

HEDGEYE



# EPR Properties (EPR)

New Active Short

January 5, 2023



*AMC Burbank 16 in Burbank, CA*



## HEDGEYE REITs

ROB SIMONE, CFA

Managing Director

[rsimone@hedgeye.com](mailto:rsimone@hedgeye.com)

203-562-6500 ext. 119

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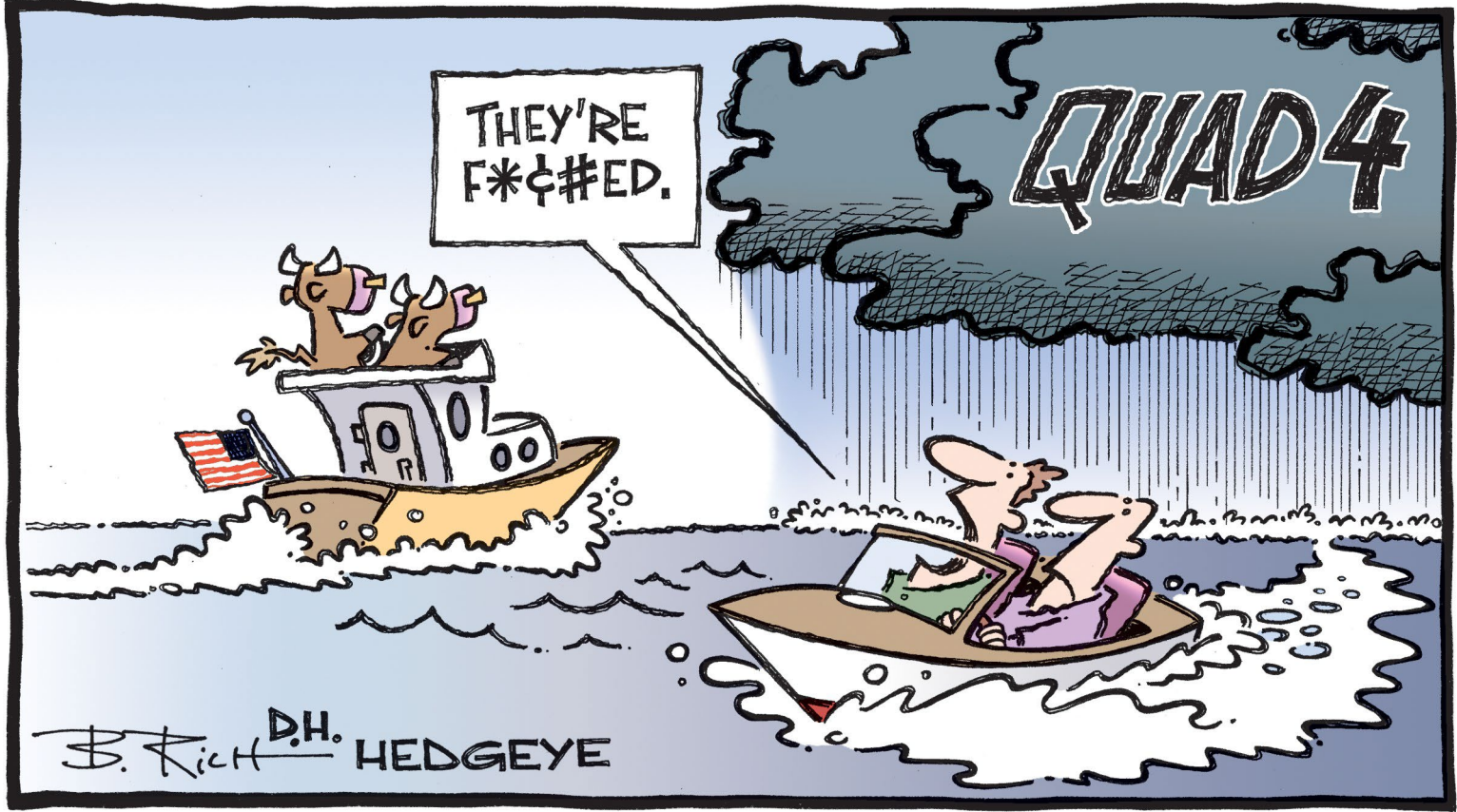
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Please submit questions\* to  
**qa@hedgeye.com**

\*Answered at the end of the call



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# **[ 1 ] INTRODUCTION**

# INTRO | REITS POSITION MONITOR (UPDATED 1.5.23)

ACTIVE LONG IDEAS									
Ticker	Company Name	Share Price (\$)	Mkt. Cap (\$Bn)	NTM P / FFO	Sentiment Score *	3M ADV (\$Bn)	Short Int. % of Float	Px Return Since. Add	Tail
ADC	Agree Realty Corporation	70.65	5,641	18.1x	3.00	0.066	8.3%	3.5%	x
NNN	National Retail Properties	46.56	8,322	14.7x	3.81	0.042	2.4%	7.3%	x
O	Realty Income	64.61	40,636	15.9x	2.94	0.277	3.0%	2.5%	x
CTRE	CareTrust REIT	19.18	1,861	12.8x	3.60	0.016	2.7%	1.4%	x
IRM	Iron Mountain	50.88	14,872	16.7x	2.83	0.065	6.6%	(3.8%)	x
STAG	STAG Industrial	33.83	6,203	15.1x	3.75	0.031	1.9%	22.1%	x
OFC	Corporate Office Prop. Trust	26.25	2,995	11.0x	4.45	0.018	2.6%	(2.3%)	x
NTST	NETSTREIT Corp.	18.93	1,049	17.2x	2.19	0.010	14.2%	0.6%	x
RADI	Radius Global Infrastructure	12.04	1,302	-	2.83	0.010	7.7%	(16.7%)	x

PASSIVE LONG IDEAS (BENCH)									
Ticker	Company Name	Share Price (\$)	Mkt. Cap (\$Bn)	NTM P / FFO	Sentiment Score *	3M ADV (\$Bn)	Short Int. % of Float	Px Return Since. Add	Tail
GTY	Getty Realty Corp.	34.13	1,595	16.8x	3.50	0.013	9.6%		x
LSI	Life Storage, Inc.	96.60	8,422	14.3x	2.86	0.069	1.9%		x
CXW	CoreCivic	11.35	1,380	7.9x	-	0.012	1.7%		x
DOC	Physicians Realty Trust	14.72	3,535	14.1x	2.13	0.028	4.6%		x
DLR	Digital Realty	103.65	30,209	15.2x	2.00	0.211	3.4%		--
EQIX	Equinix, Inc.	680.15	63,118	32.9x	4.00	0.293	2.0%		--
HR	Healthcare Realty	20.21	3,064	12.2x	1.93	0.056	2.9%		--

MOVED TO "DMZ" (NEUTRAL)									
Ticker	Company Name	Share Price (\$)	Mkt. Cap (\$Bn)	NTM P / FFO	Sentiment Score *	3M ADV (\$Bn)	Short Int. % of Float	Px Return Since. Add	Tail

Last Updated: 1/5/23

**HEDGEYE REITS SENTIMENT SCORE\*:**

Hedgeye REITS Sentiment Score represents a stock's relative rank within its own subsector, calculated by factoring the stock's discount/premium to consensus price target, short interest, sell-side rating, change in relative NTM earnings multiple vs. the S&P500 index over the trailing 90 days and relative performance vs. the S&P 500 over the trailing 90 days. A Sentiment Score of 1 represents Lower Sentiment indicated by a larger discount to price target, higher short interest, more negative sell-side rating, a smaller change in relative NTM multiple and relative underperformance. A Sentiment Score of 6 represents Higher Sentiment.

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ACTIVE SHORT IDEAS									
Ticker	Company Name	Share Price (\$)	Mkt. Cap (\$Bn)	NTM P / FFO	Sentiment Score *	3M ADV (\$Bn)	Short Int. % of Float	Px Return Since. Add	Tail
MPW	Medical Properties Trust	12.09	7,242	6.9x	1.87	0.184	15.9%	40.2%	x
INVH	Invitation Homes	29.72	18,272	16.8x	1.80	0.110	3.2%	24.0%	x
TCN	Tricon Residential	8.03	2,513	10.9x	2.55	0.007	1.1%	23.2%	x
EPR	EPR Properties	37.24	2,794	7.9x	2.19	0.024	2.3%	5.1%	x
SLG	SL Green Realty	35.39	2,409	5.6x	2.40	0.057	11.8%	7.3%	x
VNO	Vornado Realty Trust	21.23	4,412	7.6x	2.30	0.131	12.9%	12.8%	x
PGRE	Paramount Group	5.92	1,411	6.3x	3.90	0.010	4.3%	3.1%	x
UHAL	U-Haul Holding Company	60.42	11,847	-	3.29	0.026	14.5%	(2.2%)	x
COLD	Americold Realty Trust	29.18	7,720	32.5x	4.08	0.031	1.3%	2.7%	x
WY	Weyerhaeuser Company	31.23	23,280	27.4x	2.25	0.103	2.0%	21.2%	x
NXRT	NexPoint Residential Trust	43.30	1,115	13.6x	2.80	0.005	1.7%	31.5%	x
CPT	Camden Property Trust	112.75	12,415	15.9x	3.05	0.100	1.7%	28.8%	x
SBAC	SBA Communications Corp.	292.63	32,005	24.5x	3.00	0.174	1.2%	17.6%	x

PASSIVE SHORT IDEAS (BENCH)									
Ticker	Company Name	Share Price (\$)	Mkt. Cap (\$Bn)	NTM P / FFO	Sentiment Score *	3M ADV (\$Bn)	Short Int. % of Float	Px Return Since. Add	Tail
HPP	Hudson Pacific Properties	9.70	1,583	5.0x	2.10	0.025	6.1%		x
ESRT	Empire State Realty Trust	6.86	1,870	8.7x	4.10	0.008	8.7%		x
GNL	Global Net Lease	13.11	1,365	9.3x	2.56	0.009	1.8%		x
BNL	Broadstone Net Lease	16.76	3,072	11.1x	1.25	0.016	9.2%		x
ONL	Orion Office REIT	8.41	476	-	2.18	0.005	10.5%		x
VTR	Ventas	47.03	18,964	15.6x	4.20	0.102	2.4%		--
WPC	W. P. Carey Inc.	79.13	16,462	15.7x	2.94	0.090	3.3%		x
VRE	Veris Residential	16.78	1,684	30.8x	3.30	0.014	3.3%		--
BXP	Boston Properties	66.71	11,671	8.9x	3.40	0.119	3.0%		x
CUBE	CubeSmart	39.45	8,954	14.8x	4.00	0.166	3.6%		x
MAA	Mid-America Apartments	157.74	18,715	17.4x	3.75	0.094	2.2%		x
CUZ	Cousins Properties	24.88	3,768	9.4x	3.27	0.033	3.1%		--

- Added EPR to Active **Short** list
- Added data center REITs DLR & EQIX to the **Long** Bench
- Favorite **Shorts** are MPW, INVH, TCN, EPR, SLG/VNO, UHAL, & COLD
- Favorite **Longs** are ADC, NNN, O, CTRE, OFC, IRM & STAG
- Strongest Signal Strength **Longs** are currently IRM, STAG & EQIX
- Write on names only where we feel we have an edge or a non-consensus view
- Minimal maintenance research

## Research Process

### 1. Idea Generation

- ☐ Thematic and macro-driven within the Hedgeye Macro / Quad framework
- ☐ Focus extensively on REIT subsectors we understand, and “sharpshoot” select names which are lightly covered
- ☐ Seek out identifiable catalysts and second derivative inflection points
- ☐ Absolute performance and relative performance within subsectors – “battleground” stocks
- ☐ Screen for contrarian ideas (short interest, etc.)
- ☐ Not a real estate “tour guide” franchise

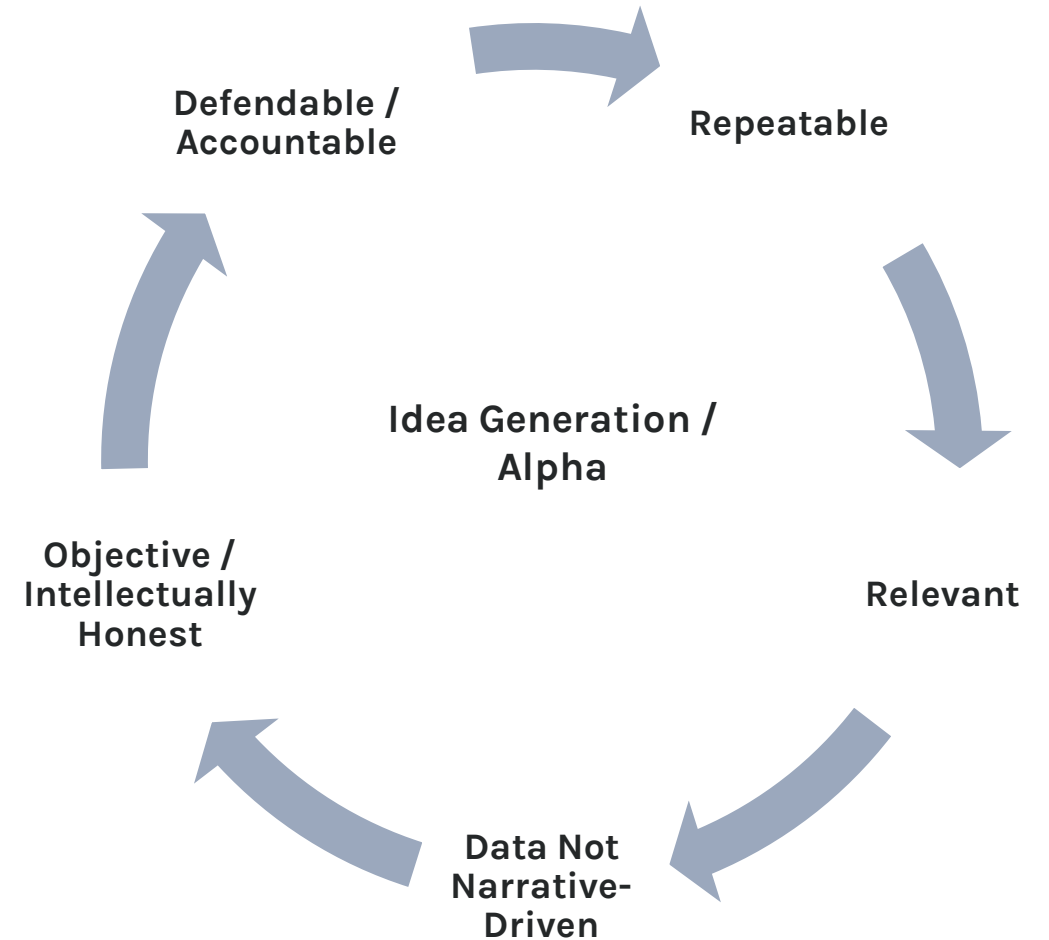
### 2. Fundamentals

- ☐ Build out detailed company models – If we don’t know a stock intimately, we can’t credibly pitch it
- ☐ Understand Net Asset Value (NAV) as a starting point, but never base stock calls solely on discounts / premiums to NAV – avoid “value traps”
- ☐ Consider all relevant valuation metrics (Multiples, DCF, factors, etc.) and “think outside of the REIT box”
- ☐ Understand and estimate long-term earnings power of the business
- ☐ Focus on management, platform value, balance sheets and capital structure
- ☐ Assess catalyst calendar, understand the event path and risk / reward

### 3. Data Driven

- ☐ Narrative must be supported by data
- ☐ To the greatest extent possible develop and leverage alternative, proprietary and third-party data
- ☐ Incorporate data science to gain insights

## Research Process Goals



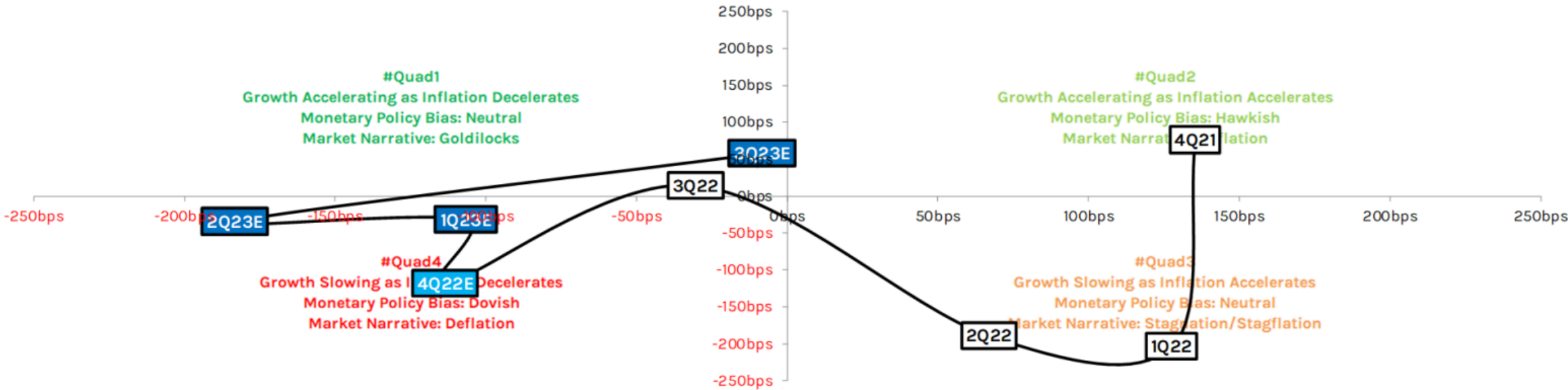
# INTRO | WHAT ARE THE QUADS?

Our GIP Model is a quantitatively oriented, regime-based framework that helps investors proactively prepare for volatility phase transitions within and across asset classes by triangulating the three factors that matter most to Macro Risk Management – i.e. GROWTH, INFLATION, and POLICY.

United States	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	← Actuals   Estimates →	4Q22E	1Q23E	2Q23E	3Q23E
Real GDP QoQ SAAR	1.80%	-4.60%	-29.90%	35.30%	3.90%	6.30%	7.00%	2.70%	7.00%	-1.60%	-0.60%	3.20%	Real GDP QoQ SAAR	2.41%	-2.87%	-1.92%	5.33%
Real GDP YoY	2.57%	0.82%	-8.35%	-2.02%	-1.52%	1.19%	12.46%	4.96%	5.72%	3.68%	1.80%	1.94%	Real GDP YoY	0.76%	0.45%	0.11%	0.69%
2yr Comparative Base Effects	2.55%	2.61%	2.70%	2.73%	2.44%	1.49%	-3.11%	0.14%	0.53%	1.01%	2.06%	1.47%	2yr Comparative Base Effects	2.10%	2.44%	2.13%	3.45%
Headline CPI YoY	2.03%	2.12%	0.36%	1.22%	1.24%	1.90%	4.85%	5.34%	6.69%	7.96%	8.63%	8.33%	Headline CPI YoY	7.19%	6.13%	4.29%	4.21%
2yr Comparative Base Effects	2.16%	1.93%	2.26%	2.20%	2.12%	1.88%	1.09%	1.49%	1.64%	2.01%	2.61%	3.28%	2yr Comparative Base Effects	3.96%	4.93%	6.74%	6.83%

## United States

◆ x-axis: First Difference of YoY Headline CPI;  
y-axis: First Difference of YoY Real GDP



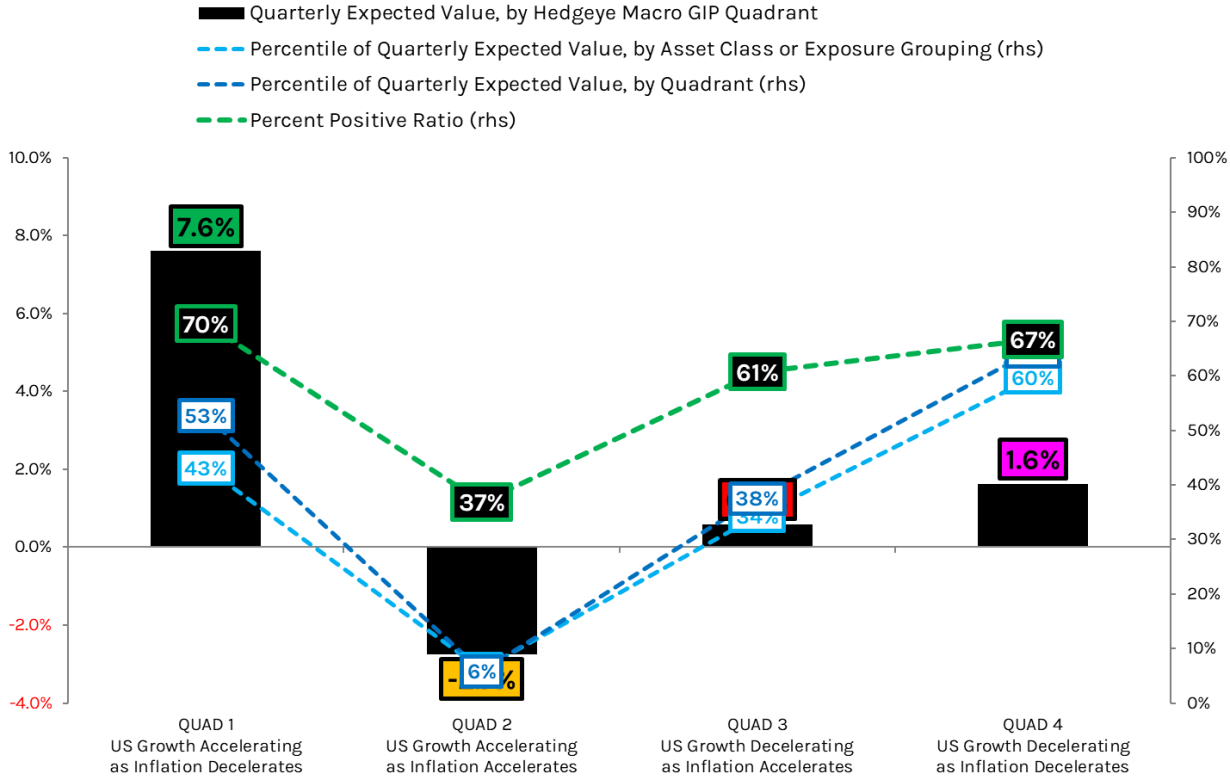
Data Source: BEA, BLS. Light Blue box = Hedgeye Nowcast Model estimate. Dark Blue boxes = Hedgeye Comparative Base Effects Model estimates.

Updated: 12/28/2022

# INTRO | EPR GIP QUAD BACKTESTS

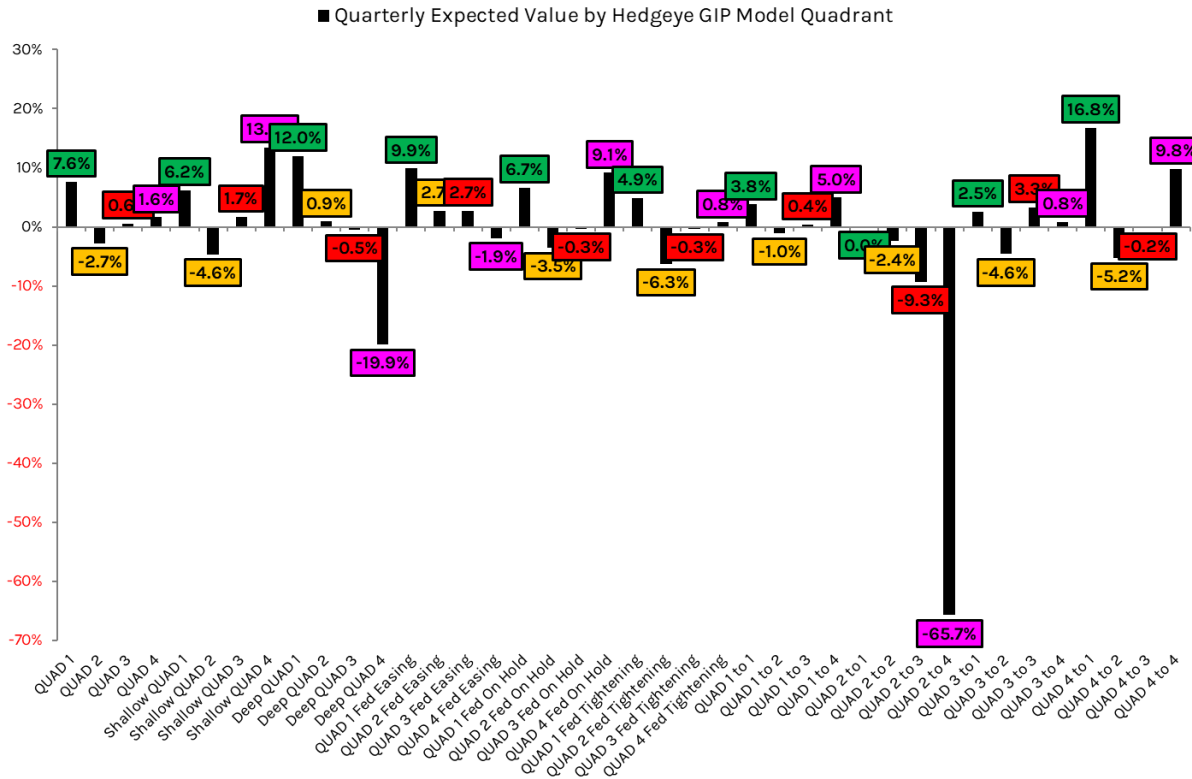
EPR lives for Quad 1; watch out for back-to-back-to-back Quad 4's + “deep” Quad 4's

EPR - EPR Properties (Specialized REITs)



Data Source: Bloomberg. Asset classes include equities, fixed income, currencies and commodities. Quarterly observations starting in 1Q98.

EPR - EPR Properties (Specialized REITs)



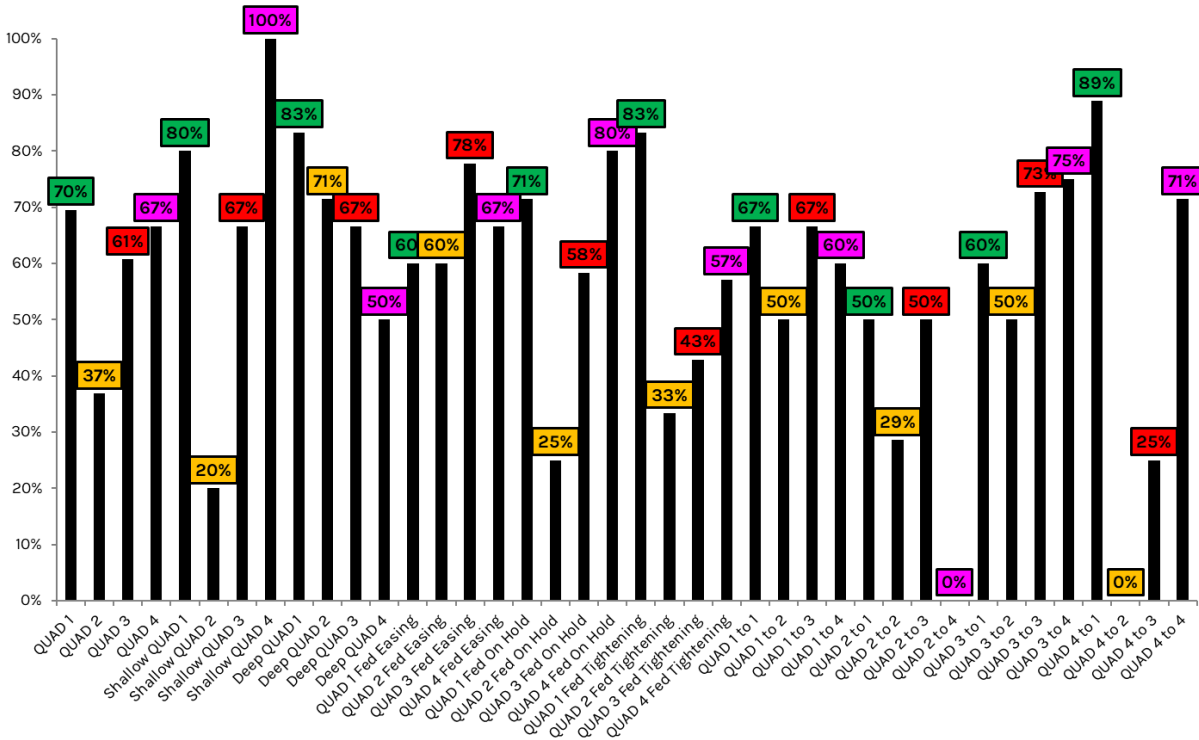
Data Source: Bloomberg. Asset classes include equities, fixed income, currencies and commodities. Quarterly observations starting in 1Q98.

# INTRO | EPR GIP QUAD BACKTESTS (CONT'D)

EPR lives for Quad 1; watch out for back-to-back-to-back Quad 4's + “deep” Quad 4's

EPR - EPR Properties (Specialized REITs)

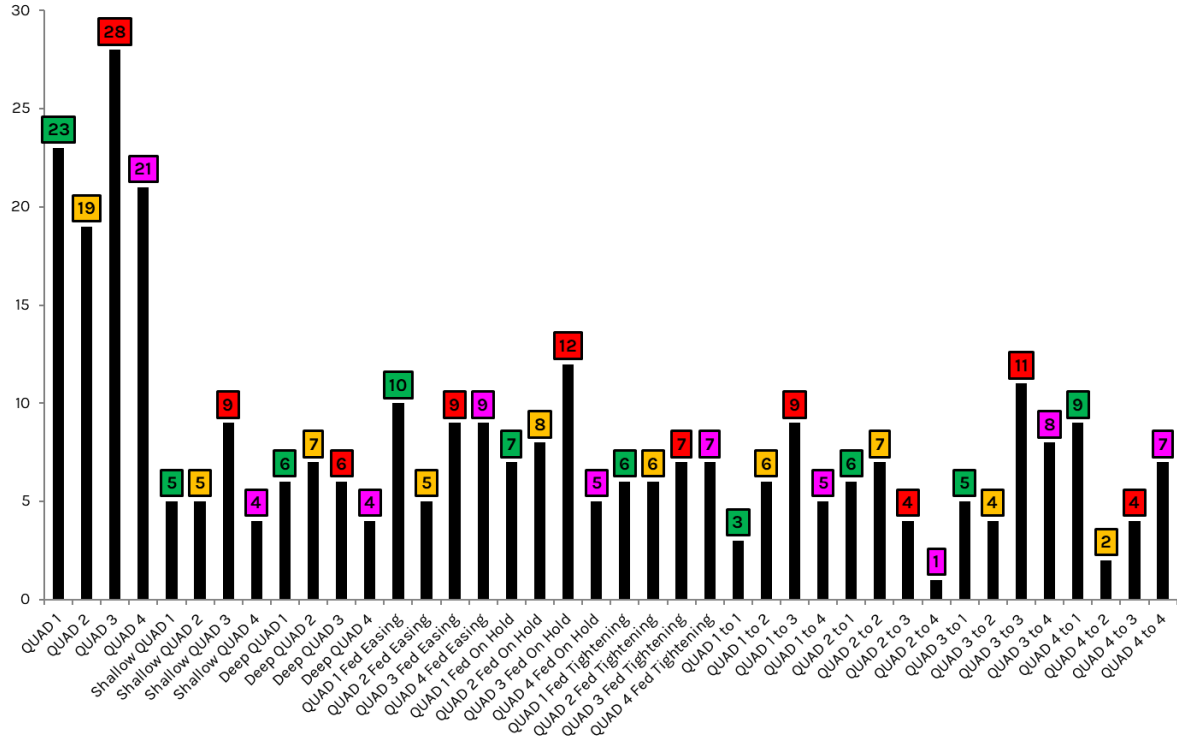
■ Percent Positive Ratio by Hedgeye GIP Model Quadrant



Data Source: Bloomberg. Asset classes include equities, fixed income, currencies and commodities. Quarterly observations starting in 1Q98.

EPR - EPR Properties (Specialized REITs)

■ Total Quarterly Hedgeye GIP Model Quadrant Observations



Data Source: Bloomberg. Asset classes include equities, fixed income, currencies and commodities. Quarterly observations starting in 1Q98.

# INTRO | EXPECTED VALUES BY QUAD REGIME

## Quad 1: Goldilocks

### Best Asset Classes:

Equities, Credit, Commodities, FX

### Worst Asset Classes:

Fixed Income, USD

### Best Equity Sectors:

Tech, Consumer Discretionary, Materials, Industrials, Telecom

### Worst Equity Sectors:

Utilities, REITS, Consumer Staples, Financials, Energy

### Best Equity Style Factors:

High Beta, Momentum, Leverage, Secular Growth, Mid Caps

### Worst Equity Style Factors:

Low Beta, Defensives, Value, Dividend Yield, Small Caps

### Best Fixed Income Sectors:

BDCs, Convertibles, HY Credit, EM \$ Debt, Leveraged Loans

### Worst Fixed Income Sectors:

TIPS, Short Duration Treasuries, MBS, Treasury Belly, Long Bond

## Quad 2: Reflation

### Best Asset Classes:

Commodities, Equities, Credit, FX

### Worst Asset Classes:

Fixed Income, USD

### Best Equity Sectors:

Tech, Consumer Discretionary, Industrials, Energy, Financials

### Worst Equity Sectors:

Telecom, Utilities, REITS, Consumer Staples, Health Care

### Best Equity Style Factors:

Secular Growth, High Beta, Small Caps, Cyclical Growth, Momentum

### Worst Equity Style Factors:

Low Beta, Dividend Yield, Value, Defensives, Size

### Best Fixed Income Sectors:

Convertibles, BDCs, Preferreds, Leveraged Loans, HY Credit

### Worst Fixed Income Sectors:

Long Bond, Treasury Belly, Munis, MBS, IG Credit

## Quad 3: Stagflation

### Best Asset Classes:

Gold, Commodities, Fixed Income

### Worst Asset Classes:

Credit

### Best Equity Sectors:

Utilities, Tech, Energy, Industrials, Consumer Discretionary

### Worst Equity Sectors:

Financials, REITS, Materials, Telecom, Consumer Staples

### Best Equity Style Factors:

Secular Growth, Momentum, Mid Caps, Low Beta, Quality

### Worst Equity Style Factors:

Small Caps, Dividend Yield, Value, Defensives, Size

### Best Fixed Income Sectors:

Munis, EM \$ Debt, Long Bond, TIPS, Treasury Belly

### Worst Fixed Income Sectors:

BDCs, Preferreds, Convertibles, Leveraged Loans, HY Credit

## Quad 4: Deflation

### Best Asset Classes:

Fixed Income, Gold, USD

### Worst Asset Classes:

Commodities, Equities, Credit, FX

### Best Equity Sectors:

Consumer Staples, Utilities, REITS, Health Care, Telecom

### Worst Equity Sectors:

Energy, Tech, Industrials, Financials, Materials

### Best Equity Style Factors:

Low Beta, Dividend Yield, Quality, Defensives, Value

### Worst Equity Style Factors:

High Beta, Momentum, Leverage, Secular Growth, Cyclical Growth

### Best Fixed Income Sectors:

Long Bond, Treasury Belly, IG Credit, Munis, MBS

### Worst Fixed Income Sectors:

Preferreds, EM Local Currency, BDCs, Leveraged Loans, TIPS

## **[2] EPR SHORT THESIS**

## **A** The math dictates that investors should seek a lower entry point

- EPR's assets yield 8% unlevered cash-on-cash returns
- The company's unlevered cost of capital is at least ~10% right now, and likely moving higher
- Current and future tenant issues / restructurings + related headlines would only make things worse, at least for a time

## **B** RoC unfavorable due to the negative cost of capital spread

- At best current lease streams grow +1.5% to +2% annually from escalators
- EPR cannot raise capital and buy / build accretively → subpar all-in earnings / cash flow growth vs. other triple-nets
- Tenant defaults, rent reductions or OpCo conversions only make the RoC profile worse

## **C** Theater tenant restructurings negatively impact value

- Cineworld / Regal (~9% of total revenues) already filed Chapter 11 protection
- AMC's (~14.5% of total revenues) balance sheet is hopelessly over-levered and needs to be restructured
- OpCo conversions for theaters may save the dividend, but are undeniably negative for value

# THESIS | STEP 1: WHAT'S EPR "WORTH" TODAY?

(Amounts in 000s, Except per Share Data)

Justified Multiple on Invested Capital	
Assumed ROIC / ROA	8.00%
Assumed Perpetual Growth Rate	2.00%
Assumed Required Return / Cost of Capital	9.88%
Justified Multiple	0.76x
Trading Multiple	0.86

EPR Adj. Gross RE Assets (excl. Cash)	6,376,317
"Justified" RE Enterprise Value	4,856,242
(+) Cash & Cash Equivalents	160,838
(+) Restricted Cash	5,252
(+) Land Held for Development	20,168
(+) Property Under Development	56,347
(+) Mortgage Investments	399,485
(-) Preferred Equity	(371,007)
(-) EPR's Share of Total Debt	(2,957,676)
Equity Value	2,169,649
(/) Total Shares / Units	75,186
Equity Value / Share	28.86
Implied Fwd. Cash EBITDA Multiple	9.1x
Current Share Price	36.86
Annual Dividend	3.30
Total Return - Upside / (Downside)	12.8%

Cost of Capital Calculation			
	\$	%	i
Debt	2,957,676	48.5%	8.00%
Preferred Equity	371,007	6.1%	9.00%
Common Equity	2,771,345	45.4%	12.00%
Total	6,100,029	100.0%	9.88%

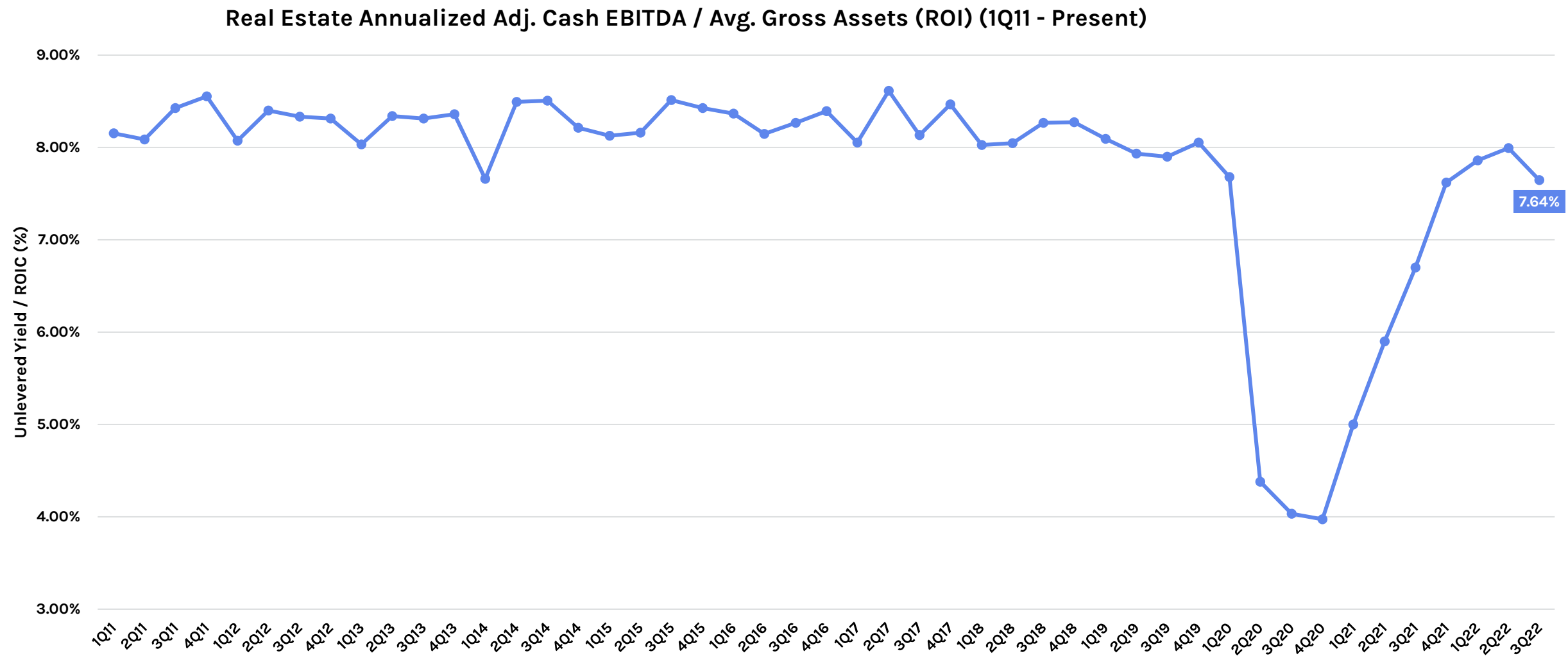
Justified Fwd. Cash EBITDA Multiple	
Assumed Perpetual Growth Rate	2.00%
Assumed Required Return / Cost of Capital	9.88%
Justified Multiple	9.5x
Trading Multiple	11.0x

EPR In-Place Ann. Adj. Cash EBITDA	534,584
"Justified" Enterprise Value	5,089,281
(+) Cash & Cash Equivalents	160,838
(+) Restricted Cash	5,252
(+) Land Held for Development	20,168
(+) Property Under Development	56,347
(-) Preferred Equity	(371,007)
(-) EPR's Share of Total Debt	(2,957,676)
Equity Value	2,003,202
(/) Total Shares / Units	75,186
Equity Value / Share	26.64
Implied "Book" Multiple	0.75x
Current Share Price	36.86
Annual Dividend	3.30
Total Return - Upside / (Downside)	18.8%

- We think about triple-net REITs in steps – adapted our process following our exploration of MPW last year
- Step 1 is answering the question: “What is the platform worth today?”
- As triple-net REITs are essentially spread lenders and a credit exercise, it becomes a simple cost of capital comparison vs. the cash-on-cash economics (ROI) generated by the platform’s assets
- If  $ROI > k \rightarrow$  should trade at premium to “book,” can grow externally so (+) for RoC
- If  $ROI < k \rightarrow$  should trade at a discount to “book,” and (-) for RoC
- “Book” is simply the gross assets invested by the platform to generate the associated cash flow streams
- $P/BV = (ROI - g) / (k - g)$
- Step 2 and beyond is evaluating credit

# THESIS | REVERSE ENGINEERING EPR'S FEE SIMPLE RETURNS HEDGEYE

EPR's owned real estate assets generate ~8% average unlevered cash-on-cash yields = the ROI

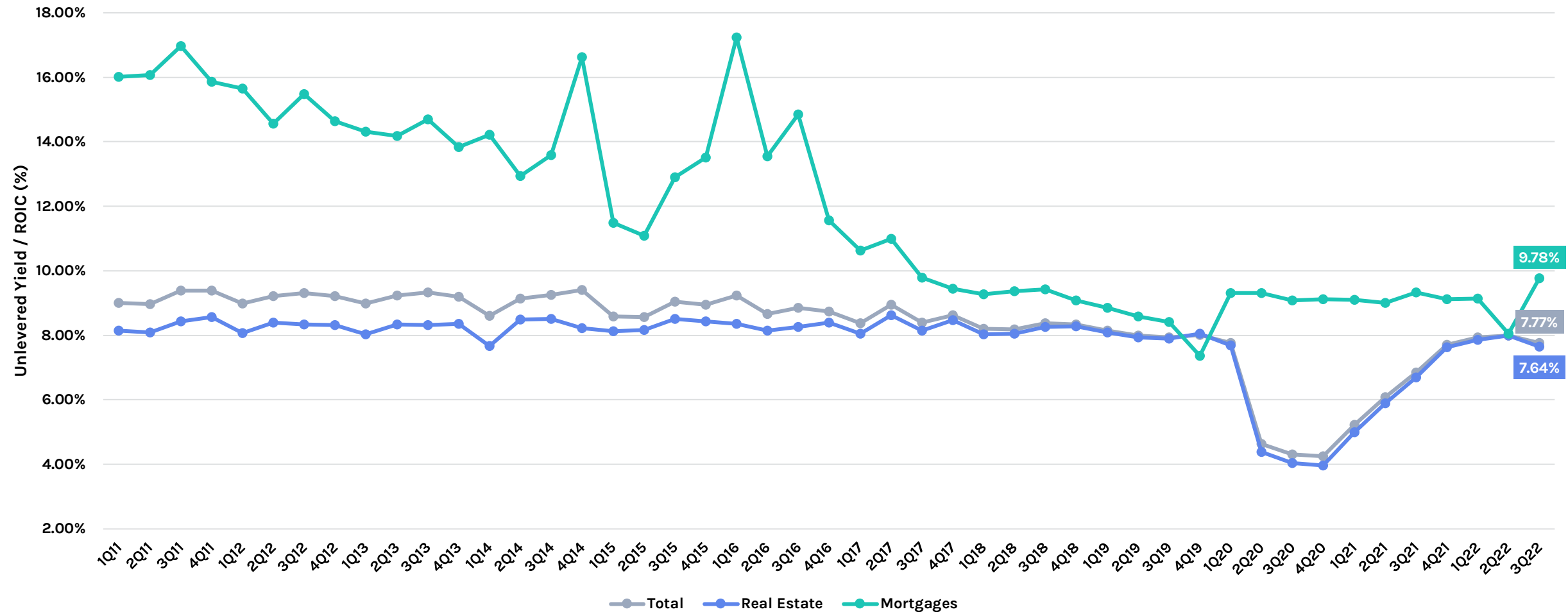


Note: All corporate cash G&A allocated to fee simple assets.

# THESIS | REVERSE ENGINEERING EPR'S COMBINED RETURNS

Mortgage investments modestly accretive to overall returns, but declining over time with lower interest rates; EPR is a consistent ~8% unlevered cash-on-cash earner and should be valued as such

Annualized Adj. Cash EBITDA / Avg. Gross Assets (1Q11 - Present)



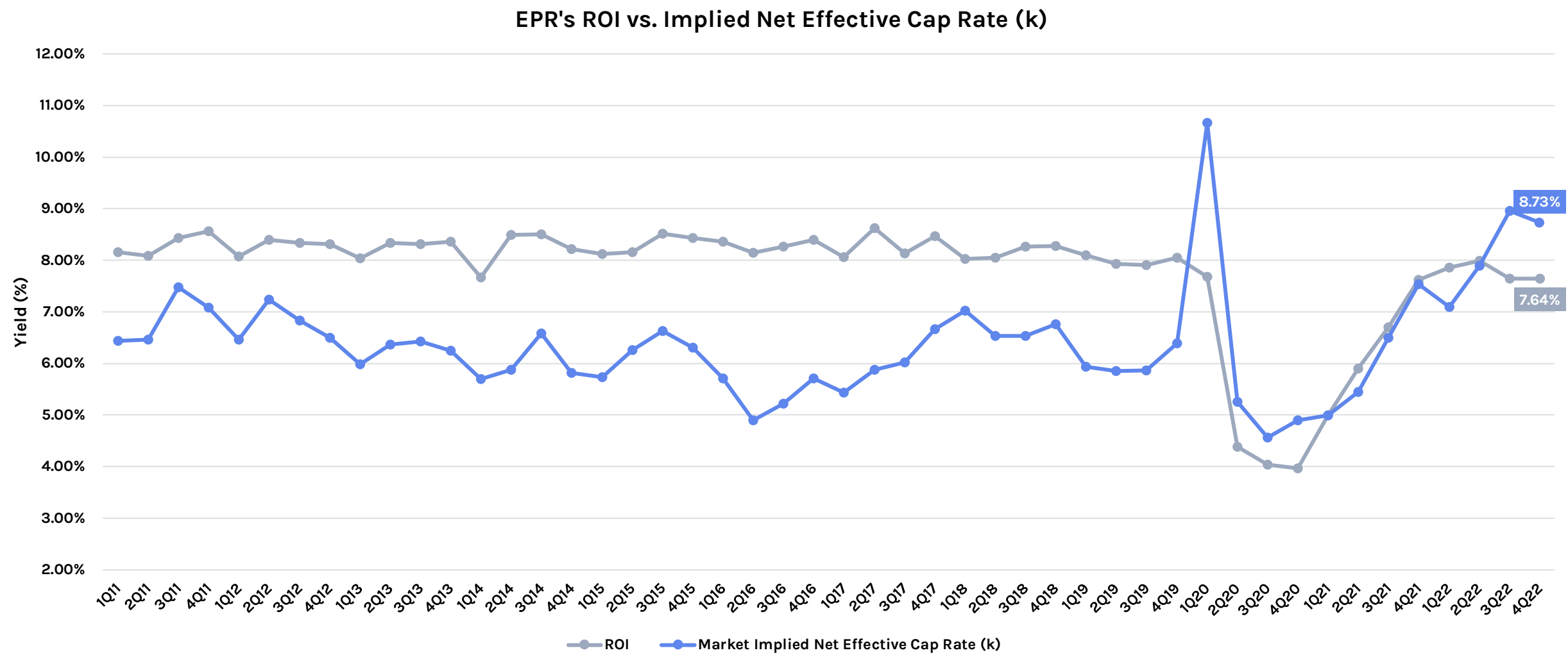
# THESIS | HOW WE CALCULATE “BOOK VALUE”

(Amounts in 000s, Except per Share Data)

	FY					FY					FY			
	2019A	1Q20	2Q20	3Q20	4Q20	2020A	1Q21	2Q21	3Q21	4Q21	2021A	1Q22	2Q22	3Q22
<b>Consolidated ROIC Calculation</b>														
<b>Total Assets:</b>														
Total Assets	6,577,511	7,255,340	7,002,978	6,907,210	6,704,185	6,704,185	6,208,102	6,142,212	5,721,157	5,801,150	5,801,150	5,818,070	5,793,442	5,792,759
(+) Accumulated D&A	989,254	1,023,993	1,034,771	1,072,201	1,062,087	1,062,087	1,101,727	1,130,409	1,142,513	1,167,734	1,167,734	1,206,317	1,243,240	1,278,427
(+) Accumulated Amortization	12,693	13,531	14,624	15,385	16,330	16,330	17,379	18,420	19,362	20,163	20,163	20,976	21,812	22,650
(-) Cash & Cash Equivalents	(528,763)	(1,225,122)	(1,006,981)	(985,372)	(1,025,577)	(1,025,577)	(538,077)	(509,836)	(144,433)	(288,822)	(288,822)	(323,761)	(168,266)	(160,838)
(-) Restricted Cash	(2,677)	(4,583)	(2,615)	(2,424)	(2,433)	(2,433)	(5,928)	(3,570)	(5,142)	(1,079)	(1,079)	(2,956)	(1,277)	(5,252)
(-) Land Held for Development	(28,080)	(28,080)	(26,244)	(25,846)	(23,225)	(23,225)	(23,225)	(23,225)	(21,875)	(20,168)	(20,168)	(20,168)	(20,168)	(20,168)
(-) Property Under Development	(36,756)	(30,063)	(39,039)	(44,103)	(57,630)	(57,630)	(94,822)	(35,082)	(20,166)	(42,362)	(42,362)	(10,885)	(8,241)	(56,347)
(-) Operating Lease Right-of-Use Assets	(211,187)	(207,605)	(189,058)	(185,459)	(163,766)	(163,766)	(179,113)	(179,354)	(175,987)	(180,808)	(180,808)	(177,174)	(202,708)	(199,031)
(-) Investment in Joint Ventures	(34,317)	(33,897)	(28,925)	(29,571)	(28,208)	(28,208)	(28,313)	(27,476)	(38,729)	(36,670)	(36,670)	(36,564)	(47,705)	(50,124)
(+) EPR's Share of UJV Assets	-	-	-	-	-	-	-	-	-	-	-	-	173,417	173,726
<b>Gross Assets</b>	<b>6,737,678</b>	<b>6,763,514</b>	<b>6,759,511</b>	<b>6,722,021</b>	<b>6,481,763</b>	<b>6,481,763</b>	<b>6,457,730</b>	<b>6,512,498</b>	<b>6,476,700</b>	<b>6,419,138</b>	<b>6,419,138</b>	<b>6,473,855</b>	<b>6,783,546</b>	<b>6,775,802</b>
<b>Avg. Gross Assets</b>	<b>6,933,885</b>	<b>6,750,596</b>	<b>6,761,513</b>	<b>6,740,766</b>	<b>6,601,892</b>	<b>6,692,897</b>	<b>6,469,747</b>	<b>6,485,114</b>	<b>6,494,599</b>	<b>6,447,919</b>	<b>6,469,566</b>	<b>6,446,497</b>	<b>6,628,701</b>	<b>6,779,674</b>
<b>Ann. Adj. Cash EBITDA</b>	<b>558,476</b>	<b>524,276</b>	<b>313,708</b>	<b>290,180</b>	<b>280,892</b>	<b>280,892</b>	<b>338,236</b>	<b>393,952</b>	<b>444,756</b>	<b>497,016</b>	<b>497,016</b>	<b>511,428</b>	<b>529,896</b>	<b>526,524</b>
<b>Unlevered ROIC</b>	<b>8.02%</b>	<b>7.77%</b>	<b>4.64%</b>	<b>4.30%</b>	<b>4.25%</b>	<b>5.25%</b>	<b>5.23%</b>	<b>6.07%</b>	<b>6.85%</b>	<b>7.71%</b>	<b>6.46%</b>	<b>7.93%</b>	<b>7.99%</b>	<b>7.77%</b>
Y/Y Chg. - bp	(25)	(39)	(334)	(363)	(376)	(277)	(254)	144	254	345	122	271	192	92
<b>Mortgage Assets Investments:</b>														
<b>Gross Mortgage Assets</b>	<b>357,391</b>	<b>356,666</b>	<b>357,668</b>	<b>362,011</b>	<b>365,628</b>	<b>365,628</b>	<b>364,969</b>	<b>366,064</b>	<b>369,134</b>	<b>370,159</b>	<b>370,159</b>	<b>370,021</b>	<b>374,617</b>	<b>399,485</b>
<b>Avg. Mortgage Assets</b>	<b>473,262</b>	<b>357,029</b>	<b>357,167</b>	<b>359,840</b>	<b>363,820</b>	<b>359,873</b>	<b>365,299</b>	<b>365,517</b>	<b>367,599</b>	<b>369,647</b>	<b>367,191</b>	<b>370,090</b>	<b>372,319</b>	<b>387,051</b>
Mortgage & Other Financing Income	45,448	8,396	8,413	8,104	8,433	33,346	8,473	8,446	8,516	8,547	33,982	8,564	7,610	9,579
(-) Prepayment Fees	(2,660)	-	-	-	-	-	-	-	-	-	-	-	-	-
(-) Non-Cash Portion of Mortgage & Other Financing Income	(2,411)	(91)	(97)	71	(133)	(250)	(171)	(216)	55	(114)	(446)	(116)	(118)	(119)
<b>Cash Interest Income</b>	<b>40,377</b>	<b>8,305</b>	<b>8,316</b>	<b>8,175</b>	<b>8,300</b>	<b>33,096</b>	<b>8,302</b>	<b>8,230</b>	<b>8,571</b>	<b>8,433</b>	<b>33,536</b>	<b>8,448</b>	<b>7,492</b>	<b>9,460</b>
<b>Ann. Cash Interest Income</b>	<b>28,416</b>	<b>33,220</b>	<b>33,264</b>	<b>32,700</b>	<b>33,200</b>	<b>33,200</b>	<b>33,208</b>	<b>32,920</b>	<b>34,284</b>	<b>33,732</b>	<b>33,732</b>	<b>33,792</b>	<b>29,968</b>	<b>37,840</b>
<b>Unlevered ROIC</b>	<b>8.37%</b>	<b>9.30%</b>	<b>9.31%</b>	<b>9.09%</b>	<b>9.13%</b>	<b>9.21%</b>	<b>9.09%</b>	<b>9.01%</b>	<b>9.33%</b>	<b>9.13%</b>	<b>9.14%</b>	<b>9.13%</b>	<b>8.05%</b>	<b>9.78%</b>
Y/Y Chg. - bp	(92)	45	72	67	176	83	(21)	(31)	24	0	(7)	4	(96)	45
<b>Equity Real Estate Investments:</b>														
<b>Gross Real Estate Assets</b>	<b>6,380,287</b>	<b>6,406,848</b>	<b>6,401,843</b>	<b>6,360,010</b>	<b>6,116,135</b>	<b>6,116,135</b>	<b>6,092,761</b>	<b>6,146,434</b>	<b>6,107,566</b>	<b>6,048,979</b>	<b>6,048,979</b>	<b>6,103,834</b>	<b>6,408,929</b>	<b>6,376,317</b>
<b>Avg. Real Estate Assets</b>	<b>6,460,623</b>	<b>6,393,568</b>	<b>6,404,346</b>	<b>6,380,927</b>	<b>6,238,073</b>	<b>6,333,025</b>	<b>6,104,448</b>	<b>6,119,598</b>	<b>6,127,000</b>	<b>6,078,273</b>	<b>6,102,375</b>	<b>6,076,407</b>	<b>6,256,382</b>	<b>6,392,623</b>
<b>Ann. Adj. RE Cash EBITDA</b>	<b>530,060</b>	<b>491,056</b>	<b>280,444</b>	<b>257,480</b>	<b>247,692</b>	<b>247,692</b>	<b>305,028</b>	<b>361,032</b>	<b>410,472</b>	<b>463,284</b>	<b>463,284</b>	<b>477,636</b>	<b>499,928</b>	<b>488,684</b>
<b>Unlevered ROIC</b>	<b>7.99%</b>	<b>7.68%</b>	<b>4.38%</b>	<b>4.04%</b>	<b>3.97%</b>	<b>5.02%</b>	<b>5.00%</b>	<b>5.90%</b>	<b>6.70%</b>	<b>7.62%</b>	<b>6.30%</b>	<b>7.86%</b>	<b>7.99%</b>	<b>7.64%</b>
Y/Y Chg. - bp	(16)	(41)	(355)	(387)	(408)	(297)	(268)	152	266	365	128	286	209	95

# THESIS | HOW DOES THE ROI COMPARE TO THE “K?”

Market prices EPR’s real estate assets at a negative spread; in reality the true cost of capital is probably higher than ~9%



# THESIS | DISCOUNTED CASH FLOW (DCF) ANALYSIS

Slightly higher value, but we think its credible to assume a ~10% cost of capital may be low

(Amounts in 000s, Except per Share Data)

EPR - Discounted Cash Flow (DCF) Analysis

		Year 1				Year 2				Year 3				Year 4				Year 5			
		Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
		Quarter 0	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 5	Quarter 6	Quarter 7	Quarter 8	Quarter 9	Quarter 10	Quarter 11	Quarter 12	Quarter 13	Quarter 14	Quarter 15	Quarter 16	Quarter 17	Quarter 18	Quarter 19
Adj. Cash EBITDA <sup>(1)</sup>		132,630	133,206	133,785	134,367	134,951	135,538	136,127	136,718	137,313	137,910	138,509	139,111	139,716	140,323	140,933	141,545	142,161	142,779	143,399	144,022
Q/Q Chg. - %			0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%	0.43%
Annual Growth	1.75%																				
Cash G&A Expenses		8,444	8,527	8,611	8,696	8,782	8,868	8,956	9,044	9,133	9,223	9,314	9,406	9,498	9,592	9,686	9,782	9,878	9,976	10,074	10,173
Q/Q Chg. - %			0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%
Annual Growth	4.00%																				
Maintenance Capex		2,500	2,512	2,525	2,537	2,550	2,563	2,575	2,588	2,601	2,614	2,627	2,640	2,653	2,666	2,679	2,693	2,706	2,720	2,733	2,747
Q/Q Chg. - %			0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Annual Growth	2.00%																				
Unlevered CFs:																					
Total Unlevered CFs		133,646	122,167	122,649	123,134	123,619	124,107	124,596	125,086	125,579	126,073	126,568	127,065	127,564	128,065	128,567	129,071	129,576	130,083	130,592	131,103
Terminal Value <sup>(2)</sup>			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,045,887
Total Unlevered CFs			122,167	122,649	123,134	123,619	124,107	124,596	125,086	125,579	126,073	126,568	127,065	127,564	128,065	128,567	129,071	129,576	130,083	130,592	5,176,989

Unlevered Cost of Capital 10.00%

PV of Unlevered CFs	5,238,662
(+) Cash & Cash Equivalents	160,838
(+) Restricted Cash	5,252
(+) Land Held for Development	20,168
(+) Property Under Development	56,347
(+) Mortgage Investments	399,485
(-) Preferred Equity	(371,007)
(-) EPR's Share of Total Debt	(2,957,676)
Equity Value	2,552,069
(/) Shares / Units Outstanding	75,186
Equity Value / Share	33.94
Implied Fwd. Cash EBITDA Multiple	9.8x
Current Share Price	37.95
Annual Dividend	3.30
Total Return - Upside / (Downside)	-1.9%

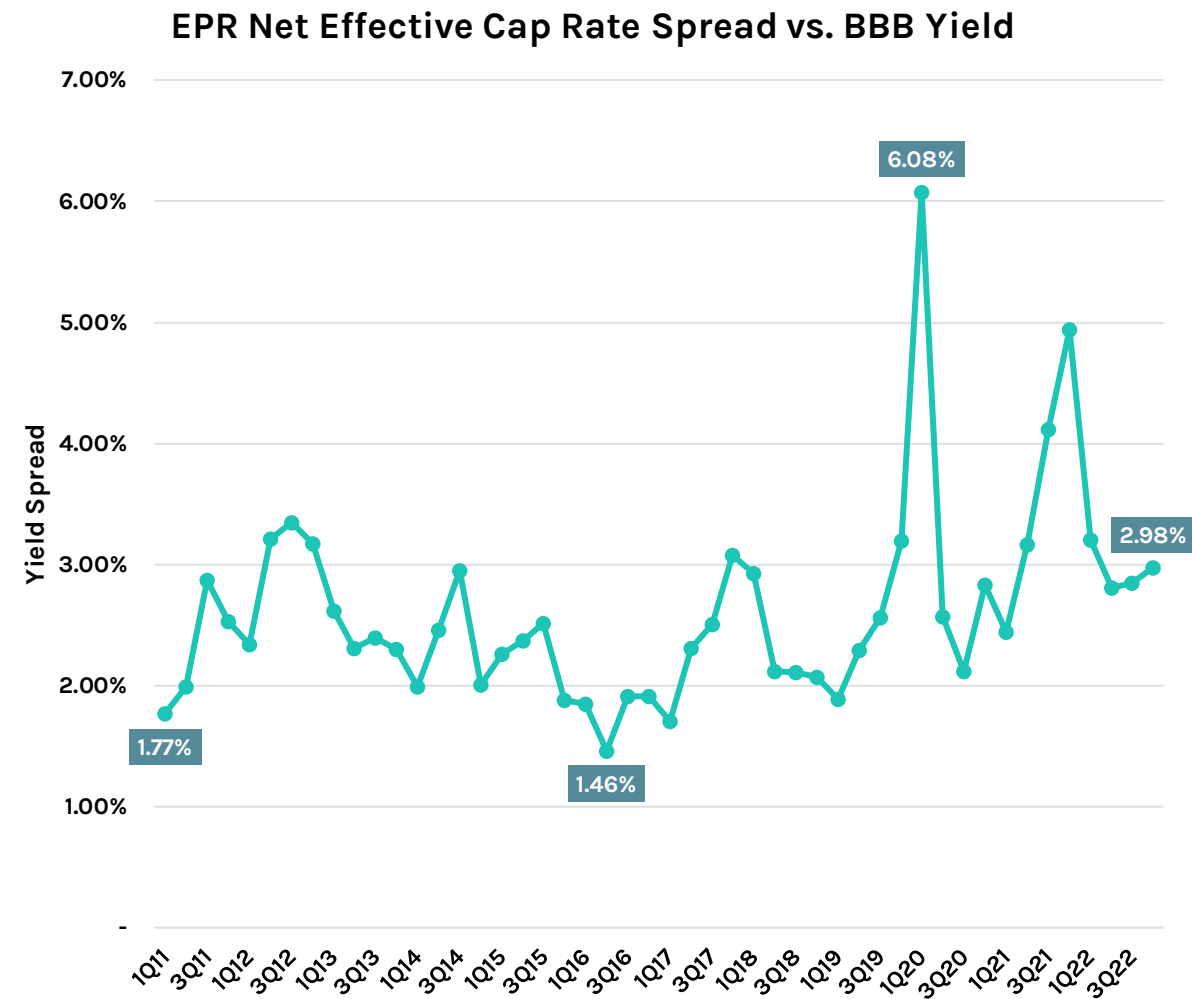
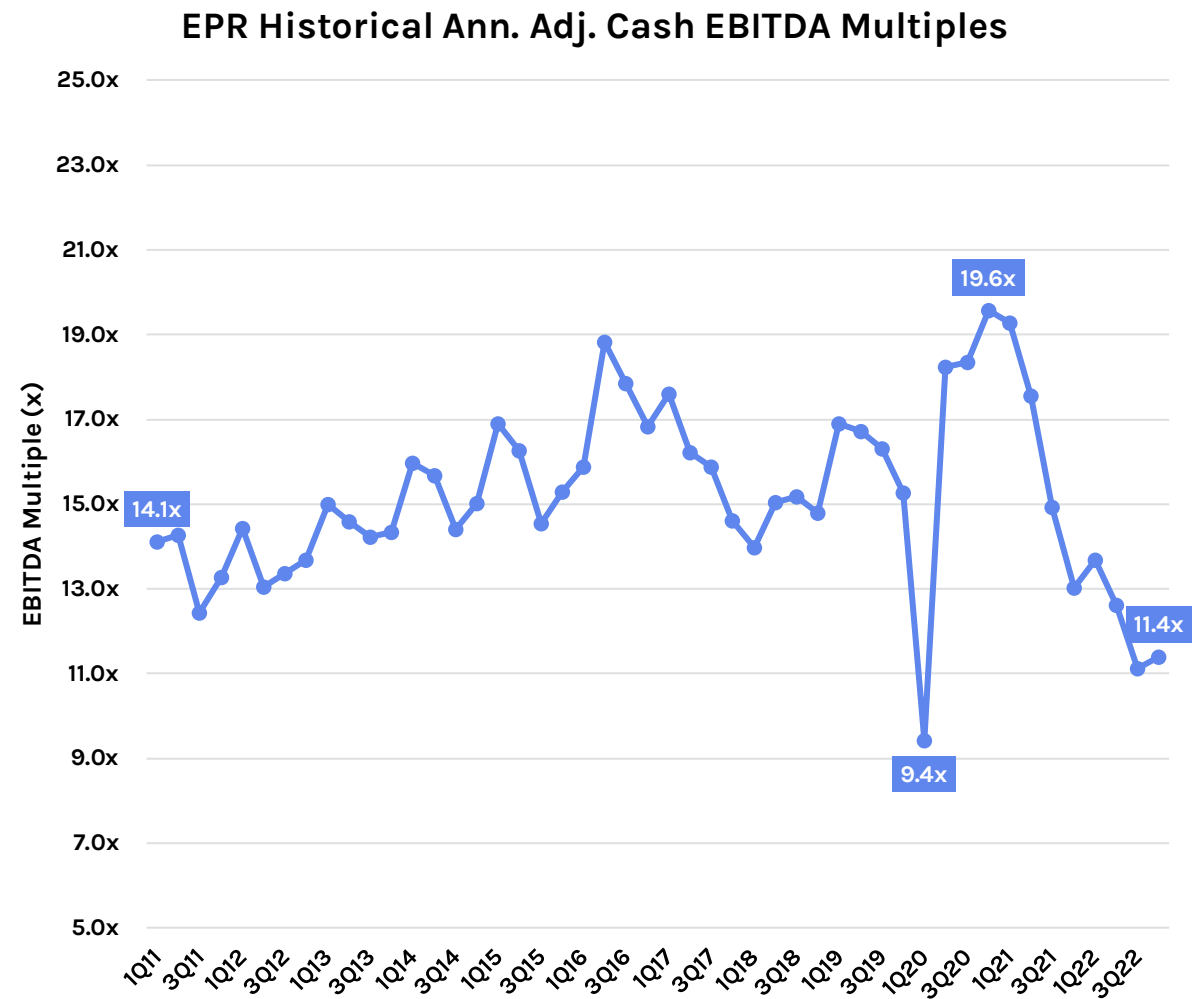
	WACC				
	1.500%	1.625%	1.750%	1.875%	2.000%
9.00%	35.52	35.90	36.28	36.67	37.06
9.50%	34.35	34.72	35.10	35.48	35.86
10.00%	33.21	33.57	33.94	34.32	34.69
10.50%	32.09	32.45	32.82	33.18	33.55
11.00%	31.00	31.36	31.71	32.07	32.43
11.50%	29.94	30.29	30.64	30.99	31.34
12.00%	28.90	29.24	29.58	29.93	30.28
12.50%	27.88	28.22	28.55	28.89	29.23
13.00%	26.89	27.22	27.55	27.88	28.22

Notes:

- (1) Includes rent and excludes interest income on mortgages.  
(2) Incorporates +100bps increase in cap rate over the hold period.

# THESIS | STANDALONE MULTIPLES DON'T TELL THE STORY

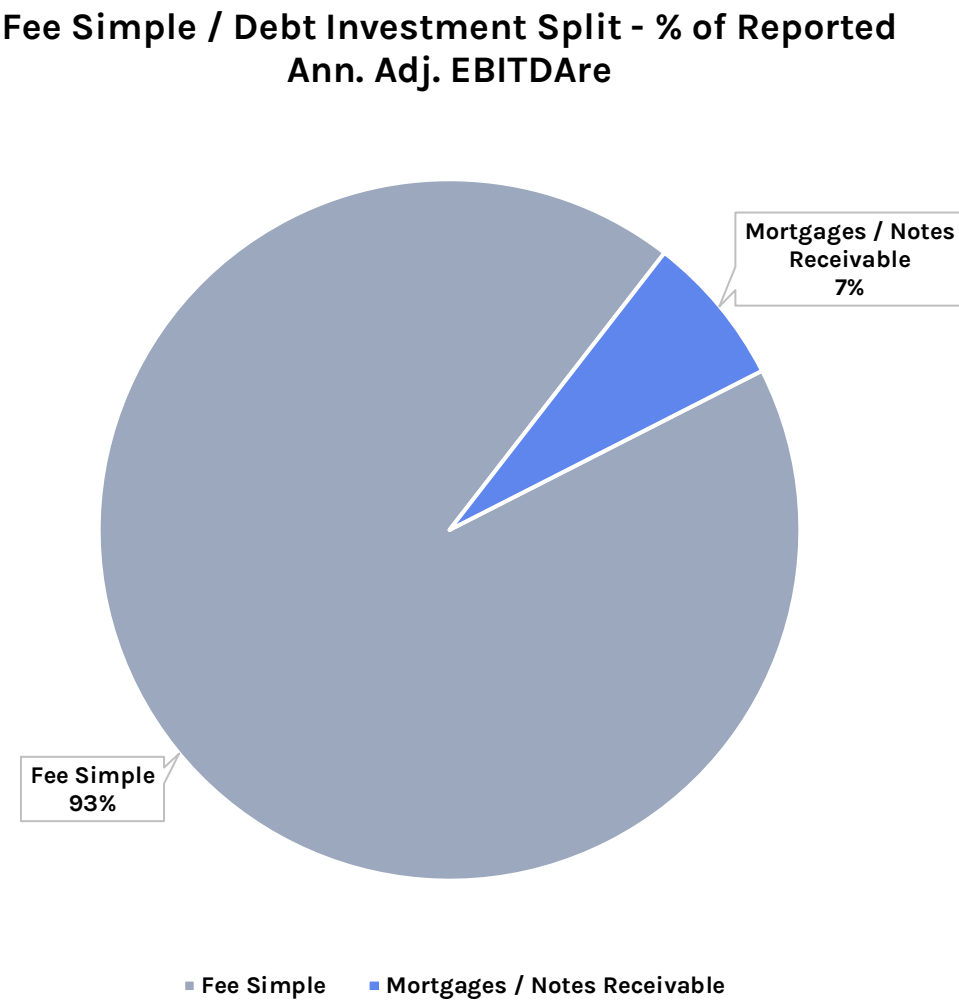
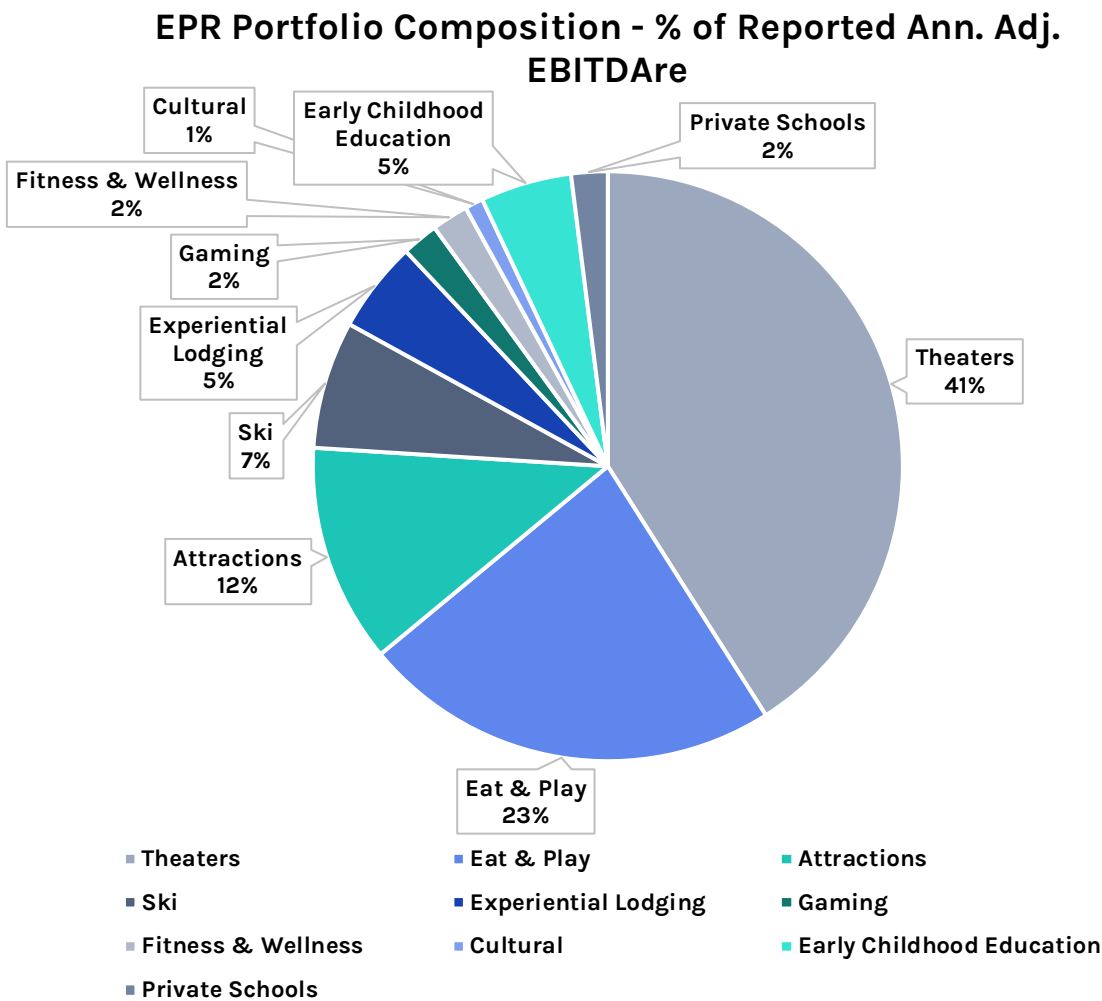
Conclusion: the stock is NOT “cheap,” and we do not think spreads have widened enough to compensate for risk



## **[3] EPR COMPANY OVERVIEW**

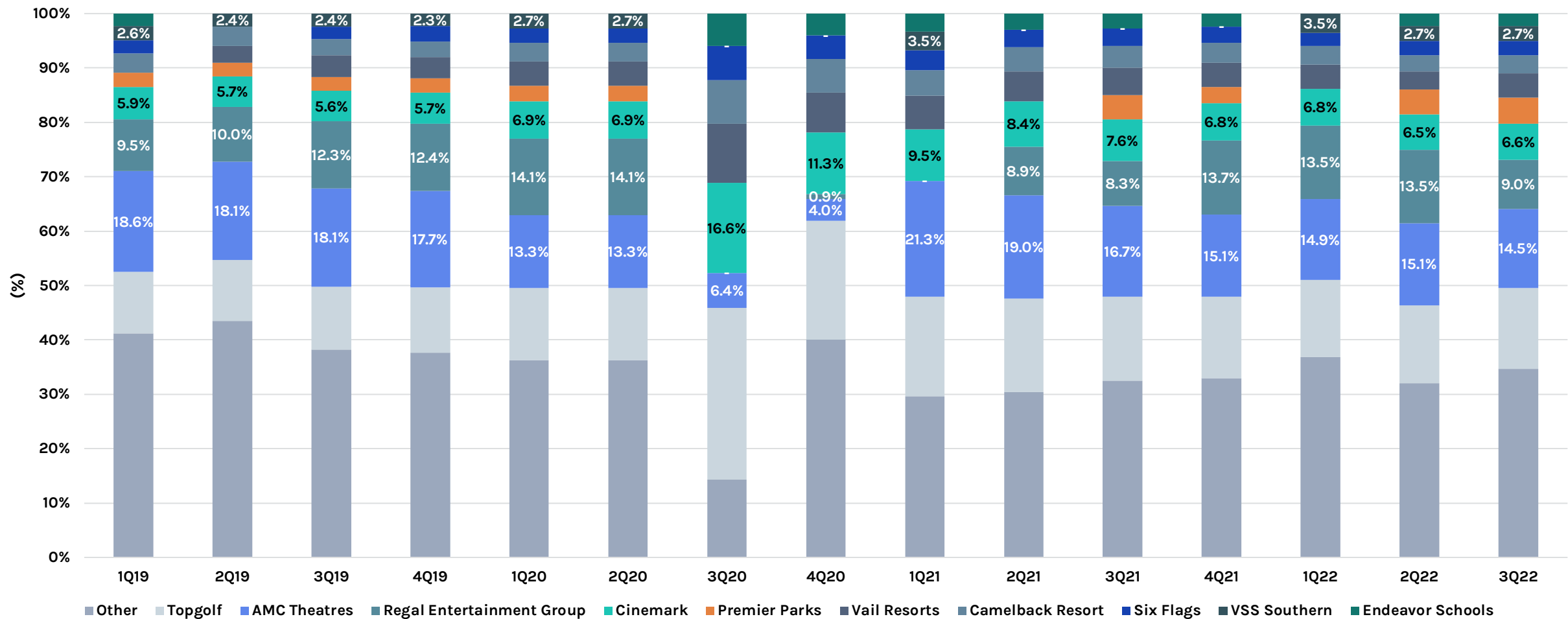
# EPR | PORTFOLIO COMPOSITION AS OF 3Q22

Self-described as an “experiential” triple-net REIT, EPR is very long consumer discretionary and still overweight movie theaters



# EPR | HISTORICAL TOP-10 TENANT EXPOSURE

Historical Top-10 Tenant Exposure by % of Total Revenue – Focus on Theaters



Note: EPR moved AMC and Regal to cash accounting at the end of 1Q20 and 3Q20, respectively.

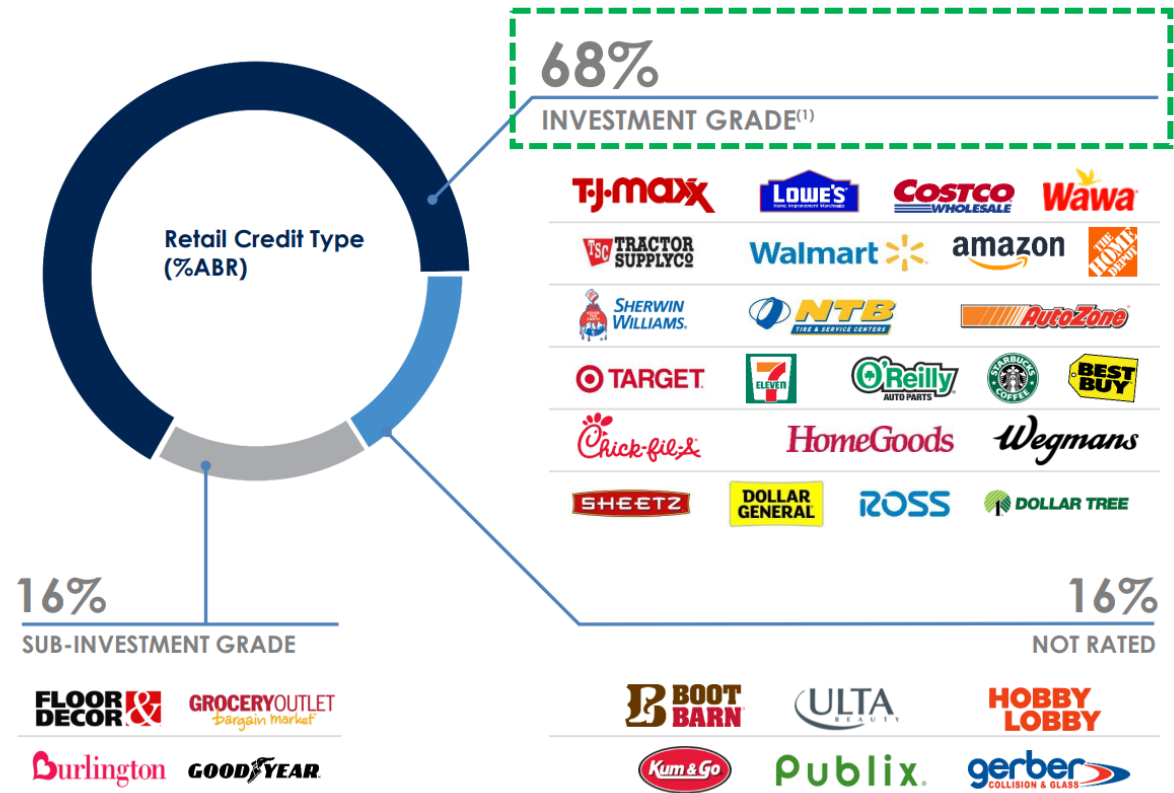
# EPR | TOP-10 TENANT CREDIT PROFILES

Could be worse, but the reality is that EPR's underlying tenant credit isn't great; no investment grade-rated credits among top-10 tenants

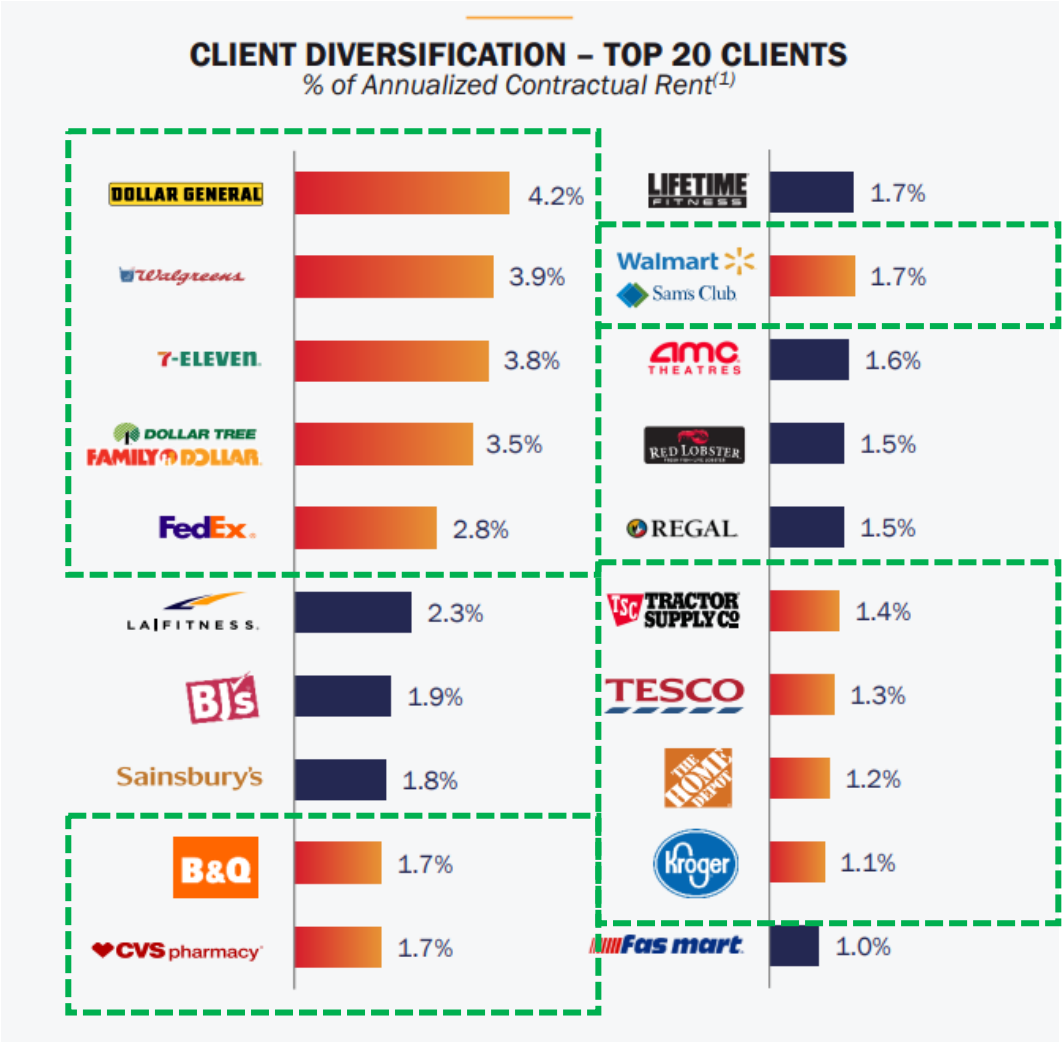
	Tenant Name	% of Total EPR Revenue	LTM	Standard & Poor's					Moody's				
			Net Debt / EBITDA	Action Date	Action	Rating	Watch	Outlook	Action Date	Action	Corp. Rating	Watch	Outlook
1	Topgolf - Topgolf Callaway Brands Corp. (MODG) - Topgolf subsidiary ratings presented here	14.9%	1.8x	Mar-22	Raise	B	-	Stable	Mar-21	Raise	B3	-	Stable
2	AMC Entertainment Holdings, Inc.	14.5%	28.2x	Dec-22	Lower	CC	-	Negative	Feb-22	Raise	Caa2	-	Positive
3	Cineworld Group plc (Regal Entertainment) - Regal currently in Chapter 11	9.0%	-	Sep-22	Lower	D	-	-	-	-	-	-	-
4	Cinemark Holdings, Inc.	6.6%	5.1x	Jun-22	-	B	-	Positive	-	-	-	-	-
5	Premier Parks, LLC	4.9%	-	-	-	-	-	-	-	-	-	-	-
6	Vail Resorts, Inc. (MTN)	4.4%	1.5x	Mar-21	-	BB	-	Stable	May-15	Raise	Ba2	-	Stable
7	Camelback Resort, LLC	3.3%	-	-	-	-	-	-	-	-	-	-	-
8	Six Flags Entertainment Corp. (SIX)	2.7%	4.8x	Nov-22	-	B+	-	Stable	Jun-21	-	B2	-	Stable
9	VSS Southern	2.7%	-	-	-	-	-	-	-	-	-	-	-
10	Endeavor Schools	2.3%	-	-	-	-	-	-	-	-	-	-	-
Total		65.3%											

# EPR | SAMPLE TRIPLE-NET TENANT CREDIT COMPARISON

## Agree Realty Corporation (ADC) – 3Q22



## Realty Income Corp (O) – 3Q22



Note: Both companies define "Investment Grade" as tenants with a Baa3/BBB- rating or higher from Moody's/S&P/Fitch.

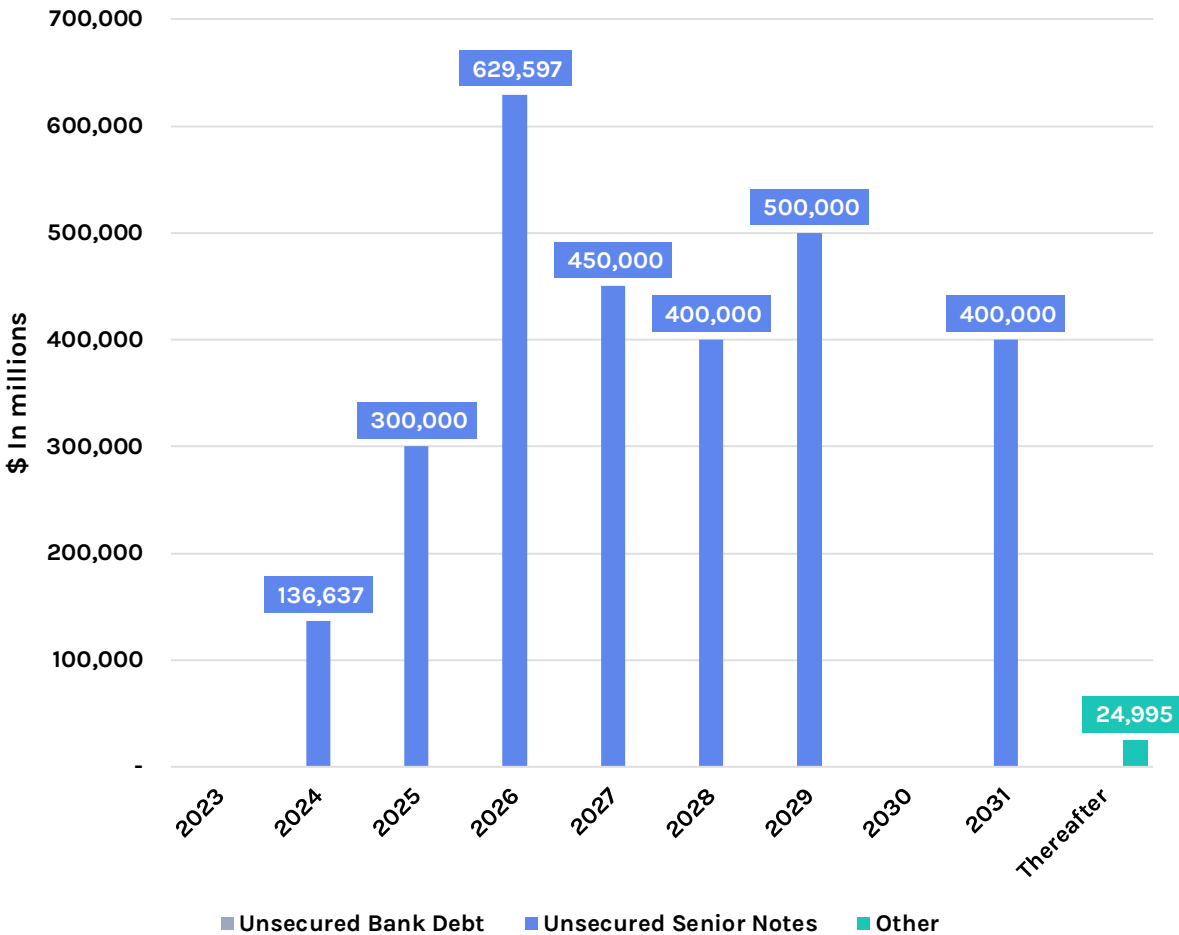
# EPR | CURRENT LEVERAGE & DEBT MATURITY PROFILE

Laddered maturity profile but leverage still too high, and that is before any potential rent reductions

(Amounts in 000s, Except per Share Data)

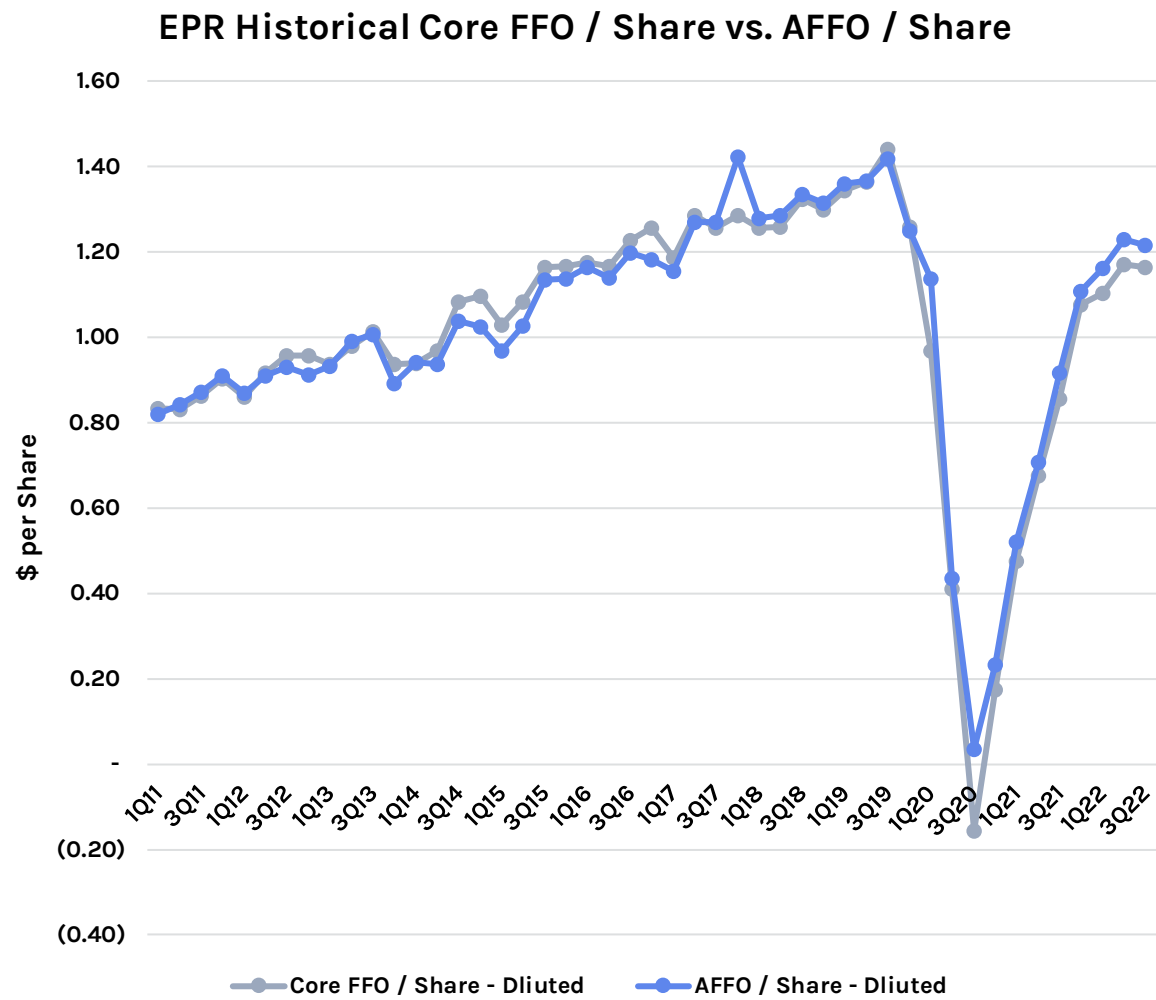
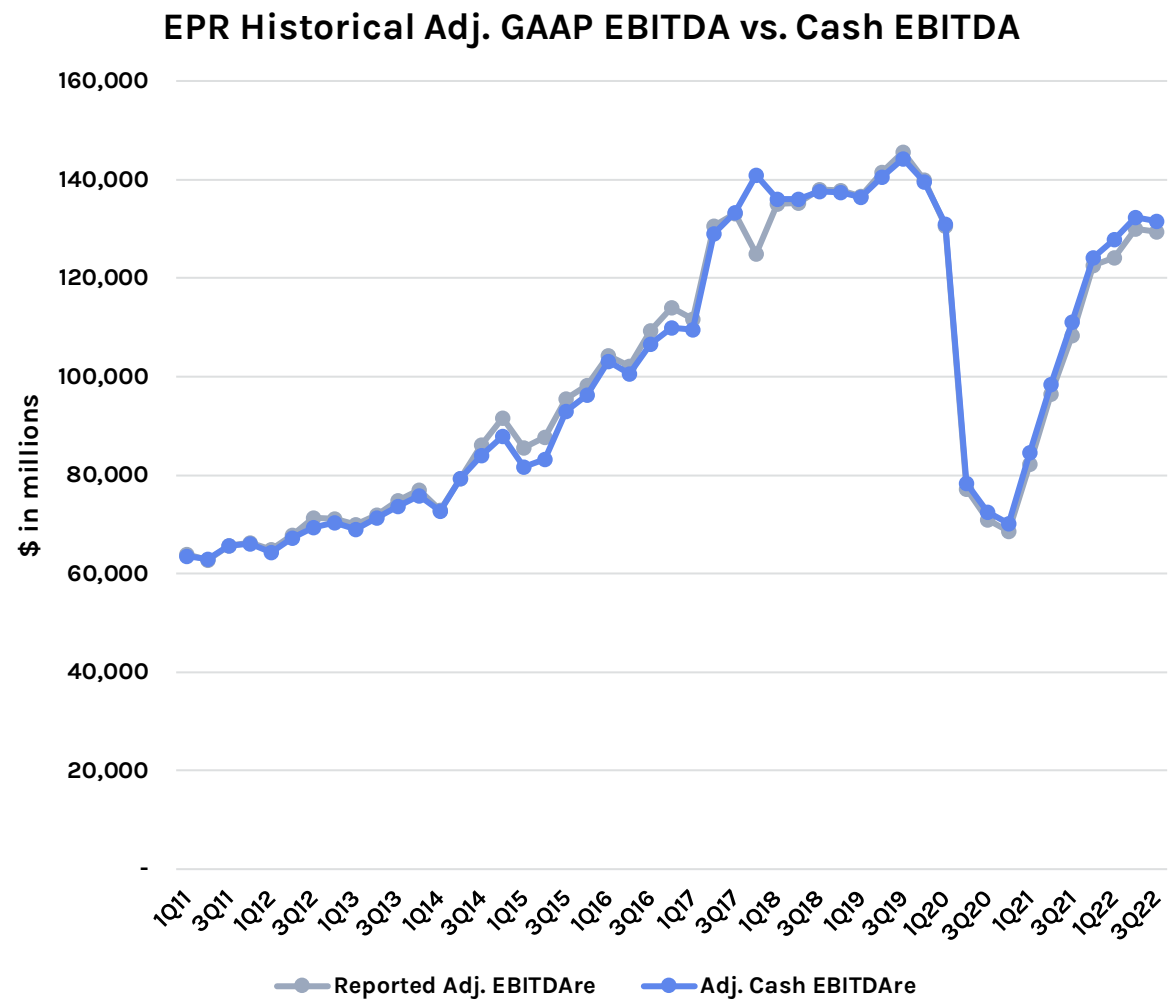
Debt Schedule			
	Maturity Date	Rate	Principal
<b>Unsecured Bank Debt:</b>			
Revolving Credit Facility	Oct-25		-
Term Loan			-
Subtotal			-
<b>Unsecured Senior Notes:</b>			
4.35% Unsecured Senior Notes, due 8.22.24	Aug-24	4.35%	136,637
4.50% Unsecured Senior Notes, due 4.1.25	Apr-25	4.50%	300,000
4.56% Unsecured Senior Notes, due 8.22.26	Aug-26	4.56%	179,597
4.75% Unsecured Senior Notes, due 12.15.26	Dec-26	4.75%	450,000
4.50% Unsecured Senior Notes, due 6.1.27	Jun-27	4.50%	450,000
4.95% Unsecured Senior Notes, due 4.15.28	Apr-28	4.95%	400,000
3.75% Unsecured Senior Notes, due 8.15.29	Aug-29	3.75%	500,000
3.60% Unsecured Senior Notes, due 11.15.31	Nov-31	3.60%	400,000
Subtotal			2,816,234
<b>Other:</b>			
Variable Rate Bonds	Aug-47		24,995
Subtotal			24,995
Consolidated Debt Principal			2,841,229
Cash & Cash Equivalents			(160,838)
Restricted Cash			(5,252)
Net Debt			2,675,139
EPR's Share of UVJ Debt			116,447
EPR's Share of Net Debt			2,791,586
Preferred Equity			371,007
EPR's Share of Net Debt + Pfd.			3,162,593
Net Debt + Pfd. / Gross Assets			46.7%
Adj. Net Debt + Pfd. / Ann. Cash EBITDA			6.0x

EPR Debt Maturity Profile as of 3Q22



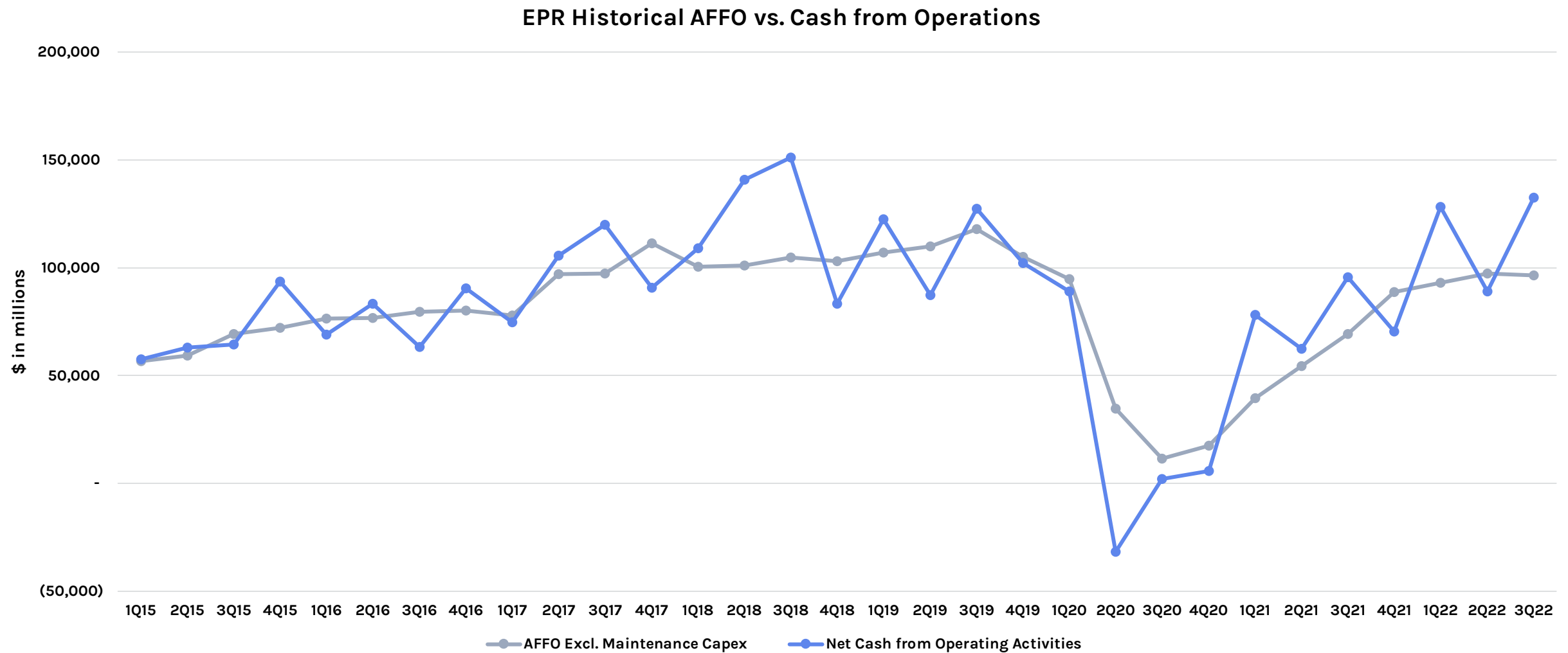
# EPR | OBLIGATORY EARNINGS QUALITY CHECKS

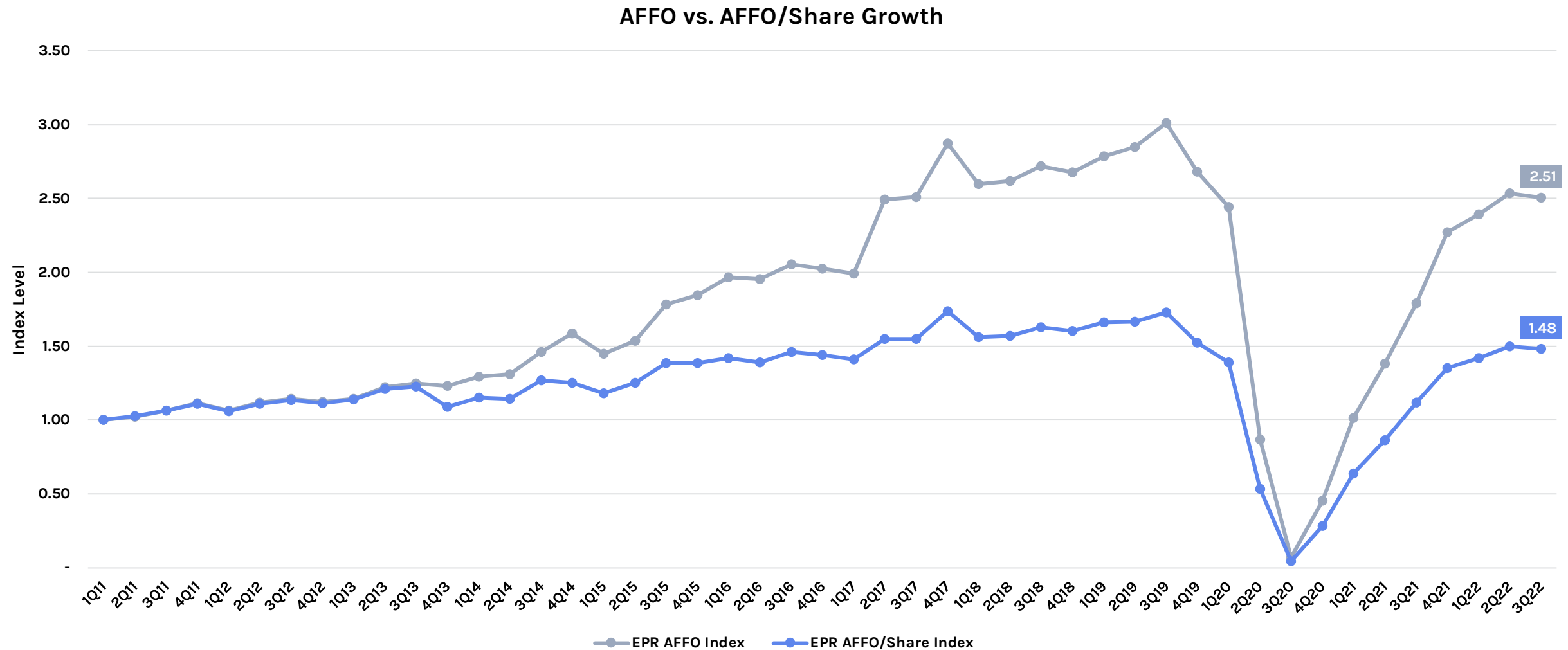
Very little delta between GAAP and cash, and consistent over time → No issues here



# EPR | OBLIGATORY EARNINGS QUALITY CHECKS (CONT'D)

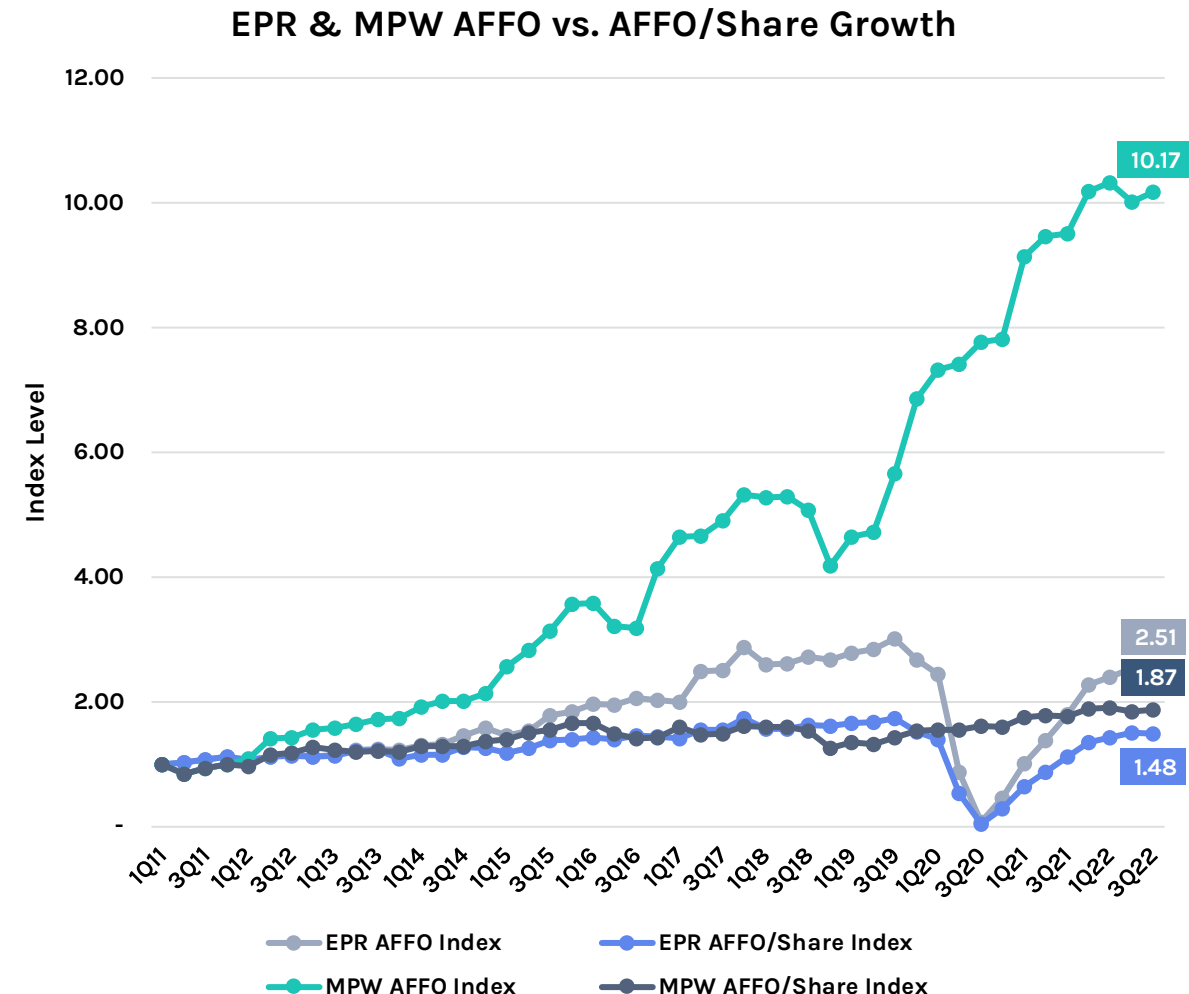
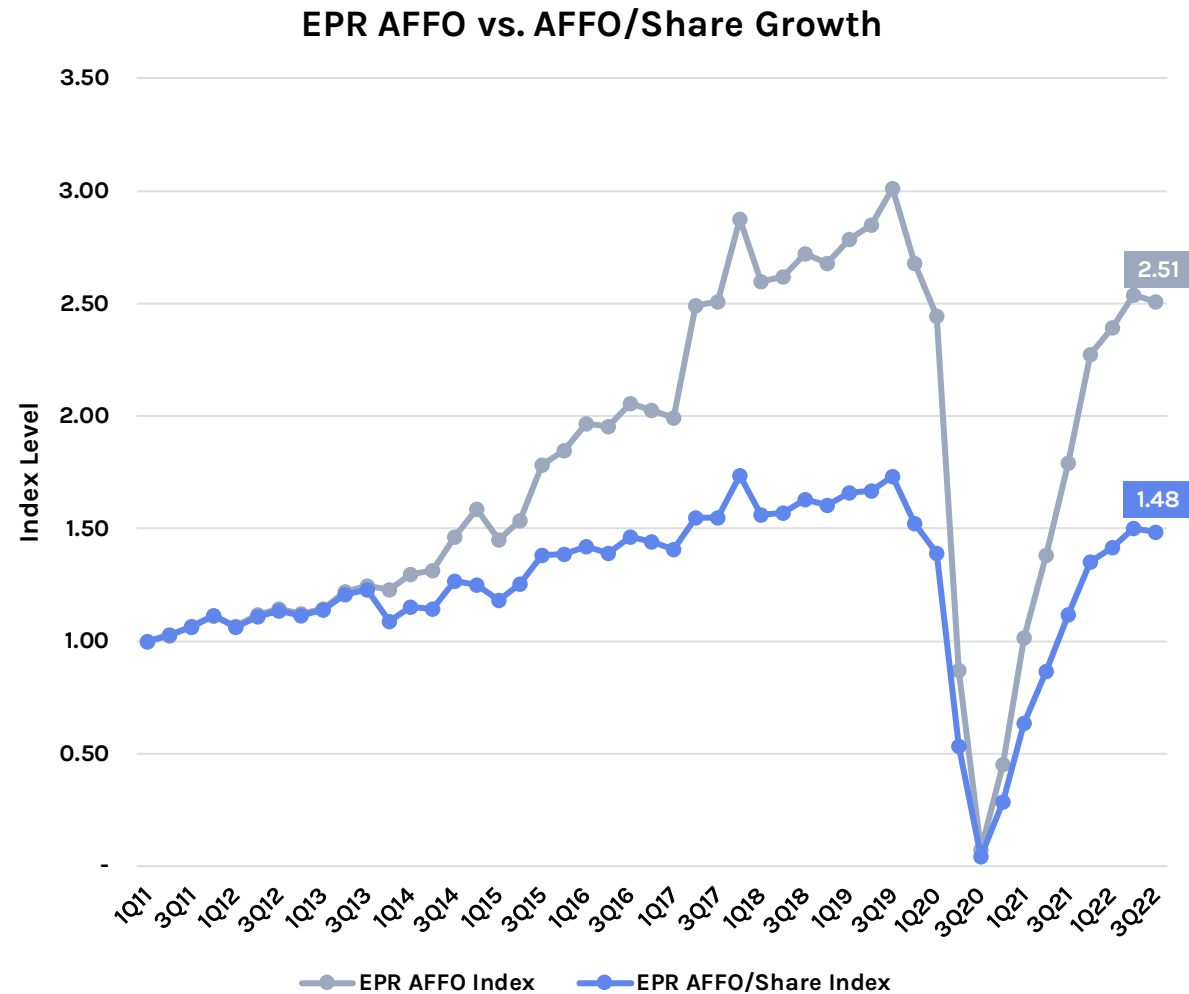
Consistent relationship between reported AFFO and CFO excl. capex → No issues here





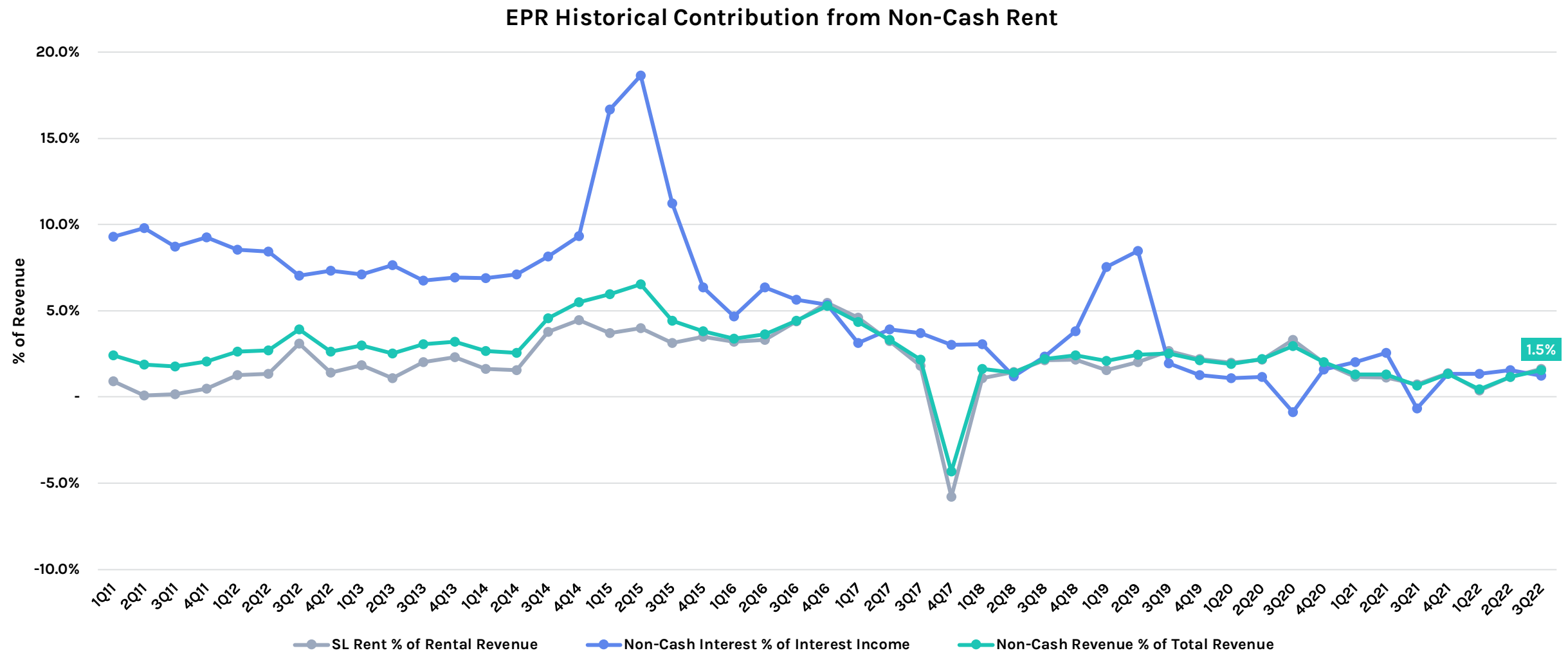
# EPR | OBLIGATORY EARNINGS QUALITY CHECKS (CONT'D)

Comparing EPR to our favorite (sarcasm) REIT → No issues here, as long as you are blue and light grey



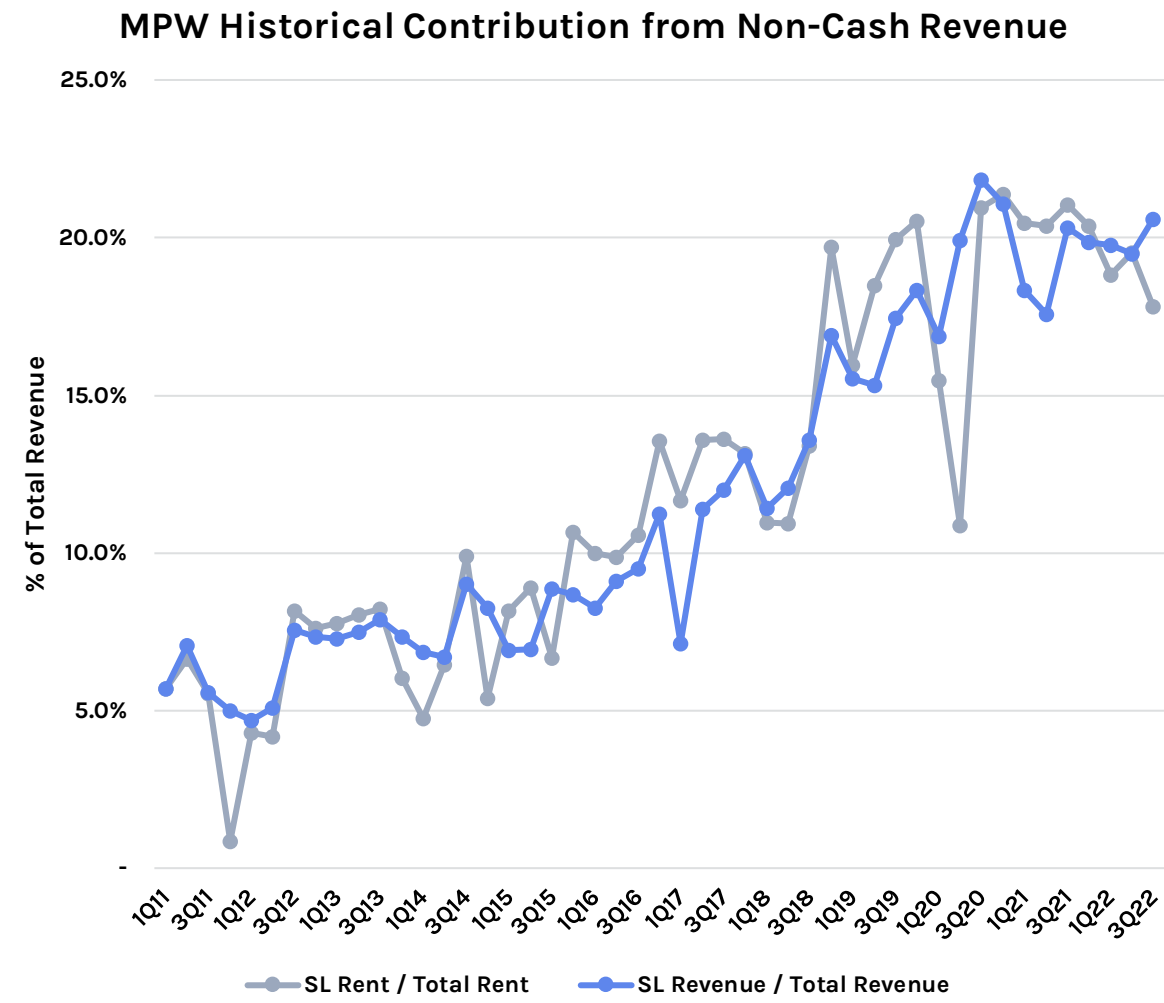
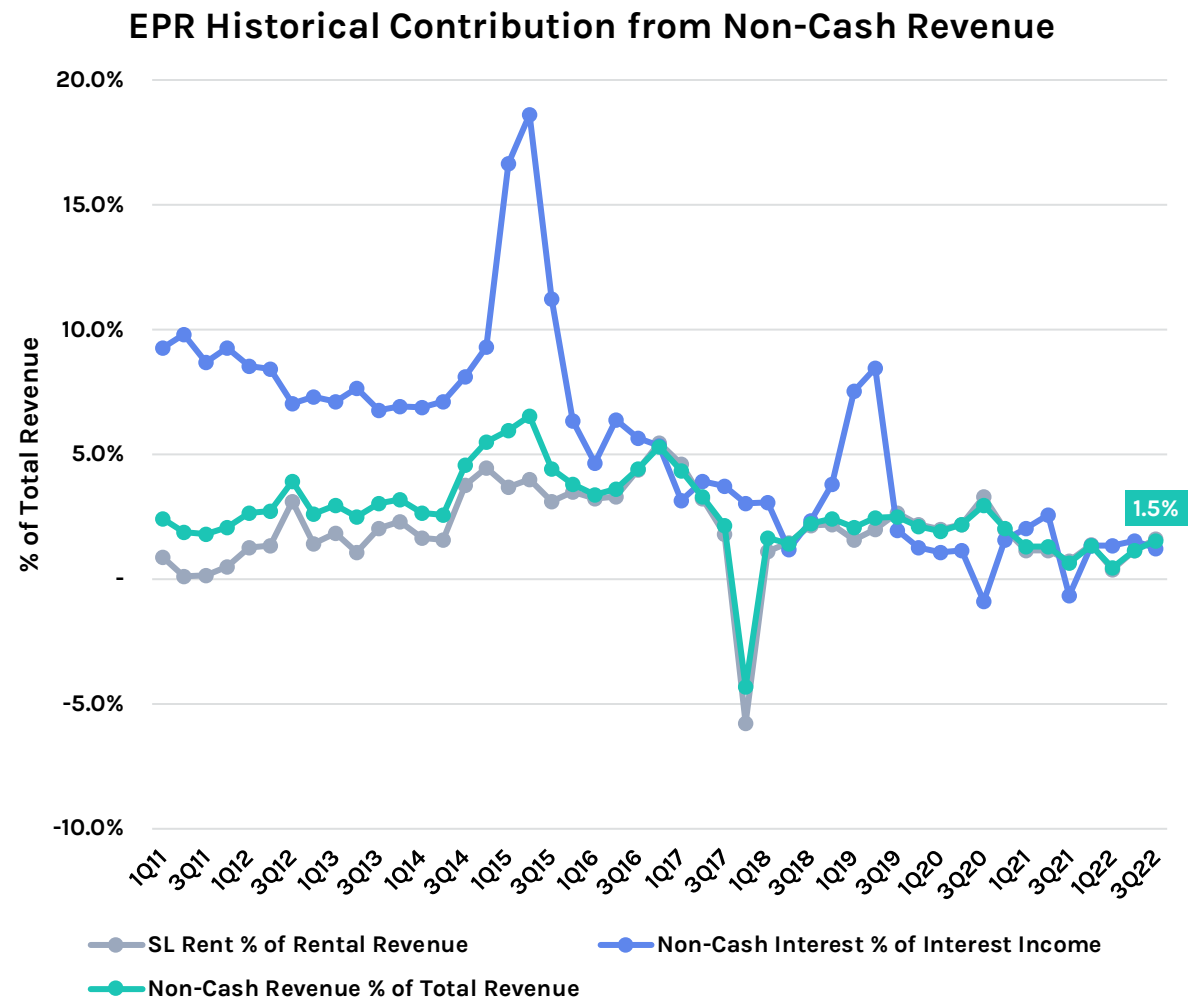
# EPR | OBLIGATORY EARNINGS QUALITY CHECKS (CONT'D)

Consistent non-cash revenue contribution → No issues here



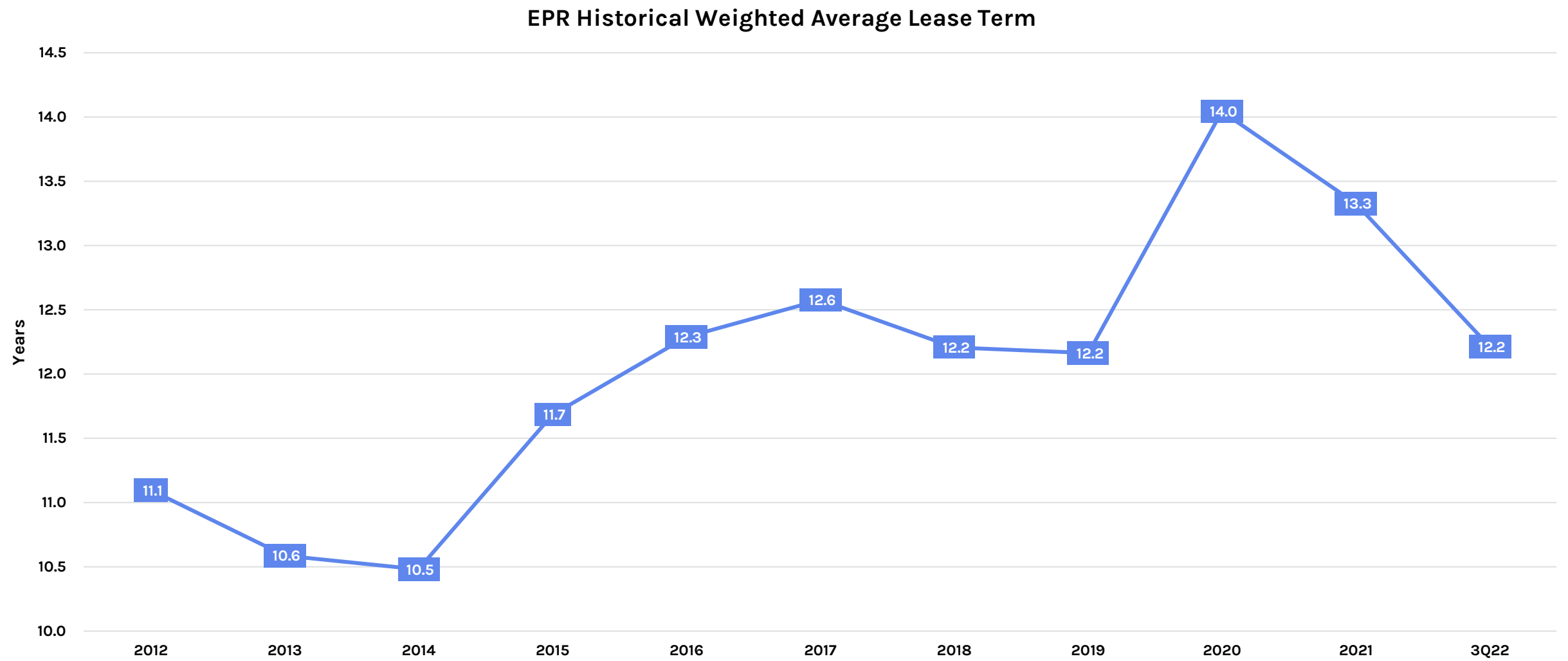
# EPR | OBLIGATORY EARNINGS QUALITY CHECKS (CONT'D)

Again, the left side of the page looks just fine...



# EPR | OBLIGATORY EARNINGS QUALITY CHECKS (CONT'D)

No material lengthening of agreement terms over the last decade + consistent SL'ing → No issues here



## **[4] INCORPORATING THE AMC SITUATION**

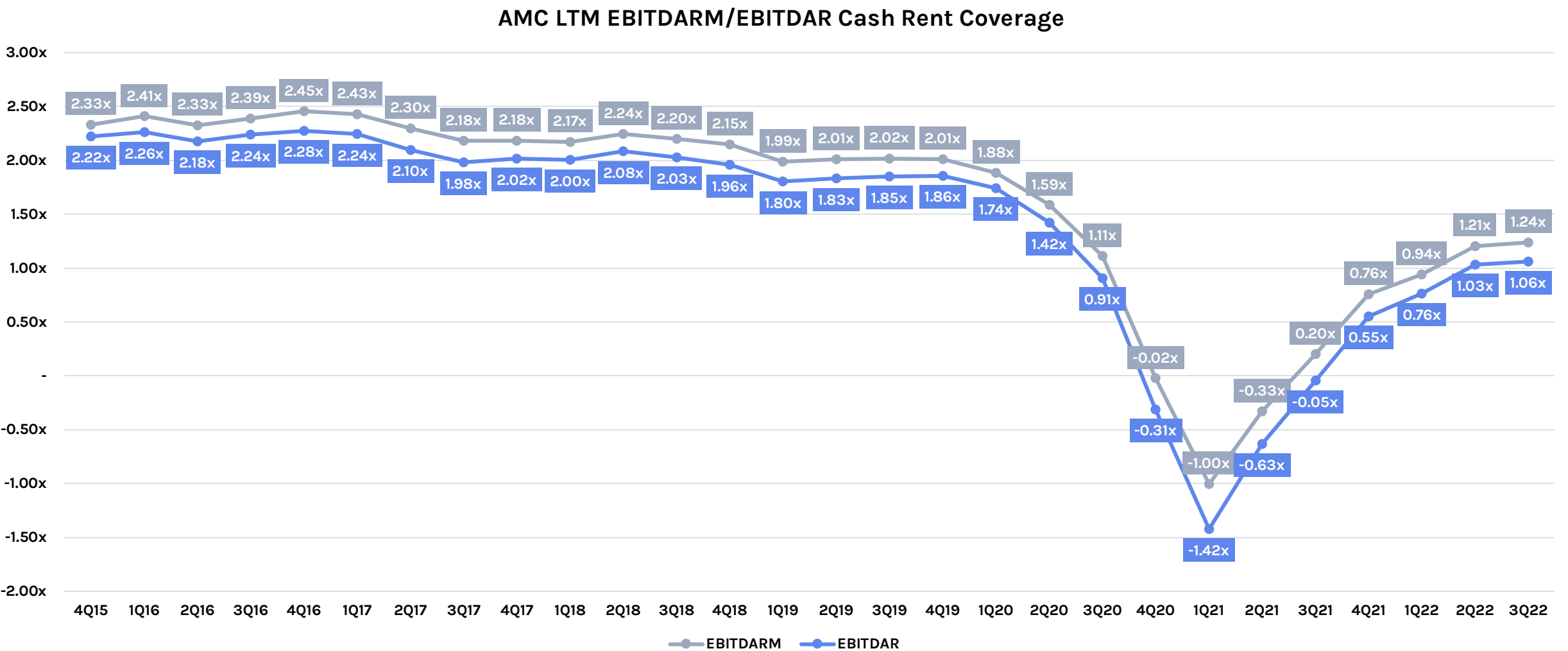
# AMC | WHAT IS GOING ON HERE?

## AMC is a hopelessly over-levered tenant that needs to repair its balance sheet

- Kind of upset that we are just starting to follow this story
- The balance sheet is a total mess and needs to be restructured. EPR moved AMC (as well as Regal) to cash accounting
- On our math **AMC is ~28x levered on net debt / LTM EBITDA** (albeit on depressed domestic box office), and **~11x levered when capitalizing operating and financing lease payments**
- We calculate that AMC is covering its total cash rent payments ~1.24x at the theater-level (EBITDARM) and ~1.06x at the corporate-level after deducting overhead (EBITDAR)
- EPR has highlighted theater-level coverage at ~1.3x across its portfolio of theater tenants, so this is broadly consistent
- With 4Q22 box office down -14% y/y and underperforming expectations, AMC may burn nearly ~\$1 billion of cash in 2022. As a result, AMC has been raising capital to bolster liquidity, retiring debt principal at a discount and executing debt-for-equity exchanges:
  - On 10.20.22 issued \$400 million of 12.75% senior secured notes; repaid amounts outstanding on the OCGI term loan
  - On 12.19.22 sold \$153.2 million of APE units via the ATM ; repurchased ~\$36 million of debt at a discount
  - On 12.22.22 sold \$110 million of APE units via private placement, exchanged \$100 million of 2<sup>nd</sup> lien notes due 2026 for APE units
  - Taken together, we estimate ~\$875 million of unrestricted cash prior to any cash burn in 4Q22 or 1Q23
- **Big Picture: AMC is raising capital / bolstering liquidity amidst a weak box office heading into a seasonally weak period for movie theaters**

# AMC | HISTORICAL LTM CASH RENT COVERAGE

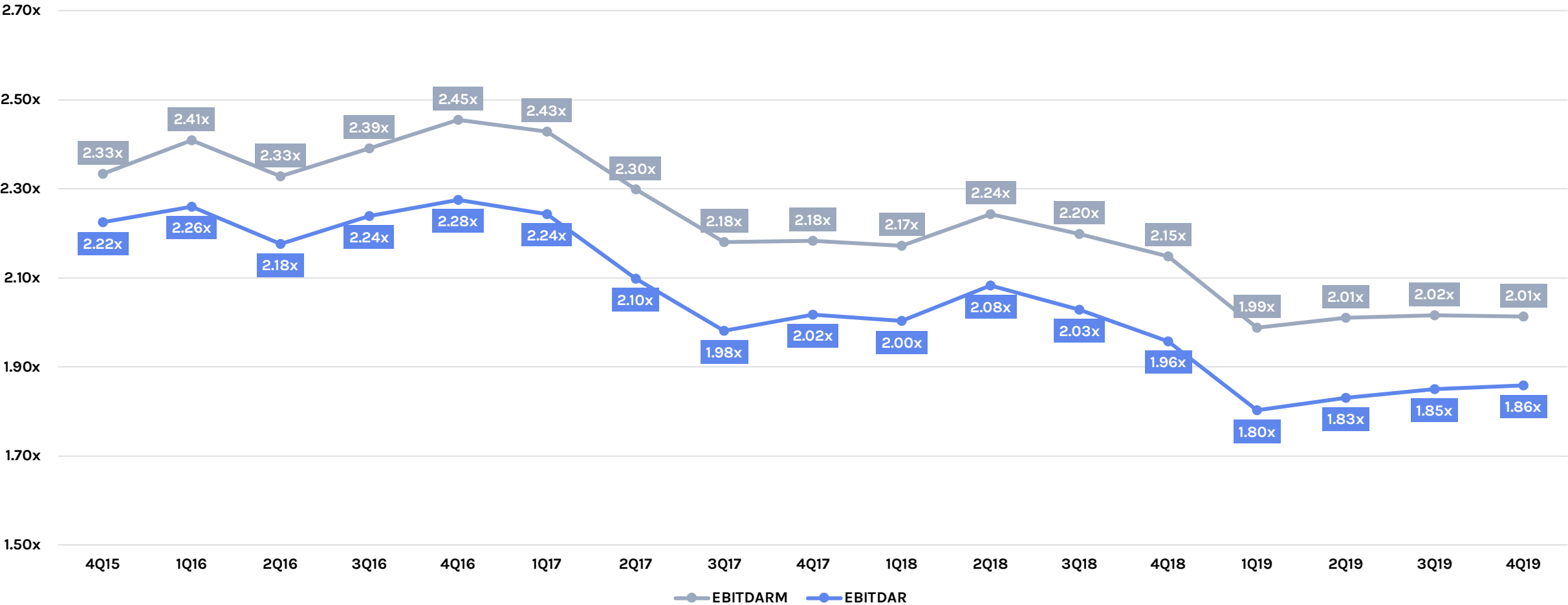
Still well-below pre-COVID levels at both the corporate- and facility-levels, but covering cash rent again



# AMC | HISTORICAL LTM CASH RENT COVERAGE (CONT'D)

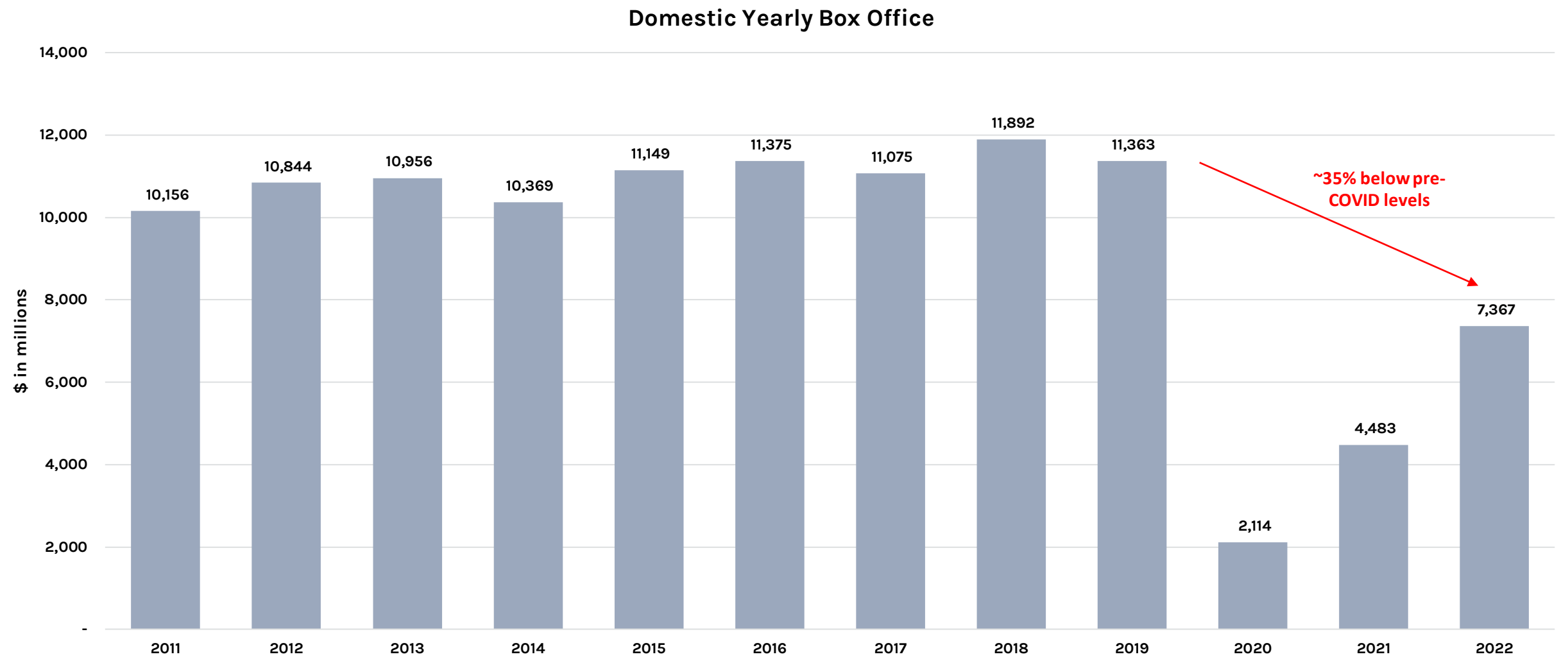
Important that coverage had been deteriorating for some time pre-2020 as AMC acquired additional theater chains

AMC LTM EBITDARM/EBITDAR Cash Rent Coverage (Pre-Covid)



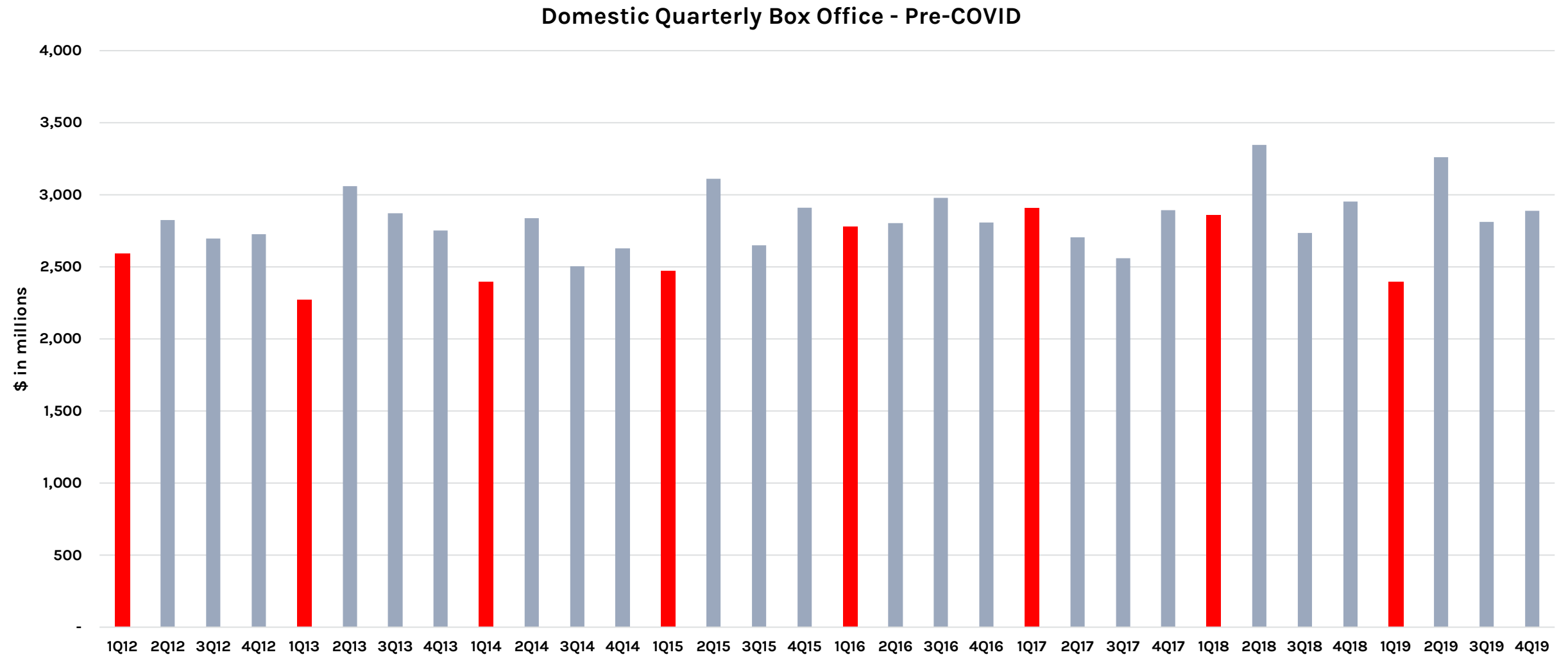
# AMC | DOMESTIC BOX OFFICE WELL-BELOW PRE-2020 LEVELS HEDGEYE

Total domestic box office down -14% y/y to ~\$1.8bn in 4Q22, below ~\$2.1 billion expected; industry forecasts call for ~\$8 to \$9 billion domestic box office in 2023



# AMC | 1Q BOX OFFICE SEASONALLY WEAK HISTORICALLY

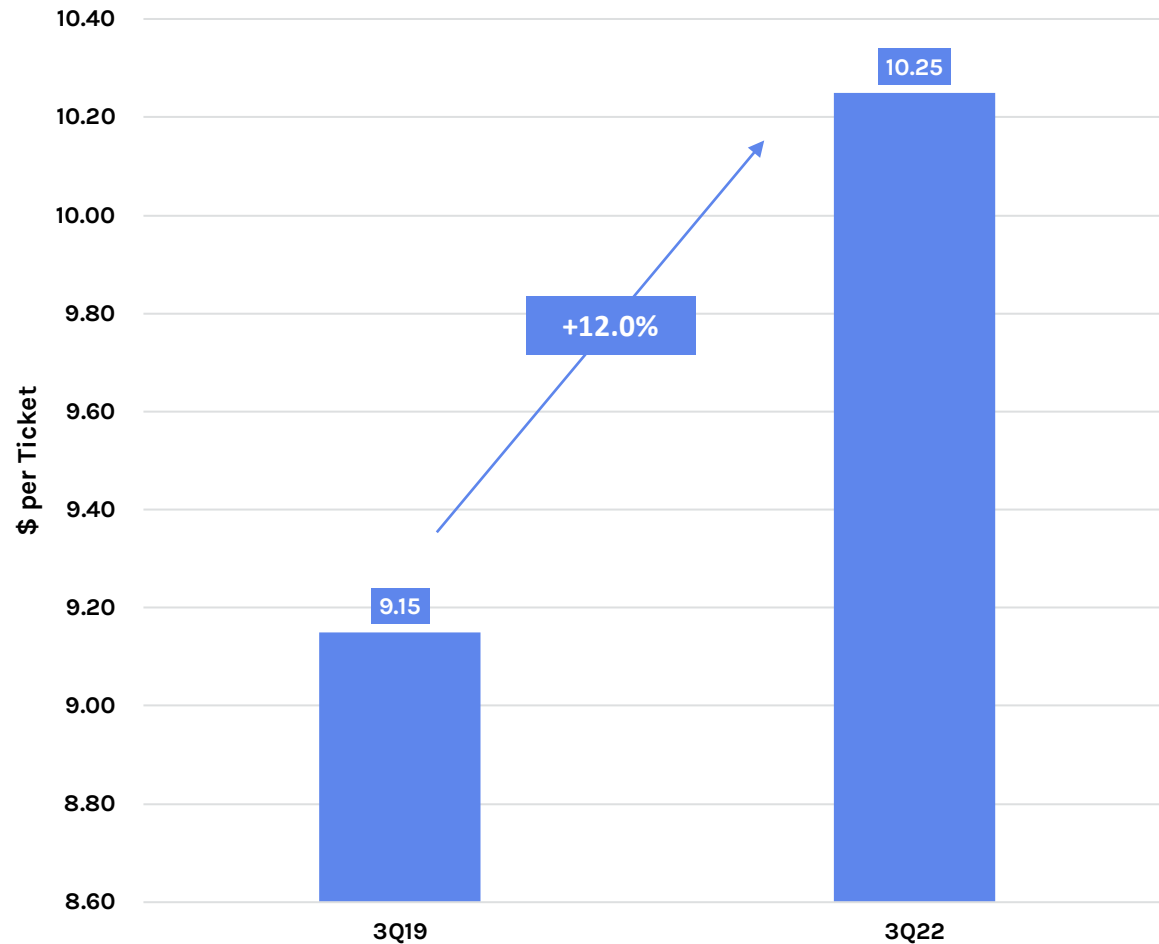
1Q23 very likely to be weak following a disappointing 4Q22 result, resulting in additional cash burn



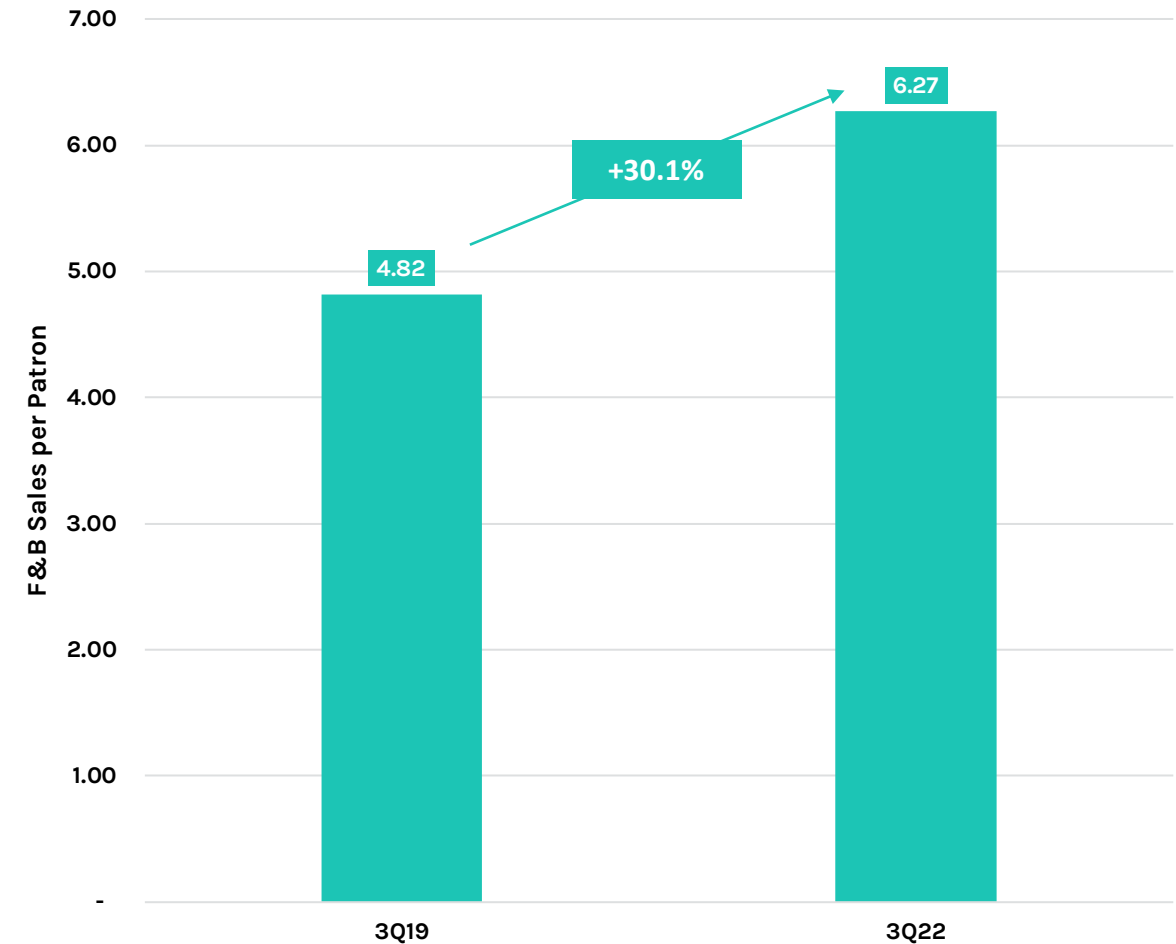
# AMC | ASP'S ARE UP ON BOTH TICKETS & FOOD & BEVERAGE

Industry profitability issues clearly do not stem from pricing issues

AMC Avg. Ticket Prices



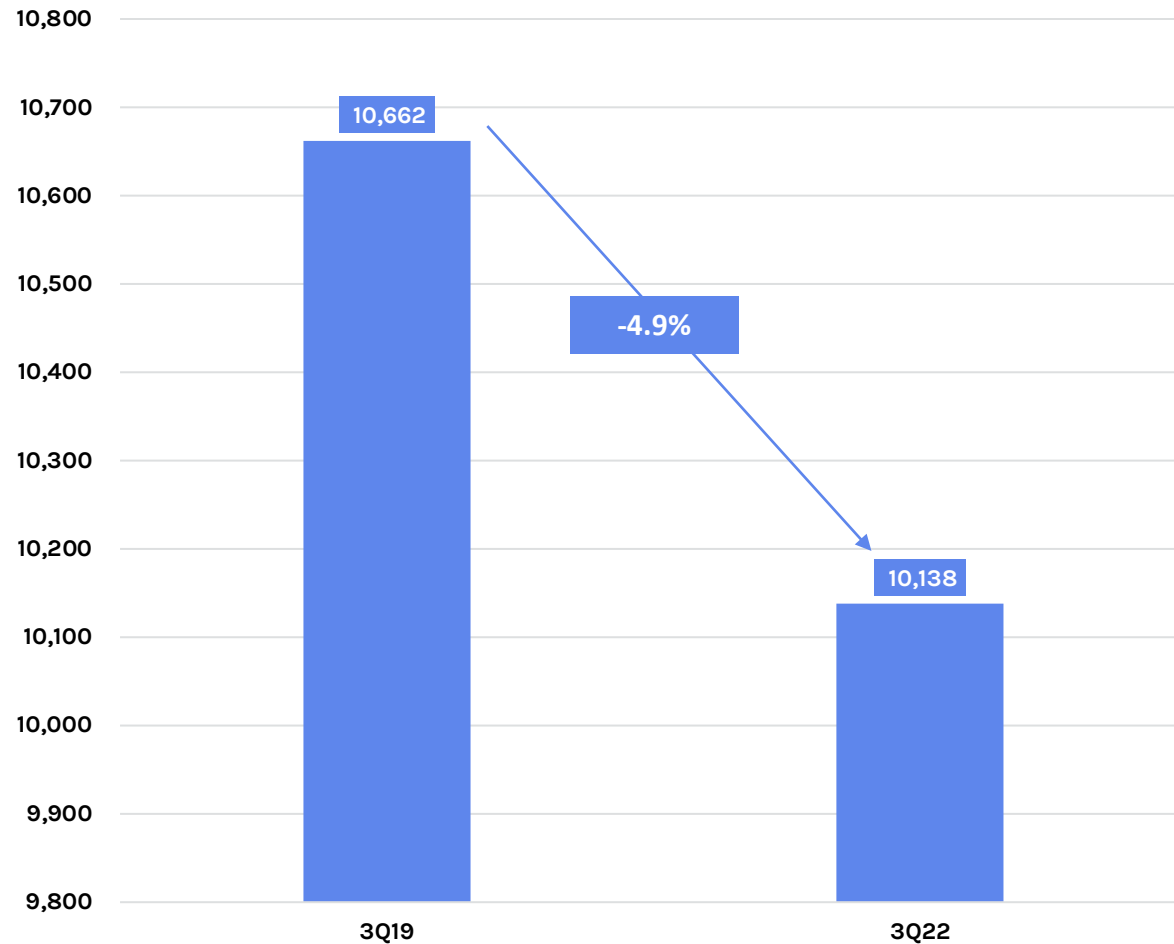
AMC Avg. F&B per Patron



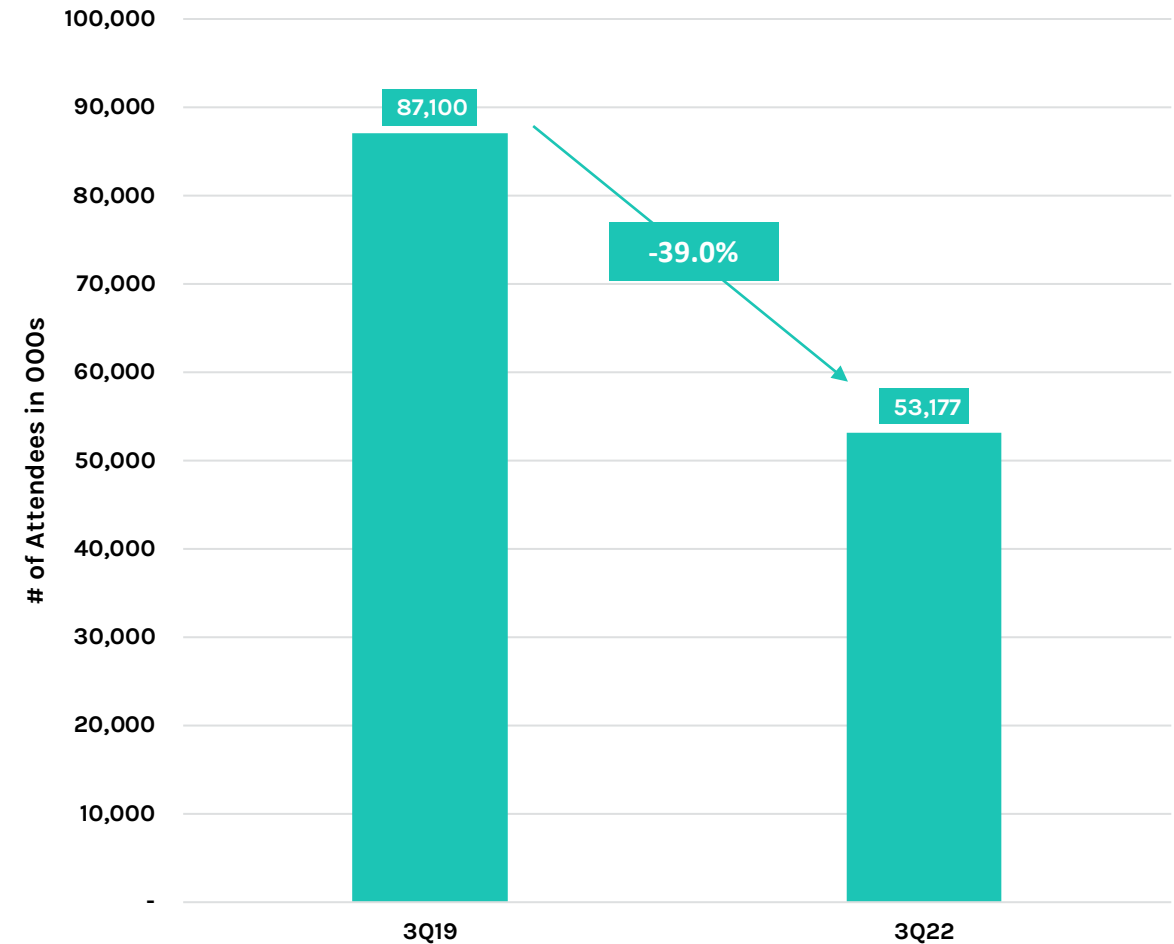
# AMC | LOWER ATTENDANCE / BOX OFFICE STILL THE DRIVER

Number of seats and screens probably must continue to come down to rationalize space

AMC Avg. Movie Screens



AMC Consolidated Attendance



- Working to retire debt, including ~\$180 principal amount paid down in 2022 and ~\$100 million converted to APE equity
- Continuing to tap the APE ATM pre-common share conversion and contemplated 1:10 reverse split
- \$110 million private placement of APE units to Antara capital executed in 4Q22
- We estimate AMC built a pro-forma unrestricted cash balance of ~\$875 million ahead of 4Q22 and 1Q23 results, which will very likely involve additional cash burn
- **But is that enough? We don't think so...**

# AMC | BALANCE SHEET IS HOPELESSLY OVER-LEVERED

(Amounts in 000s, Except per Share Data)

## Debt Schedule

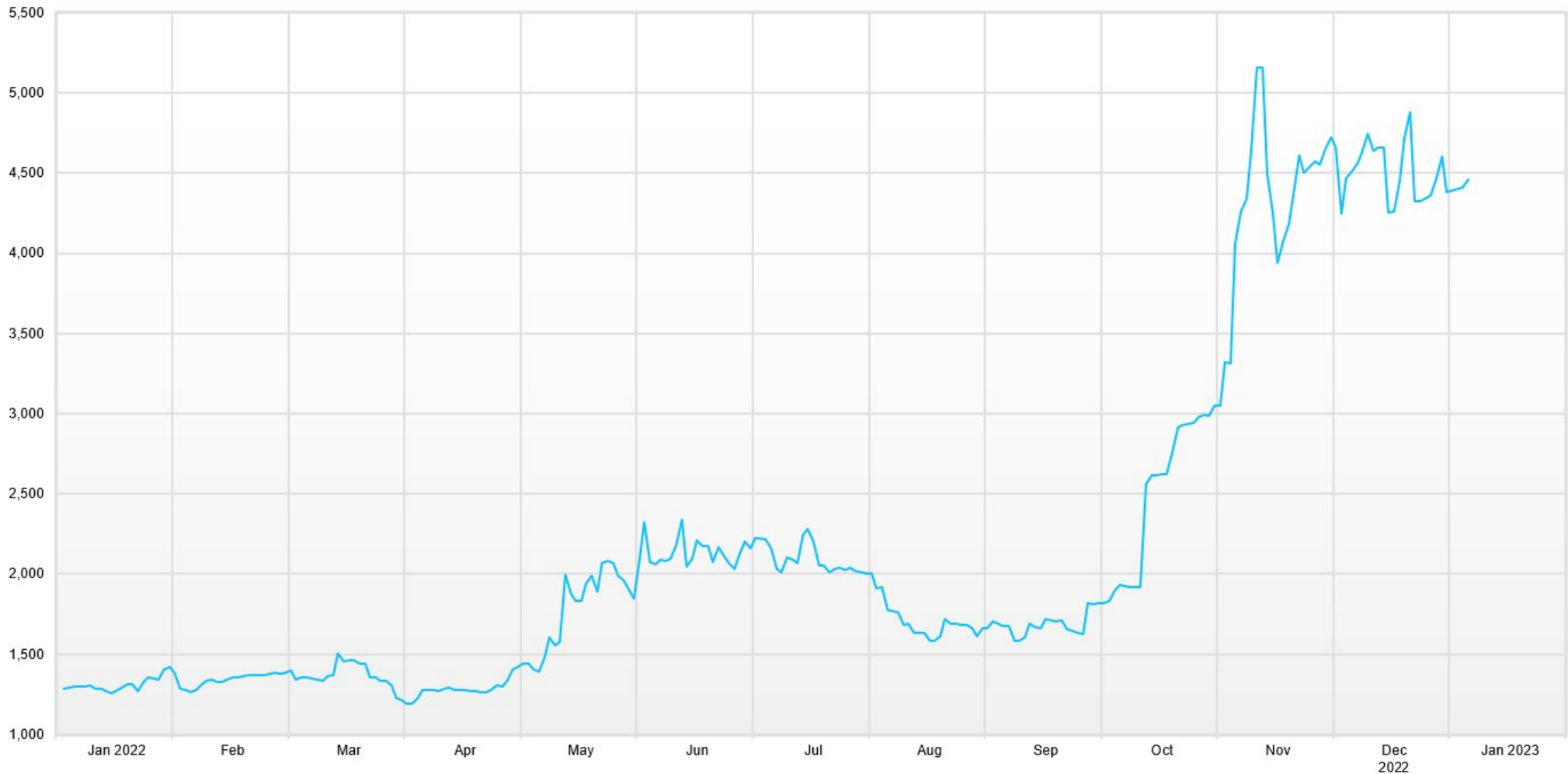
	Maturity Date	Rate	Price	YTW	3Q22 Debt Principal	(+)	(-)	PF Debt Principal
<b>First Lien Secured Term Loans:</b>								
Senior Secured Revolving Credit Facility	Apr-24				-			-
Term Loan Facility	Apr-26	L + 300bps	56.48		1,930,000			1,930,000
Cash/PIK Odeon Term Loan Facility <sup>(1)</sup>	Aug-23	11.25%			471,100		(471,100)	-
<b>Subtotal</b>					<b>2,401,100</b>			<b>1,930,000</b>
<b>Secured Notes:</b>								
7.5% First Lien Notes due 2029	Feb-29	7.50%	55.36	20.69%	950,000			950,000
10.5% First Lien Notes due 2025		10.50%			-			-
10.5% First Lien Notes due 2026		10.50%			-			-
15%/17% Cash/PIK Toggle First Lien Notes due 2026		15.00%			-			-
12.75% Odeon Finco PLC Senior Notes due 2027 <sup>(2)</sup>	Nov-27	12.750%	87.50	16.59%	-	400,000		400,000
10%/12% Cash/PIK Toggle Second Lien Sub. Notes due 2026 <sup>(3)</sup>	Jun-26	12.00%	42.50	37.50%	1,435,500		(130,700)	1,304,800
10%/12% Cash/PIK Toggle Second Lien Sub. Notes due 2026 - PIK Interest	Jun-26		42.50	37.50%	292,900			292,900
<b>Subtotal</b>					<b>2,678,400</b>			<b>2,947,700</b>
<b>Subordinated Unsecured Notes:</b>								
6.375% Senior Sub. Notes due 2024	Nov-24	6.375%	-	-	4,400			4,400
5.75% Senior Sub. Notes due 2025	Jun-25	5.750%	41.28	49.770%	98,300			98,300
5.875% Senior Sub. Notes due 2026	Nov-26	5.875%	28.50	48.420%	55,600			55,600
6.125% Senior Sub. Notes due 2027 <sup>(4)</sup>	May-27	6.125%	25.59	48.600%	130,700		(5,250)	125,450
<b>Subtotal</b>					<b>289,000</b>			<b>283,750</b>
<b>Total Debt Principal</b>					<b>5,368,500</b>			<b>5,161,450</b>
Cash & Cash Equivalents <sup>(5)</sup>					684,600	263,200	(71,100)	876,700
Restricted Cash					21,200			21,200
<b>Net Debt</b>					<b>4,662,700</b>			<b>4,263,550</b>
PV of Leases					7,891,200			7,891,200
<b>Adj. Net Debt</b>					<b>12,553,900</b>			<b>12,154,750</b>
<b>Leverage Ratios:</b>								
<b>Net Debt / LTM EBITDA</b>					<b>30.9x</b>			<b>28.2x</b>
<b>Adj. Net Debt / LTM EBITDAR</b>					<b>11.1x</b>			<b>10.8x</b>

### Notes:

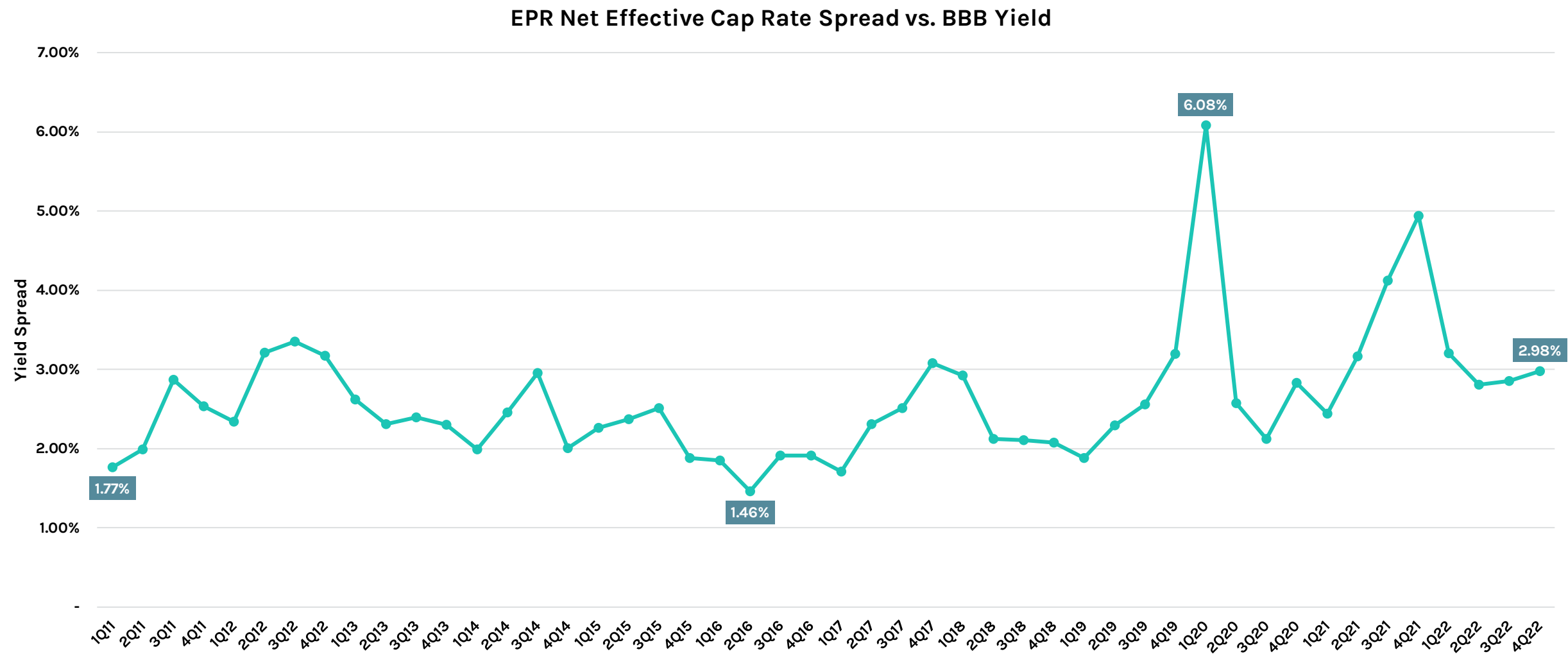
- (1) Fully repaid out of OCGL note offering proceeds plus cash on hand.
- (2) On 10.20.22 wholly-owned subsidiary OCGL closed on offering of \$400 million of 12.75% senior secured notes due 2027.
- (3) Repurchased approximately \$30.7 million face amount, and exchanged \$100 million face amount for APE units.
- (4) Repurchased through issuance of APE units via the ATM.
- (4) On 12.19.22 issued ~\$153.2 million of APE units, and on 12.22.22 issued ~\$110 million of APE units to Antara Capital, LP..

- On our math AMC is levered ~28x Net Debt / LTM EBITDA, and is accruing additional debt principal via the 2026 PIK toggle notes
- Debt obviously trading at distressed levels (see facing slide)
- Including capitalized lease payments, we estimate AMC still levered at nearly ~11x Adj. Net Debt / LTM EBITDAR
- To be fair, AMC did address its nearest debt maturity by retiring the Odeon term loan (TL) facility that was set to mature August 2023
- Based on our read of the credit agreement docs, we think there COULD potentially be issues with revolving credit facility (RCF), which by extension given the timing could have implications for the remaining TL facility maturing in April 2026
- The bonds are telling us AMC will need to file Chapter 11 and/or execute a significantly dilutive restructuring

# AMC | OAS-TRSY: 6.125% SENIOR NOTES DUE MAY 2027



# AMC | RECAPPING EPR'S CAP RATE SPREAD TO BBB



# AMC | RCF + TL FACILITY CONSIDERATIONS

## Will AMC incur an Event of Default (EoD) if it has to draw on its credit facility in 1Q23?

- **Revolving Credit Facility (RCF):**
  - Zero balance outstanding as of 9.30.22
  - **RCF matures 4.22.24**, meaning **amounts outstanding on 4.22.23 would be considered current liabilities**
  - **Minimum Liquidity requirement: \$100 million** (unused revolver commitments + unused TL commitments + cash & equivalents) as of the end of each month
  - **Anti-Cash Hoarding: all cash amounts above \$125 million at the end of each month must be swept towards RCF paydown**, and AMC may not borrow in any amounts that bring consolidated cash balances above \$125 million
- **Term Loan Facility (TL):**
  - ~\$1.9 billion outstanding as of 9.30.22
  - TL facility matures on 4.22.26
  - On **page 97** of the Credit Agreement, under Affirmative Covenants: “Notwithstanding the foregoing, the obligations in paragraphs (a) and (b) of this Section 5.01 may be satisfied with respect to financial information of the Borrower and its Subsidiaries **by furnishing (A) the Form 10-K or 10-Q (or the equivalent)**, as applicable, of the Borrower (or a parent company thereof) filed with the SEC or with a similar regulatory authority in a foreign jurisdiction or **(B) the applicable financial statements of the Borrower (or any direct or indirect parent of the Borrower)**; provided that... materials are accompanied by a report and opinion of KPMG LLP or any other independent registered public accounting firm of nationally recognized standing, **which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any “going concern” or like qualification or exception** or any qualification or exception as to the scope of such audit...”
- AMC burning cash w/ a liquidity problem + current liability on balance sheet → **going concern language from auditors?**
- **Could be an EoD** unless AMC gets the auditors to attest that they are solvent, which could then potentially result in cross defaults if the lenders do not waive

# AMC | SO WHAT HAPPENS IF AMC WERE TO DEFAULT?

This is a big IF, but we think it deserves investor consideration and appropriate handicapping

- Initially our view was that there could be a need for rent reductions aggregating ~30-40% of EPR's nearly ~\$94 million of annualized cash rent from AMC. Reminder: EPR moved AMC to cash accounting at the end of 1Q20
- To be clear, this still could happen, but is more of a “worst-case” downside scenario at this point
- **A more likely scenario** may be that EPR works with AMC to **convert the at-risk rent streams to management contracts over the intermediate-term**, akin to a hotel management agreement between hotel c-corps and REITs. This **would move EPR into the role of “passive owner”** and convey an asset-light fee stream to AMC. **This makes sense if you believe box office will recover to ~\$11 – 12 billion over time, as it credibly “buys time” for rent coverages to improve.** In the interim AMC can right-size its B/S
- Our understanding is that EPR may have a ~2-year window under the bankruptcy code, during which it could operate theaters outside of a Taxable REIT subsidiary (TRS) structure. This would result in EPR participating in the residual EBITDA from the theaters as opposed to receiving contractual rent payments, and EPR paying AMC a % of revenues (likely ~6%) to serve as the third-party manager
- During this 2-year effective “grace period,” EPR would either (1) have to negotiate and sign new lease agreements with AMC or other operators at new economic / sustainable rents, or (2) it would have to setup TRS structures which would lease the theaters from EPR, hire third-party managers and preserve the passive owner arrangement
- **Result #1: EPR's dividend may actually be safe**, as incremental operating cash flow from the theaters offsets the lost rent
- **Result #2:** To be absolutely clear, **we think this would be destructive to EPR's value**, as more volatile theater EBITDA would likely receive a lower multiple in the market than contractual rent streams
- And finally, also to be clear, if EPR is forced to accept rent reductions from AMC and/or Regal, we believe the dividend would very likely be at risk

# AMC | SO HOW DOES THIS ARRANGEMENT WORK?

- Assuming current AMC portfolio EBITDARM (facility-level) coverage of ~1.2x, implies a ~40% rent reduction if target EBITDAR (corporate-level) coverage is ~1.75x
- Implies nearly ~\$40 million of cash rent to EPR may be at-risk for negotiation / reduction
- We assume that, rather than renegotiating the rent, EPR utilizes prior agreements with AMC to convert to management agreements which preserves EPR cash flow + helps AMC
- We assume ~25% facility-level or four-wall margins plus a ~6% average management fee paid to AMC
- Cinemark (CNK) currently valued at ~5-6x EBITDA
- Cash flow is virtually unchanged, but EPR's multiple mathematically "blends down" due to operating risk
- Additional share price downside of <\$1/share**

(Amounts in 000s, Except per Share Data)

EPR Today / Credit Re-Rating			Pro Forma AMC Adjustments						
	EPR "Price" 1/4/2023	--> Current EPR "Value"	+	AMC Rent Elimination	+	OpCo Adjustments ( + )      ( - )	Pro Forma OpCo	=	Pro Forma EPR for AMC
EPR In-Place Ann. Adj. Cash EBITDA	534,584	534,584		(38,893)		46,672	(11,201)		531,161
( x ) Assumed Multiple	11.0x	9.5x		9.5x			6.0x		9.3x
Enterprise Value	5,885,994	5,078,548		(369,486)			212,824		4,921,886
Implied "MV/BV"	0.87x	0.75x							
( + ) Cash & Cash Equivalents	160,838	160,838							160,838
( + ) Restricted Cash	5,252	5,252							5,252
( + ) Land Held for Development	20,168	20,168							20,168
( + ) Property Under Development	56,347	56,347							56,347
( - ) Preferred Equity	(371,007)	(371,007)							(371,007)
( - ) EPR's Share of Total Debt	(2,957,676)	(2,957,676)							(2,957,676)
Equity Value	2,799,916	1,992,470							1,835,807
( / ) Total Shares / Units	75,186	75,186							75,186
Equity Value / Share	37.24	26.50							24.42
Potential Upside / (Downside) - Px Return	-0.0%	-28.8%							-34.4%
Potential Upside / (Downside) - Total Return	8.9%	-20.0%							-25.6%
Total Debt + Pfd. / Total Mkt. Cap	54.3%	62.6%							64.5%
Net Debt + Pfd. / Ent. Value	53.0%	61.3%							63.3%
Net Debt + Pfd. / Ann. Cash EBITDA	5.9x	5.9x							6.0x
Potential AMC Rent Cut Scenario									
Assumed AMC Cash Rent "At-Risk"	38,893								
Assumed LTM EBITDARM Coverage	1.20x								
Est. LTM EBITDARM	46,672								
Assumed 4-Wall Margin	25.0%								
Est. LTM Revenues	186,688								
Assumed Management Fee %	6.0%								
Assumed Management Fees	11,201								

## **[5] LAYERING ON REGAL + PF DIVIDEND COVERAGE**

# REGAL | ADDING IN THE POTENTIAL IMPACT OF REGAL

- Layering on the same exercise, just for Regal / Cineworld which is already in Chapter 11 where negotiations are ongoing
- Assumes ~25% of EPR's cash rent from Regal may be at-risk
- Additional multiple degradation from more OpCo cash flow contribution
- Accounts for another ~\$1/share of value diminution
- We see ultimate downside to EPR's share price in the range of ~35-40% prior to incurring the dividend payment
- More on the dividend on the next slide...

(Amounts in 000s, Except per Share Data)

EPR Post-AMC Restructuring		Pro Forma Regal Adjustments				Pro Forma EPR
	Pro Forma EPR for AMC	Regal Rent Elimination	OpCo Adjustments (+) (-)		Pro Forma OpCo	
EPR In-Place Ann. Adj. Cash EBITDA	531,161	(18,378)	20,216	(4,852)	15,364	528,147
(x) Assumed Multiple	9.3x	9.5x			6.0x	9.2x
Enterprise Value	4,921,886	(174,595)			92,186	4,839,477
Implied "MV/BV"	0.73x					
(+) Cash & Cash Equivalents	160,838					160,838
(+) Restricted Cash	5,252					5,252
(+) Land Held for Development	20,168					20,168
(+) Property Under Development	56,347					56,347
(-) Preferred Equity	(371,007)					(371,007)
(-) EPR's Share of Total Debt	(2,957,676)					(2,957,676)
Equity Value	1,835,807					1,753,399
(/) Total Shares / Units	75,186					75,186
Equity Value / Share	24.42					23.32
Potential Upside / (Downside) - Px Return	-34.4%					-37.4%
Potential Upside / (Downside) - Total Return						-28.5%
Total Debt + Pfd. / Total Mkt. Cap	64.5%					65.5%
Net Debt + Pfd. / Ent. Value	63.3%					64.3%
Net Debt + Pfd. / Ann. Cash EBITDA	6.0x					6.0x

Potential Regal Rent Cut Scenario	
Assumed Regal Cash Rent "At-Risk"	18,378
Assumed LTM EBITDARM Coverage	1.10x
Est. LTM EBITDARM	20,216
Assumed Margin	25.0%
Est. LTM Revenues	80,865
Assumed Management Fee %	6.0%
Assumed Management Fees	4,852

# REGAL | WHAT DOES IT MEAN FOR THE DIVIDEND?

(Amounts in 000s, Except per Share Data)

## Pro Forma Dividend Coverage

Diluted AFFO to Common - 3Q22 Annualized	384,740
(-) Assumed AMC Rent Reduction	(38,893)
(-) Assumed Regal Rent Reduction	(18,378)
(+) AMC OpCo EBITDA Contribution	35,471
(+) Regal OpCo EBITDA Contribution	15,364
(-) OpCo / TRS Taxes	(10,675)
PF AFFO to Common	367,628
Quarterly Dividend	0.825
Common Shares / Units	75,019
Annual Dividend Payments	247,562

## Pro Forma:

AFFO Payout Ratio	67.3%
AFFO / Div. Coverage	1.48x

## Current:

AFFO Payout Ratio	67.8%
AFFO / Div. Coverage	1.47x

- Under this arrangement, dividend payout and coverage ratios remain essentially unchanged, sustaining the current dividend while not removing the risk of a future cut
- We reduce EPR's current annual AFFO/share run-rate by the eliminated rent, and increase by the incremental residual EBITDA from its direct participation in the profitability of the affected theater locations
- For conservatism, we assume a ~21% corporate tax rate paid on earnings originating from any TRS's
- **Summary:** We think it is very conceivable that, at least for a time, **EPR can exist with a materially lower share price / valuation**, while at the same time **supporting an unchanged dividend payout** and carrying an optically high dividend yield
- The longer-term sustainability of that payout is an open question, and essentially 100% levered to timing and degree of recovery in the domestic box office

For more information, contact us at:

**sales@hedgeye.com**  
**(203) 562-6500**