

October 29, 2018



# EPR Properties Reports Third Quarter 2018 Results

## *Increases Earnings Guidance for 2018*

KANSAS CITY, Mo.--(BUSINESS WIRE)-- EPR Properties (NYSE:EPR) today announced operating results for the third quarter and nine months ended September 30, 2018.

### **Three Months Ended September 30, 2018**

- Total revenue was \$176.4 million for the third quarter of 2018, including a \$20.0 million prepayment fee received from Och-Ziff Real Estate ("OZRE") as further discussed below, and represents a 17% increase from \$151.4 million for the same quarter in 2017.
- Net income available to common shareholders was \$85.8 million, or \$1.15 per diluted common share, for the third quarter of 2018 compared to \$57.0 million, or \$0.77 per diluted common share, for the same quarter in 2017.
- Funds From Operations (FFO) (a non-GAAP financial measure) for the third quarter of 2018 was \$116.5 million, or \$1.54 per diluted common share, compared to \$90.5 million, or \$1.22 per diluted common share, for the same quarter in 2017.
- FFO as adjusted (a non-GAAP financial measure) for the third quarter of 2018 was \$119.6 million, or \$1.58 per diluted common share, compared to \$93.3 million, or \$1.26 per diluted common share, for the same quarter in 2017, representing a 25% increase in per share results.

### **Nine Months Ended September 30, 2018**

- Total revenue was \$534.2 million for the nine months ended September 30, 2018, including \$65.9 million in prepayment fees received from OZRE, representing a 25% increase from \$428.3 million for the same period in 2017.
- Net income available to common shareholders was \$194.8 million, or \$2.62 per diluted common share, for the nine months ended September 30, 2018 compared to \$179.6 million, or \$2.55 per diluted common share, for the same period in 2017.
- FFO (a non-GAAP financial measure) for the nine months ended September 30, 2018 was \$316.6 million, or \$4.21 per diluted common share, compared to \$249.4 million, or \$3.52 per diluted common share, for the same period in 2017.
- FFO as adjusted (a non-GAAP financial measure) for the nine months ended September 30, 2018 was \$355.4 million, or \$4.70 per diluted common share, compared to \$264.7 million, or \$3.73 per diluted common share, for the same period in 2017, representing a 26% increase in per share results.

“We delivered robust revenue and earnings growth once again during the third quarter,” stated Company President and CEO Greg Silvers. “Contributing to our record earnings were the additional prepayment fees received from OZRE, which were an important part of the transaction structure and resulted in very attractive returns on that investment. Our positive results to date, combined with our constructive outlook, allows us to increase our annual earnings guidance for 2018. We have a healthy pipeline of opportunities supported by our unique expertise in experiential assets, which we believe positions us well to continue to deliver excellent results.”

A reconciliation of FFO to FFO as adjusted follows (unaudited, dollars in thousands, except per share amounts):

|                                                               | <b>Three Months Ended September 30,</b> |                  |                  |                  |
|---------------------------------------------------------------|-----------------------------------------|------------------|------------------|------------------|
|                                                               | <b>2018</b>                             |                  | <b>2017</b>      |                  |
|                                                               | <b>Amount</b>                           | <b>FFO/share</b> | <b>Amount</b>    | <b>FFO/share</b> |
| FFO available to common shareholders                          | \$ 116,510                              | \$ 1.54          | \$ 90,518        | \$ 1.22          |
| Costs associated with loan refinancing or payoff              | —                                       | —                | 1,477            | 0.02             |
| Transaction costs                                             | 1,101                                   | 0.02             | 113              | —                |
| Termination fee included in gain on sale                      | 1,864                                   | 0.03             | 954              | 0.02             |
| Deferred income tax expense                                   | 92                                      | —                | 227              | —                |
| Impact of Series C and Series E Dilution                      | —                                       | (0.01)           | —                | —                |
| FFO as adjusted available to common shareholders              | <u>\$ 119,567</u>                       | <u>\$ 1.58</u>   | <u>\$ 93,289</u> | <u>\$ 1.26</u>   |
| Dividends declared per common share                           |                                         | \$ 1.08          |                  | \$ 1.02          |
| FFO as adjusted available to common shareholders payout ratio |                                         | 68%              |                  | 81%              |

|                                                                              | <b>Nine Months Ended September 30,</b> |                  |                  |                  |
|------------------------------------------------------------------------------|----------------------------------------|------------------|------------------|------------------|
|                                                                              | <b>2018</b>                            |                  | <b>2017</b>      |                  |
|                                                                              | <b>Amount</b>                          | <b>FFO/share</b> | <b>Amount</b>    | <b>FFO/share</b> |
| FFO available to common shareholders                                         | \$316,571                              | \$ 4.21          | \$249,391        | \$ 3.52          |
| Costs associated with loan refinancing or payoff                             | 31,958                                 | 0.43             | 1,491            | 0.02             |
| Transaction costs                                                            | 2,115                                  | 0.03             | 388              | 0.01             |
| Litigation settlement expense                                                | 2,090                                  | 0.03             | —                | —                |
| Termination fee included in gain on sale                                     | 1,864                                  | 0.03             | 6,774            | 0.09             |
| Impairment of direct financing leases - allowance for lease loss portion (1) | —                                      | —                | 7,298            | 0.10             |
| Gain on early extinguishment of debt                                         | —                                      | —                | (977)            | (0.01)           |
| Gain on insurance recovery (included in other income)                        | —                                      | —                | (606)            | (0.01)           |
| Deferred income tax expense                                                  | 755                                    | 0.01             | 911              | 0.01             |
| Impact of Series C and Series E Dilution                                     | —                                      | (0.04)           | —                | —                |
| FFO as adjusted available to common shareholders                             | <u>\$355,353</u>                       | <u>\$ 4.70</u>   | <u>\$264,670</u> | <u>\$ 3.73</u>   |

|                                                               |         |         |
|---------------------------------------------------------------|---------|---------|
| Dividends declared per common share                           | \$ 3.24 | \$ 3.06 |
| FFO as adjusted available to common shareholders payout ratio | 69%     | 82%     |

- (1) Impairment charges recognized during the nine months ended September 30, 2017 total \$10.2 million and related to our investment in direct financing leases, net, consisting of \$2.9 million related to the residual value portion and \$7.3 million related to the allowance for lease loss portion.

## Portfolio Update

The Company's investment portfolio (excluding property under development) consisted of the following at September 30, 2018:

- The Entertainment segment included investments in 151 megaplex theatre properties, seven entertainment retail centers (which include seven additional megaplex theatre properties) and 11 family entertainment centers. The Company's portfolio of owned entertainment properties consisted of 13.2 million square feet and was 99% leased, including megaplex theatres that were 100% leased.
- The Recreation segment included investments in 12 ski areas, 21 attractions, 32 golf entertainment complexes and ten other recreation facilities. The Company's portfolio of owned recreation properties was 100% leased.
- The Education segment included investments in 63 public charter schools, 69 early education centers and 14 private schools. The Company's portfolio of owned education properties consisted of 4.7 million square feet and was 98% leased.
- The Other segment consisted primarily of the land under ground lease, property under development and land held for development related to the Resorts World Catskills casino and resort project in Sullivan County, New York.

The combined owned portfolio consisted of 21.2 million square feet and was 99% leased. As of September 30, 2018, the Company also had a total of \$289.2 million invested in property under development.

## Investment Update

The Company's investment spending for the three months ended September 30, 2018 totaled \$116.5 million (bringing the year-to-date investment spending to \$355.0 million), and included investments in each of its primary operating segments:

- Entertainment investment spending during the three months ended September 30, 2018 totaled \$10.7 million, including spending on build-to-suit development and redevelopment of megaplex theatres, entertainment retail centers and family entertainment centers.
- Recreation investment spending during the three months ended September 30, 2018 totaled \$73.8 million, including spending on build-to-suit development of golf entertainment complexes and attractions.

- Education investment spending during the three months ended September 30, 2018 totaled \$32.0 million, including spending on build-to-suit development and redevelopment of public charter schools, early education centers and private schools as well as the acquisition of two early education centers.

### **Early Childhood Education Tenant Update**

In July 2018, the Company entered into a new lease agreement with Children's Learning Adventure USA ("CLA") related to 21 open schools which replaced the prior lease arrangements. The lease agreement provided for a one-month term for rent of \$1.0 million that expired on August 31, 2018. The Company agreed to extend this lease for the months of September and October 2018 and the monthly rent of \$1.0 million has been paid for each of these months. If the new month-to-month lease is not further extended, CLA will be required to expeditiously vacate these properties, in which case the Company intends to lease some or all of the 21 schools to other operators.

CLA continues to negotiate with third parties regarding a restructuring that would permit CLA to continue operation of the CLA properties. In addition, the Company is actively pursuing other alternatives for these properties, including replacement tenants and operators.

### **Capital Recycling**

During the third quarter of 2018, the Company received \$94.9 million in proceeds from OZRE representing payment in full on the remaining mortgage note receivable of \$74.9 million that was secured by six ski properties plus prepayment fees totaling \$20.0 million that are included in mortgage and other financing income. Prior to the third quarter, the Company received a partial prepayment on this note of approximately \$175.4 million and recognized a prepayment fee totaling \$45.9 million.

During the third quarter of 2018, the Company completed the sale of four public charter schools leased to Imagine Schools Inc. for net proceeds of \$43.4 million and recognized a gain on sale of investment in direct financing leases of \$5.5 million. Accordingly, the Company reduced its investment in direct financing leases, net, by \$37.9 million, which included \$31.6 million in original acquisition costs.

During the third quarter of 2018, pursuant to a tenant purchase option, the Company completed the sale of one public charter school property for total net proceeds of \$12.0 million and recognized a gain on sale of \$1.9 million. Additionally, the Company completed the sale of one entertainment parcel located in West Virginia for net proceeds of \$1.7 million and recognized a gain on sale of \$0.4 million.

Disposition proceeds and mortgage note pay-offs (excluding principal amortization and including prepayment fees) totaled \$152.0 million and \$399.4 million for the three and nine months ended September 30, 2018, respectively.

### **Balance Sheet Update**

Excluding prepayment penalties from earnings, the Company had a net debt to adjusted EBITDA ratio (a non-GAAP financial measure) of 5.3x at September 30, 2018. The Company had \$74.2 million of unrestricted cash on hand and no outstanding balance under its \$1.0 billion unsecured revolving credit facility at September 30, 2018.

### **Dividend Information**

The Company declared regular monthly cash dividends during the third quarter of 2018 totaling \$1.08 per common share. This dividend represents an annualized dividend of \$4.32 per common share, an increase of almost 6% over the prior year, and would be the Company's eighth consecutive year with a significant annual dividend increase.

The Company also declared third quarter cash dividends of \$0.359375 per share on its 5.75% Series C cumulative convertible preferred shares, \$0.5625 per share on its 9.00% Series E cumulative convertible preferred shares and \$0.359375 per share on its 5.75% Series G cumulative redeemable preferred shares.

## 2018 Guidance

The Company is increasing its 2018 guidance for FFO as adjusted per diluted share to a range of \$6.03 to \$6.09 from a range of \$5.97 to \$6.07. In addition, the Company is narrowing its 2018 investment spending guidance to a range of \$500.0 million to \$600.0 million from a range of \$450.0 million to \$650.0 million and confirming its 2018 disposition proceeds guidance of \$450.0 million to \$500.0 million.

FFO as adjusted guidance for 2018 is based on FFO per diluted share of \$5.47 to \$5.50 adjusted for estimated costs associated with loan refinancing or payoff, transaction costs, litigation settlement expense, termination fees related to public charter schools and deferred income tax expense. FFO per diluted share is based on a net income per diluted share range of \$3.47 to \$3.53 less estimated gain on sale of real estate of a range of \$0.13 to \$0.16, gain on sale of investment in direct financing leases of \$0.07 and the impact of Series C and Series E dilution of \$0.06, plus estimated real estate depreciation of \$2.04 and impairment of rental properties of \$0.22 (in accordance with the NAREIT definition of FFO).

## Quarterly Supplemental

The Company's supplemental information package for the third quarter and nine months ended September 30, 2018 is available on the Company's website at <http://investors.eprkc.com/earnings-supplementals>.

### EPR Properties Consolidated Statements of Income (Unaudited, dollars in thousands except per share data)

|                                     | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|-------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                     | 2018                                | 2017       | 2018                               | 2017       |
| Rental revenue                      | \$ 140,905                          | \$ 126,561 | \$ 410,848                         | \$ 360,757 |
| Other income                        | 365                                 | 522        | 1,641                              | 2,518      |
| Mortgage and other financing income | 35,139                              | 24,314     | 121,755                            | 65,016     |
| Total revenue                       | 176,409                             | 151,397    | 534,244                            | 428,291    |
| Property operating expense          | 6,968                               | 6,340      | 21,866                             | 18,762     |
| Other expense                       | 118                                 | —          | 118                                | —          |
| General and administrative expense  | 11,424                              | 12,070     | 36,724                             | 33,787     |
| Litigation settlement expense       | —                                   | —          | 2,090                              | —          |

|                                                                    |                  |                  |                   |                   |
|--------------------------------------------------------------------|------------------|------------------|-------------------|-------------------|
| Costs associated with loan refinancing or payoff                   | —                | 1,477            | 31,958            | 1,491             |
| Gain on early extinguishment of debt                               | —                | —                | —                 | (977)             |
| Interest expense, net                                              | 33,576           | 34,194           | 101,992           | 97,853            |
| Transaction costs                                                  | 1,101            | 113              | 2,115             | 388               |
| Impairment charges                                                 | —                | —                | 16,548            | 10,195            |
| Depreciation and amortization                                      | 38,623           | 34,694           | 113,889           | 95,919            |
| Income before equity in income from joint ventures and other items | 84,599           | 62,509           | 206,944           | 170,873           |
| Equity in income (loss) from joint ventures                        | 20               | 35               | (17)              | 86                |
| Gain on sale of real estate                                        | 2,215            | 997              | 2,688             | 28,462            |
| Gain on sale of investment in direct financing leases              | 5,514            | —                | 5,514             | —                 |
| Income before income taxes                                         | 92,348           | 63,541           | 215,129           | 199,421           |
| Income tax expense                                                 | (515)            | (587)            | (2,177)           | (2,016)           |
| Net income                                                         | 91,833           | 62,954           | 212,952           | 197,405           |
| Preferred dividend requirements                                    | (6,036)          | (5,951)          | (18,108)          | (17,855)          |
| Net income available to common shareholders of EPR Properties      | <u>\$ 85,797</u> | <u>\$ 57,003</u> | <u>\$ 194,844</u> | <u>\$ 179,550</u> |
| Per share data attributable to EPR Properties common shareholders: |                  |                  |                   |                   |
| Basic earnings per share data:                                     |                  |                  |                   |                   |
| Net income available to common shareholders                        | <u>\$ 1.15</u>   | <u>\$ 0.77</u>   | <u>\$ 2.62</u>    | <u>\$ 2.55</u>    |
| Diluted earnings per share data:                                   |                  |                  |                   |                   |
| Net income available to common shareholders                        | <u>\$ 1.15</u>   | <u>\$ 0.77</u>   | <u>\$ 2.62</u>    | <u>\$ 2.55</u>    |
| Shares used for computation (in thousands):                        |                  |                  |                   |                   |
| Basic                                                              | 74,345           | 73,663           | 74,274            | 70,320            |
| Diluted                                                            | 74,404           | 73,724           | 74,316            | 70,385            |

**EPR Properties**  
**Condensed Consolidated Balance Sheets**  
(Unaudited, dollars in thousands)

|                                                                                                                                         | <u>September<br/>30, 2018</u> | <u>December<br/>31, 2017</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------|
| <b>Assets</b>                                                                                                                           |                               |                              |
| Rental properties, net of accumulated depreciation of \$848,280 and \$741,334 at September 30, 2018 and December 31, 2017, respectively | \$ 4,891,955                  | \$ 4,604,231                 |

|                                                        |                     |                     |
|--------------------------------------------------------|---------------------|---------------------|
| Land held for development                              | 31,076              | 33,692              |
| Property under development                             | 289,228             | 257,629             |
| Mortgage notes and related accrued interest receivable | 572,700             | 970,749             |
| Investment in direct financing leases, net             | 20,495              | 57,903              |
| Investment in joint ventures                           | 5,018               | 5,602               |
| Cash and cash equivalents                              | 74,153              | 41,917              |
| Restricted cash                                        | 22,031              | 17,069              |
| Accounts receivable, net                               | 104,757             | 93,693              |
| Other assets                                           | 102,657             | 109,008             |
| Total assets                                           | <u>\$ 6,114,070</u> | <u>\$ 6,191,493</u> |
| <b>Liabilities and Equity</b>                          |                     |                     |
| Accounts payable and accrued liabilities               | \$ 138,829          | \$ 136,929          |
| Dividends payable                                      | 32,797              | 30,185              |
| Unearned rents and interest                            | 90,287              | 68,227              |
| Debt                                                   | 2,954,962           | 3,028,827           |
| Total liabilities                                      | <u>3,216,875</u>    | <u>3,264,168</u>    |
| Total equity                                           | <u>\$ 2,897,195</u> | <u>\$ 2,927,325</u> |
| Total liabilities and equity                           | <u>\$ 6,114,070</u> | <u>\$ 6,191,493</u> |

**EPR Properties**  
**Reconciliation of Non-GAAP Financial Measures**  
(Unaudited, dollars in thousands except per share data)

|                                                                  | <b>Three Months Ended<br/>September 30,</b> |                  | <b>Nine Months Ended<br/>September 30,</b> |                   |
|------------------------------------------------------------------|---------------------------------------------|------------------|--------------------------------------------|-------------------|
|                                                                  | <b>2018</b>                                 | <b>2017</b>      | <b>2018</b>                                | <b>2017</b>       |
| <b>FFO: (A)</b>                                                  |                                             |                  |                                            |                   |
| Net income available to common shareholders of EPR Properties    | \$ 85,797                                   | \$ 57,003        | \$ 194,844                                 | \$ 179,550        |
| Gain on sale of real estate                                      | (2,215)                                     | (997)            | (2,688)                                    | (28,462)          |
| Gain on sale of investment in direct financing leases            | (5,514)                                     | —                | (5,514)                                    | —                 |
| Impairment of rental properties                                  | —                                           | —                | 16,548                                     | —                 |
| Impairment of direct financing leases-residual value portion (1) | —                                           | —                | —                                          | 2,897             |
| Real estate depreciation and amortization                        | 38,388                                      | 34,457           | 113,211                                    | 95,243            |
| Allocated share of joint venture depreciation                    | 54                                          | 55               | 170                                        | 163               |
| FFO available to common shareholders of EPR Properties           | <u>\$ 116,510</u>                           | <u>\$ 90,518</u> | <u>\$ 316,571</u>                          | <u>\$ 249,391</u> |
| FFO available to common shareholders of EPR Properties           | \$ 116,510                                  | \$ 90,518        | \$ 316,571                                 | \$ 249,391        |

|                                                                            |                   |                  |                   |                   |
|----------------------------------------------------------------------------|-------------------|------------------|-------------------|-------------------|
| Add: Preferred dividends for Series C preferred shares                     | 1,940             | 1,941            | 5,820             | 5,823             |
| Add: Preferred dividends for Series E preferred shares                     | 1,939             | —                | 5,817             | —                 |
| Diluted FFO available to common shareholders of EPR Properties             | <u>\$ 120,389</u> | <u>\$ 92,459</u> | <u>\$ 328,208</u> | <u>\$ 255,214</u> |
| FFO per common share:                                                      |                   |                  |                   |                   |
| Basic                                                                      | \$ 1.57           | \$ 1.23          | \$ 4.26           | \$ 3.55           |
| Diluted                                                                    | 1.54              | 1.22             | 4.21              | 3.52              |
| Shares used for computation (in thousands):                                |                   |                  |                   |                   |
| Basic                                                                      | 74,345            | 73,663           | 74,274            | 70,320            |
| Diluted                                                                    | 74,404            | 73,724           | 74,316            | 70,385            |
| Weighted average shares outstanding-diluted EPS                            | 74,404            | 73,724           | 74,316            | 70,385            |
| Effect of dilutive Series C preferred shares                               | 2,122             | 2,072            | 2,110             | 2,063             |
| Adjusted weighted average shares outstanding-diluted Series C              | 76,526            | 75,796           | 76,426            | 72,448            |
| Effect of dilutive Series E preferred shares                               | 1,610             | —                | 1,604             | —                 |
| Adjusted weighted average shares outstanding-diluted Series C and Series E | <u>78,136</u>     | <u>75,796</u>    | <u>78,030</u>     | <u>72,448</u>     |
| Other financial information:                                               |                   |                  |                   |                   |
| Straight-lined rental revenue                                              | \$ 3,079          | \$ 2,357         | \$ 7,013          | \$ 11,417         |
| Dividends per common share                                                 | \$ 1.08           | \$ 1.02          | \$ 3.24           | \$ 3.06           |

(1) Impairment charges recognized during the nine months ended September 30, 2017 total \$10.2 million and related to our investment in direct financing leases, net, consisting of \$2.9 million related to the residual value portion and \$7.3 million related to the allowance for lease loss portion.

(A) NAREIT developed FFO as a relative non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP and management provides FFO herein because it believes this information is useful to investors in this regard. FFO is a widely used measure of the operating performance of real estate companies and is provided here as a supplemental measure to GAAP net income available to common shareholders and earnings per share. Pursuant to the definition of FFO by the Board of Governors of NAREIT, the Company calculates FFO as net income available to common shareholders, computed in accordance with GAAP, excluding gains and losses from sales of depreciable operating properties and impairment losses of depreciable real

estate, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships, joint ventures and other affiliates. Adjustments for unconsolidated partnerships, joint ventures and other affiliates are calculated to reflect FFO on the same basis. The Company has calculated FFO for all periods presented in accordance with this definition. In addition to FFO, the Company presents FFO as adjusted. Management believes it is useful to provide FFO as adjusted as a supplemental measure to GAAP net income available to common shareholders and earnings per share. FFO as adjusted is FFO plus costs (gain) associated with loan refinancing or payoff, transaction costs, retirement severance expense, litigation settlement expense, preferred share redemption costs, termination fees associated with tenants' exercises of education properties buy-out options, impairment of direct financing lease (allowance for lease loss portion) and provision for loan losses, and by subtracting gain on early extinguishment of debt, gain (loss) on sale of land, gain on insurance recovery and deferred tax benefit (expense). FFO and FFO as adjusted are non-GAAP financial measures. FFO and FFO as adjusted do not represent cash flows from operations as defined by GAAP and are not indicative that cash flows are adequate to fund all cash needs and are not to be considered an alternative to net income or any other GAAP measure as a measurement of the results of the Company's operations, cash flows or liquidity as defined by GAAP. It should also be noted that not all REITs calculate FFO or FFO as adjusted the same way so comparisons of each of these non-GAAP measures with other REITs may not be meaningful.

The conversion of the 5.75% Series C cumulative convertible preferred shares and the 9.00% Series E cumulative convertible preferred shares would be dilutive to FFO and FFOAA per share for the three and nine months ended September 30, 2018. Therefore, the additional 2.1 million common shares and 1.6 million common shares that would result from the conversion and the corresponding add-back of the preferred dividends declared on those shares are included in the calculation of diluted FFO per share and diluted FFOAA per share for the three and nine months ended September 30, 2018.

The conversion of the 5.75% Series C cumulative convertible preferred shares would be dilutive to FFO and FFOAA per share for the three and nine months ended September 30, 2017. Therefore, the additional 2.1 million common shares that would result from the conversion and the corresponding add-back of the preferred dividends declared on those shares are included in the calculation of diluted FFO and diluted FFOAA per share for the three and nine months ended September 30, 2017. The effect of the conversion of our 9.0% Series E cumulative convertible preferred shares and the additional 1.6 million common shares that would result from the conversion do not result in more dilution to per share results and are therefore not included in the calculation of diluted FFO and FFOAA per share data for the three and nine months ended September 30, 2017.

### **Net Debt to Adjusted EBITDA Ratio**

Net Debt to Adjusted EBITDA Ratio is a supplemental measure derived from non-GAAP financial measures the Company uses to evaluate its capital structure and the magnitude of its debt against its operating performance. The Company believes that investors commonly use versions of this ratio in a similar manner. In addition, financial institutions use versions of this ratio in connection with debt agreements to set pricing and covenant limitations. The Company's method of calculating Net Debt to Adjusted EBITDA Ratio may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. Reconciliations of debt and net income (both reported in accordance with GAAP) to Net

Debt, EBITDAre, Adjusted EBITDA, and Net Debt to Adjusted EBITDA Ratio (each of which is a non-GAAP financial measure) are included in the following tables (unaudited, in thousands):

|                                                       | <b>September 30,</b> |                     |
|-------------------------------------------------------|----------------------|---------------------|
|                                                       | <b>2018</b>          | <b>2017</b>         |
| <b>Net Debt: (B)</b>                                  |                      |                     |
| Debt                                                  | \$ 2,954,962         | \$ 2,987,925        |
| Deferred financing costs, net                         | 35,033               | 33,951              |
| Cash and cash equivalents                             | (74,153)             | (11,412)            |
| Net Debt                                              | <u>\$ 2,915,842</u>  | <u>\$ 3,010,464</u> |
| <b>Three Months Ended September 30,</b>               |                      |                     |
|                                                       | <b>2018</b>          | <b>2017</b>         |
|                                                       |                      |                     |
| <b>EBITDAre and Adjusted EBITDA:</b>                  |                      |                     |
| Net income                                            | \$ 91,833            | \$ 62,954           |
| Interest expense, net                                 | 33,576               | 34,194              |
| Income tax expense                                    | 515                  | 587                 |
| Depreciation and amortization                         | 38,623               | 34,694              |
| Gain on sale of real estate                           | (2,215)              | (997)               |
| Gain on sale of investment in direct financing leases | (5,514)              | —                   |
| Costs associated with loan refinancing or payoff      | —                    | 1,477               |
| Equity in income from joint ventures                  | (20)                 | (35)                |
| EBITDAre (for the quarter) <b>(C)</b>                 | <u>\$ 156,798</u>    | <u>\$ 132,874</u>   |
| Transaction costs                                     | 1,101                | 113                 |
| Prepayment fees                                       | (20,026)             | —                   |
| Adjusted EBITDA (for the quarter)                     | <u>\$ 137,873</u>    | <u>\$ 132,987</u>   |
| Adjusted EBITDA (1) <b>(D)</b>                        | <u>\$ 551,492</u>    | <u>\$ 531,948</u>   |
| Net Debt/Adjusted EBITDA Ratio                        | 5.3                  | 5.7                 |

(1) Adjusted EBITDA for the quarter is multiplied by four to calculate an annual amount.

(B) Net Debt represents debt (reported in accordance with GAAP) adjusted to exclude deferred financing costs, net and reduced for cash and cash equivalents. By excluding deferred financing costs, net and reducing debt for cash and cash equivalents on hand, the result provides an estimate of the contractual amount of borrowed capital to be repaid, net of cash available to repay it. The Company believes this calculation constitutes a beneficial supplemental non-GAAP financial disclosure to investors in understanding our financial condition. The Company's method of calculating Net Debt may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs.

- (C) NAREIT developed EBITDAre as a relative non-GAAP financial measure of REITs, independent of a company's capital structure, to provide a uniform basis to measure the enterprise value of a company. Pursuant to the definition of EBITDAre by the Board of Governors of NAREIT, the Company calculates EBITDAre as net income, computed in accordance with GAAP, excluding interest expense (net), income tax expense (benefit), depreciation and amortization, gains and losses from sales of depreciable operating properties, impairment losses of depreciable real estate, costs (gain) associated with loan refinancing or payoff and adjustments for unconsolidated partnerships, joint ventures and other affiliates.

Management provides EBITDAre herein because it believes this information is useful to investors as a supplemental performance measure as it can help facilitate comparisons of operating performance between periods and with other REITs. EBITDAre does not represent cash flow from operations as defined by GAAP and is not indicative that cash flows are adequate to fund all cash needs and is not to be considered an alternative to net income or any other GAAP measure as a measurement of the results of the Company's operations or cash flows or liquidity as defined by GAAP.

- (D) Management uses Adjusted EBITDA in its analysis of the performance of the business and operations of the Company. Management believes Adjusted EBITDA is useful to investors because it excludes various items that management believes are not indicative of operating performance, and that it is an informative measure to use in computing various financial ratios to evaluate the Company. The Company defines Adjusted EBITDA as EBITDAre (defined above) excluding gain on insurance recovery, retirement severance expense, litigation settlement expense, impairment of direct financing lease (allowance for lease loss portion), the provision for loan losses, transaction costs and prepayment fees, and which is then multiplied by four to get an annual amount.

The Company's method of calculating Adjusted EBITDA may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. Adjusted EBITDA is not a measure of performance under GAAP, does not represent cash generated from operations as defined by GAAP and is not indicative of cash available to fund all cash needs, including distributions. This measure should not be considered as an alternative to net income for the purpose of evaluating the Company's performance or to cash flows as a measure of liquidity.

## **About EPR Properties**

EPR Properties is a specialty real estate investment trust (REIT) that invests in properties in select market segments which require unique industry knowledge, while offering the potential for stable and attractive returns. Our total investments exceed \$6.7 billion and our primary investment segments are Entertainment, Recreation and Education. We adhere to rigorous underwriting and investing criteria centered on key industry and property level cash flow standards. We believe our focused niche approach provides a competitive advantage, and the potential for higher growth and better yields.

## **CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

*With the exception of historical information, certain statements contained or incorporated by reference herein may contain forward-looking statements within the meaning of Section 27A*

*of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), such as those pertaining to our acquisition or disposition of properties, our capital resources, future expenditures for development projects, expected dividend payments, and our results of operations and financial condition. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of actual events. There is no assurance the events or circumstances reflected in the forward-looking statements will occur. You can identify forward-looking statements by use of words such as "will be," "intend," "continue," "believe," "may," "expect," "hope," "anticipate," "goal," "forecast," "pipeline," "estimates," "offers," "plans," "would" or other similar expressions or other comparable terms or discussions of strategy, plans or intentions contained or incorporated by reference herein. While references to commitments for investment spending are based on present commitments and agreements of the Company, we cannot provide assurance that these transactions will be completed on satisfactory terms. In addition, references to our budgeted amounts and guidance are forward-looking statements. Forward-looking statements necessarily are dependent on assumptions, data or methods that may be incorrect or imprecise. These forward-looking statements represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors see "Item 1A. Risk Factors" in our most recent Annual Report on Form 10-K and, to the extent applicable, our Quarterly Reports on Form 10-Q.*

*For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date hereof or the date of any document incorporated by reference herein. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except as required by law, we do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date hereof.*

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## **EPR Properties**

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