



# EPR Properties (EPR)

Updated November 3<sup>rd</sup>, 2024, by Josh Arnold

## Key Metrics

|                             |      |  |       |                                  |                       |
|-----------------------------|------|--|-------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$45 | <b>5 Year CAGR Estimate:</b>               | 11.2% | <b>Market Cap:</b>               | \$3.4 B               |
| <b>Fair Value Price:</b>    | \$53 | <b>5 Year Growth Estimate:</b>             | 2.0%  | <b>Ex-Dividend Date:</b>         | 11/30/24 <sup>1</sup> |
| <b>% Fair Value:</b>        | 84%  | <b>5 Year Valuation Multiple Estimate:</b> | 3.5%  | <b>Dividend Payment Date:</b>    | 12/16/24              |
| <b>Dividend Yield:</b>      | 7.6% | <b>5 Year Price Target</b>                 | \$59  | <b>Years Of Dividend Growth:</b> | 3                     |
| <b>Dividend Risk Score:</b> | F    | <b>Retirement Suitability Score:</b>       | C     | <b>Rating:</b>                   | 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 \$630 million this year, and the stock is valued at \$3.4 billion.

EPR posted third quarter earnings on October 30<sup>th</sup>, 2024, and results were better than expected on both the top and bottom lines. Funds-from-operations came to \$1.29, which was two cents ahead of estimates. FFO was down from \$1.47 per share a year ago. On a dollar basis, FFO fell from \$113 million to just over \$100 million.

Revenue was off almost 5% year-over-year to \$180.5 million, which was \$21.5 million ahead of expectations. For the nine months, revenue was off from \$534 million to \$521 million.

EPR narrowed its guidance for the year to a range of \$4.80 to \$4.92 in adjusted FFO-per-share for the year, which is a narrowing of four cents on each side of guidance. The company is also expecting investment spending in the range of \$225 million to \$275 million, which was \$200 million to \$300 million prior. Disposition proceeds are expected to be \$70 million to \$100 million, up from \$60 million to \$75 million.

We now expect \$4.85 in adjusted FFO-per-share after Q3 results and updated guidance.

## Growth on a Per-Share Basis

| Year                      | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024          | 2029          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>AFFO</b>               | \$4.13 | \$4.44 | \$4.82 | \$5.02 | \$6.10 | \$5.44 | \$1.43 | \$3.09 | \$4.69 | \$5.18 | <b>\$4.85</b> | <b>\$5.35</b> |
| <b>DPS</b>                | \$3.42 | \$3.63 | \$3.84 | \$4.08 | \$4.32 | \$4.50 | \$1.51 | \$1.50 | \$3.25 | \$3.30 | <b>\$3.42</b> | <b>\$3.59</b> |
| <b>Shares<sup>2</sup></b> | 54     | 58     | 64     | 71     | 74     | 78     | 75     | 75     | 75     | 76     | <b>76</b>     | <b>76</b>     |

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 2% 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 7.6% now, which is impressive given the trust went several months with no dividend payment. EPR raised its

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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.



# EPR Properties (EPR)

Updated November 3<sup>rd</sup>, 2024, by Josh Arnold

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        |
|--------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| <b>Avg. P/AFFO</b> | 13.1 | 12.9 | 14.7 | 14.2 | 10.4 | 13.8 | 25.7 | 15.6 | 7.9  | 9.4  | <b>9.3</b>  | <b>11.0</b> |
| <b>Avg. Yld.</b>   | 6.3% | 6.3% | 5.4% | 5.7% | 6.8% | 6.0% | 4.1% | 3.1% | 8.6% | 6.8% | <b>7.6%</b> | <b>6.1%</b> |

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 9.3 times AFFO, we view EPR as quite undervalued.

The yield is at a very impressive 7.6% 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 above 6%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year          | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024       | 2029       |
|---------------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| <b>Payout</b> | 83%  | 82%  | 80%  | 81%  | 71%  | 83%  | 106% | 49%  | 69%  | 64%  | <b>71%</b> | <b>67%</b> |

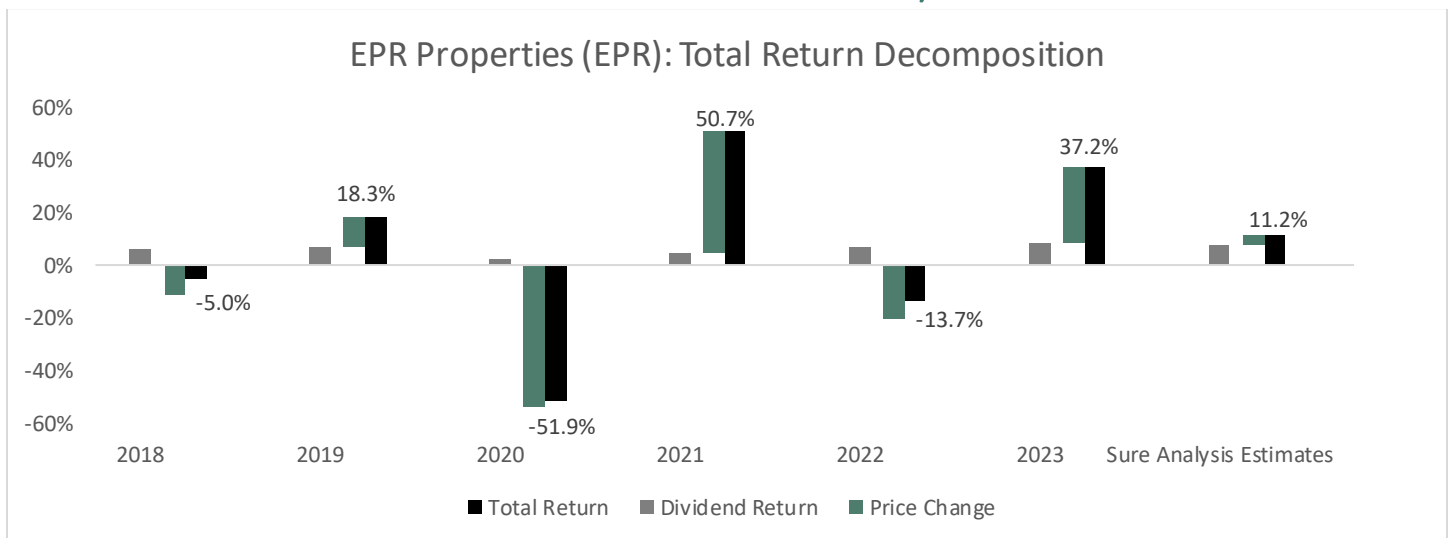
We are forecasting the payout ratio to decline to 67% of AFFO by 2029, which is in line with most years in the past decade as we believe EPR will want to reduce the risk of another dividend suspension and/or cut.

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 3.5% tailwind. We like the strong operating history and track record of capital returns, and the high dividend yield of 7.6% is making the stock attractive, even with little or no growth. With total projected returns at 11.2%, we are reiterating the stock at a buy rating.

## Total Return Breakdown by Year



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.



# EPR Properties (EPR)

Updated November 3<sup>rd</sup>, 2024, by Josh Arnold

## Income Statement Metrics

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

## Balance Sheet Metrics

| Year                            | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023   |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| <b>Total Assets</b>             | 3,686 | 4,217 | 4,865 | 6,191 | 6,131 | 6,578 | 6,704 | 5,801 | 5,759 | 5701   |
| <b>Cash &amp; Equivalents</b>   | 3     | 4     | 19    | 42    | 6     | 529   | 1,026 | 289   | 108   | 78     |
| <b>Accounts Receivable</b>      | 48    | 62    | 75    | 83    | 85    | 85    | 116   | 76    | 54    | 64     |
| <b>Goodwill &amp; Int. Ass.</b> | ---   | 9     | 15    | 29    | 42    | 45    | 42    | 38    | 37    | 35     |
| <b>Total Liabilities</b>        | 1,760 | 2,143 | 2,679 | 3,264 | 3,266 | 3,572 | 4,074 | 3,183 | 3,223 | 3247   |
| <b>Accounts Payable</b>         | 82    | 92    | 120   | 137   | 168   | 123   | 105   | 73    | 80    | 95     |
| <b>Long-Term Debt</b>           | 1,630 | 1,982 | 2,486 | 3,029 | 2,986 | 3,103 | 3,694 | 2,804 | 2,810 | 2816   |
| <b>Shareholder's Equity</b>     | 1,926 | 2,074 | 2,186 | 2,927 | 2,865 | 3,006 | 2,630 | 2,618 | 2,536 | 2454   |
| <b>LTD/E Ratio</b>              | 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 |
|-------------------------|------|------|-------|-------|------|------|-------|------|------|------|
| <b>Return on Assets</b> | 5.2% | 4.9% | 5.0%  | 4.8%  | 4.3% | 3.2% | -2.0% | 1.6% | 3.0% | 3.0% |
| <b>Return on Equity</b> | 9.9% | 9.7% | 10.6% | 10.3% | 9.2% | 6.9% | -4.7% | 3.8% | 6.8% | 6.9% |
| <b>ROIC</b>             | 5.3% | 5.1% | 5.2%  | 4.9%  | 4.5% | 3.4% | -2.1% | 1.7% | 3.3% | 3.3% |
| <b>Shares Out.</b>      | 54   | 58   | 64    | 71    | 74   | 78   | 75    | 75   | 75   | 76   |
| <b>Revenue/Share</b>    | 7.07 | 7.22 | 7.77  | 7.27  | 8.61 | 8.49 | 5.46  | 7.11 | 8.14 | 8.71 |
| <b>FCF/Share</b>        | 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.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.