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EPR Properties (EPR) EQ Update

Current EQ Rating*	Previous EQ Rating
4+	4-

6- "Exceptionally Strong"
5- "Strong"
4- "Acceptable"
3- "Minor Concern"
2- "Weak"
1- "Strong Concerns"

Note that a "+" sign indicates the earnings quality improved in the most recent quarter while a "–" sign indicates deterioration

*For an explanation of the EQ Review Rating scale, please refer to the end of this report

We upgrade our earning quality rating to 4+ (Acceptable) from 4- (Acceptable)

The company's disclosure earlier this week agreed with our conclusion that EPR has very low operating costs and the current liquidity would carry the company for basically two years without much if any rent coming in from tenants. That includes paying the monthly dividend of 38.25 cents – which they announced on April 15 – well into the shutdown. The dividend is a 20% yield on the current $23 price.

The biggest risk we saw was the leverage at AMC causing it to restructure its balance sheet. AMC is 17% of EPR's total revenue. AMC's capital spending was already scheduled to decline this year, helping its free cash flow situation. Its rent expense is $80 million/month and interest expense is $130 million every six months. **AMC is raising another $500 million in April, which should allow it to survive for the shutdown.** It may still need a longer term solution later depending on how business bounces back. **EPR went more conservative on its revenue recognition from AMC by only recognizing revenue that arrives in cash.**

We noted that EPR had two years of revenue in cash on its balance sheet - $1.25 billion. That would enable it to pay its own lease expense ($26 million per year), interest expense ($142 million per year), preferred dividends ($24 million per year), and it only has 66 full-time employees. If the company isn't paid a nickel in rent for several months – it could still pay its bills and the dividend. EPR put out a time-line for cash burn of $51 million per month based on paying the dividend and other expenses while only receiving various percentages of rent against its cash.

EPR Months of Liquidity at %'s of Rent Paid	0%	15%	25%	50%	100%
$23mm monthly burn without Dividend	43	65	99	no limit	no limit
$51mm monthly burn with Dividend	19	23	26	40	no limit

The amount of leverage at EPR's customers remains a risk in our view. The worst situation is AMC. However, as the economy opens, we believe it will start generating revenue again and doesn't require people to book a flight and hotel to see a movie. Falling capital spending will help AMC's free cash flow and it can start to retire debt too. The latest infusion of liquidity for AMC makes it highly likely that it survives as structured through the Covid-19 issues and will be able to make rent payments to EPR.

Explanation of EQ Rating Scale

6- "Exceptionally Strong"	Indicates uncommonly conservative accounting policies to the point that revenue and earnings are essentially understated relative to the company's peers. Higher possibility of reporting positive earnings surprises
5- "Strong"	Indicates the company has no areas of concern with its reported results and we see very little risk of the company disappointing due to recent results being overstated from aggressive reporting in recent periods.
4- "Acceptable"	Indicates the company may have exhibited a minor “red flag”, but the severity of the issue is not yet a concern. Minimal risk of an earnings disappointment resulting from previous earnings or cash flow overstatement
3- "Minor Concern"	Indicates the company has exhibited either a larger number of or more serious warning signs than companies receiving a 4. The likelihood of an immediate earnings or cash flow disappointment is not considered to be high, but the signs mentioned deserve a higher degree of attention in the future.
2- "Weak"	Indicates the company’s recently reported results have benefitted materially from aggressive accounting. Follow up work should be performed to determine the nature and extent of the problem. There is a possibility that upcoming results could disappoint as the impact of unsustainable benefits disappears.
1- "Strong Concerns"	Indicates that the company’s recent results are significantly overstated and that we view a disappointment in upcoming quarters is highly likely.

In addition to the numerical rating, the EQ Review Rating may also include either a minus or plus sign. A minus sign indicates that our analysis shows the overall earnings quality of the company has worsened since the last review and there is a possibility the numerical rating will fall should the problem continue into the next quarter. Likewise, a positive sign indicates that the overall earnings quality is improving, and the company may see an upgrade in its numerical rating should the trend continue.

Key Points to Understand About the EQ Score

The EQ Review Rating is much more than a blind, quantitative scoring method. While we utilize proprietary adjustments, ratios, and methods developed over decades of earnings quality analysis, the foundation of all of our analysis is reading recent SEC filings, press releases, conference call transcripts and in some cases, conversations with managements.

The EQ Review Rating is not comparable to a traditional buy/sell rating. The Rating is intended to specifically convey the extent to which reported earnings may be over/understated. Fundamental factors such as forecasts for future growth, increasing competition, and valuation are not reflected in the rating. Therefore, a high score does not in itself indicate a company is a buy but rather indicates that recent results are a good indication of the underlying earnings and cash generation capacity of the company. A low score (1-2) will likely result in us performing a more thorough review of fundamental factors to determine if the company warrants a full-blown sell recommendation.

Disclosure

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