.71
FCF/Share	4.60	4.77	4.81	5.59	6.52	5.72	0.86	4.11	5.89	5.91

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

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