

FEDERAL REALTY INVESTMENT TRUST (NYSE: FRT)



BUY. HOLD. AND PROSPER.®

(as at May 31, 2020)

Business Description:

Federal Realty Investment Trust is an equity real estate investment trust (REIT), which engages in the ownership, management and redevelopment of high-quality retail focus properties including shopping centers and urban, mixed-use properties. The company was founded by Samuel J. Gorlitz in 1962 and is one of the oldest public REITs. The company is headquartered in Rockville, MD.

Investment Thesis:

- **Federal REIT has shown historically strong and stable assets and income growth.** The company has demonstrated an excellent track record of Funds from Operations (FFO) growth throughout the past decade, achieving a 6% compound annual growth rate (CAGR).
- **The company has maintained a conservative capital structure despite strong growth.** Federal REIT has been able to maintain a net debt to market cap of 25% compared to the industry peer average of 36%.
- **The company possesses one of the longest track records of growing dividends in the REIT industry.** The company has demonstrated excellent commitment to deliver value created and capital back to shareholders. Federal has had 52 years of annual dividend increases at a CAGR of 7%.

Industry Drivers/Trend

Real Estate Investment Trusts (REITs):

- As with any real estate investment, interest rates play a key role. Lower interest rates reduce the real purchase price of a commercial real estate property, which allows for higher volume and larger acquisition projects.
- Much of the industry is dependent on lease agreements with the customers. Large REITs need to establish strong landlord friendly contracts for redevelopment or more favourable leases in the future.
- REITs that are focused on retail have struggled immensely as consumers have shifted away from physical brick and mortar stores to online shopping. As such, many tenants will be unable to meet lease payments and be forced to close down locations, leaving retail sites empty.

Competitive Advantages:

- Diversified categories of portfolio properties
- Diversified geography of portfolio properties
- Retail-based real estate in best in-class locations
- Larger properties on larger pieces of land and flexible formats allow for more redevelopment opportunities

Competitors:

- PennyMac Mortgage Investment Trust, Brandywine Realty Trust, The Macerich Company

Customers:

- Residential home owners, offices, fitness, beauty & health companies, restaurants.

Barriers to Entry:

- **Existing Relationships:** Much of a REIT's success hinges on strong landlord friendly leases. Existing relationships with large retailers and customers are required to establish these contracts.
- **Large Acquisition Costs:** The nature of REITs require large capital costs to acquire amounts of real estate which discourages new entrants into the space.

Officers & Directors:

Don Woods, President & Chief Executive Officer; **Dan Guglielmo**, EVP – Chief Financial Officer & Treasurer; **Dawn Becker**, EVP – General Counsel & Secretary; **Jeff Berkes**, EVP – Western Region, President; **Wendy Seher**, EVP – Eastern Region, President; **Jan Sweetnam**, EVP – Western Region, COO.

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	744.1	808.3	863.4	921.5	939.1
Operating Expenses	(536.5)	(582.3)	(631.2)	(682.0)	(694.2)
Operating Profit	207.6	226.0	232.2	239.6	244.9
Profit before Tax	190.0	226.4	219.9	237.1	360.5
Net Profit	181.1	218.1	211.3	229.1	352.9
EPS (Diluted)	3.03	3.50	3.97	3.18	4.61
Dividends per Share	3.76	3.92	4.00	4.08	4.20

Balance Sheet

Total assets	4,912.0	5,423.0	6,276.0	6,290.0	6,795.0
Long-term debt	2,627.0	2,576.0	2,993.0	2,928.0	3,435.0
Total equity	1,664.0	1,977.0	2,267.0	2,347.0	2,535.0

Statement of Cash Flow

Cash from operations	360.3	423.2	461.0	517.0	464.7
Cash from investing	(354.3)	(607.1)	(825.1)	(189.7)	(318.9)
Cash from financing	(33.0)	(186.3)	(356.0)	(244.1)	(100.5)

Key Ratios and Figures (%)

Operating Margin	27.9%	28.0%	26.9%	26.0%	26.1%
EBITDAre to fixed exp. and pref. share dividends	3.6x	4.5x	3.9x	4.2x	4.2x
Funds From Operations (FFO)	5.05	5.65	5.74	6.23	6.33

Source: Federal Realty Investment Trust 2019 Annual Report; Wall Street Journal



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