PSU Stock Pitch
Framework for Making a Stock Call

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Anatomy of a Stock Pitch

Why are you making the call?

What message do you want to convey?

Do you have conviction?

Be prepared to answer questions!
Anatomy of a Stock Pitch

➢ Summarize the call. Begin with the investment conclusion and try to have an early impact on the listener in order to gain their attention.

➢ It might be necessary to provide a brief mention of Company’s business, subsector/industry, and basic stock info.

➢ Bullet point the supporting data behind your conclusion, but only give the “Need to Know” data and information.

   ➢ Investment positives
   ➢ Investment concerns
   ➢ Near-term and long-term catalysts

➢ Discussion of valuation (if not incorporated above).
You have three minutes to tell a compelling story in a traditional stock pitch.

Start with the conclusion!

Do it with enthusiasm and confidence, but speak slowly, and pace yourself.

If you do not have conviction, your thesis and analysis will not have the impact on the listener it should.

Convey the message in a structured matter. Keep in mind that others are taking notes. The easier someone else can digest the idea, the more impactful it is going to be.
How well do you REALLY know the company?

Why should we listen to you?

➢ Are you up to date on current company announcements and important initiatives?
➢ Are you up to date on current industry trends?
➢ Why is the stock mispriced? (How are its peers valued?)
➢ What is proprietary about your call?
Primary Earnings Gauges – A Look at FFO and AFFO

- **Funds From Operations (FFO)**
  - The EPS equivalent for the REIT sector
  - Biggest adjustment from net income is the addback of real estate depreciation/amortization to reflect that real estate is an appreciating asset over time
  - Over the years, non-cash accounting changes have increased noise and many REITs now provide NAREIT definition FFO and their own adjusted “Core” FFO

- **Adjusted Funds From Operations (AFFO)**
  - Adjusts FFO to provide an approximation of operating cash flow
  - Biggest adjustments from FFO to AFFO include maintenance capex and leasing costs and straight-line rent adjustments

- **Normalized FFO/AFFO**
  - Normalizing results removes noise from one-time benefits/negatives and non-cash items, which provides a better picture of underlying earnings trends and a better basis of comparison to gauge relative value across the sector
Reconciliation of Net Income (Loss) to FFO and AFFO:

Net Income

- **Adjustments:**
  - Add: Depreciation
  - Add: Amortization
  - Add or (Subtract): Loss or (Gain) from the sale of property
  - Add or (Subtract): Loss or (Gain) from the sale of assets

Funds From Operations

- **Adjustments:**
  - Add or (Subtract): Maintenance capex
  - Add or (Subtract): Straight-line rent adjustments (only for lease durations >1 yr)
  - Add or (Subtract): Above or Below market rent adjustments (impacts rent rev)
  - Add or (Subtract): Above or Below market debt adjustments (impacts int. exp)

Adjusted Funds From Operations
Key Metrics in REIT Valuation Toolbox

- **Relative Metrics**
  - Price/AFFO and Price/FFO
  - Implied Values
    - Implied Cap Rates
    - Implied Per Square Foot or Unit

- **Absolute Metrics**
  - Net Asset Value (NAV)
  - Replacement Cost

- **Other Measures**
  - Growth Rates – FFO, AFFO, NOI
  - Dividend Yields

- **Leverage/Balance Sheet Metrics**
  - Fixed Charge Coverage
  - Debt/GAV
  - Debt/EBITDA
What Is NAV?

Net Asset Value (NAV)

➢ Private market value of a REIT’s real estate, after deducting related debt

➢ Property Net Operating Income (NOI) is the basis for valuing operating properties and generally reflects property gross margin or gross rent less property operating expenses

➢ Cap Rates are the denominator used to arrive at gross asset value. In other words, they are the reciprocal of EV/EBITDA, where EV has been adjusted to remove non-income producing assets like land and development/redevelopment projects. Capitalization rates are derived from private market transactions and can vary across property types and geographies. Lower cap rates reflect the growth profile and the quality (A, B or C) of an asset.

➢ Normalized NOI – We adjust NOI to reflect the impact of recent acquisition or development activity to bridge the gap between reported vs. potential NOI

➢ Implied Values – We use NAV calculations to derive implied cap rates and implied values per square foot, which are also useful metrics
Getting to NAV

➢ **Gross Asset Value (GAV)** – Gross asset value is derived by adding operating property value and the value of non-income producing assets of the REIT.

➢ **Operating Property Value** – The real estate portfolio’s property NOI divided by a blended market cap rate.

➢ **Non-Income Producing Assets** – Development-in-progress, land, cash and other assets (i.e., restricted cash, tenant receivables, pre-paid expenses).

➢ Total Liabilities – Wholly owned and joint venture debt, preferred stock and other liabilities (i.e., accrued expenses, dividends payable).

➢ Total Shares Outstanding – Fully diluted shares outstanding at period end plus operating partnership units.

➢ **NAV/share = (GAV – Total Liabilities ) / Shares and Units Outstanding**

➢ If a stock is trading above (at a premium to) NAV, it could be overvalued (depending your estimate of NAV and on historic trends). If the stock is trading below (at a discount to) NAV, it could be undervalued.