

Realty Income Corp. (NYSE: O)

Real Estate

Current Price: \$60.77
Target Price: \$66 - \$71

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Investment Thesis

We recommend a **BUY** rating for Realty Income Corporation with a target price of \$71, representing a 16% upside. We issue this rating due in large part to the growth and predictability of rental revenue in the foreseeable future which is ensured through beneficial net lease structures and portfolio diversification. Dividend increases, rental increases and new property acquisitions will allow the company's net income to increase, in spite of operating in an environment where rising interest rates are increasing the cost of borrowing and therefore slowing acquisitions in the short term.

DRIVERS OF THESIS

- **Diversified portfolio of tenants across numerous industries and regions:** Realty Income owns 12,237 properties, of which they lease to clients across 84 distinct industries^[vi]. Most tenants fall under recession resistant industries such as non-discretionary, service-based, and/or discount/low priced retail. In addition, Realty Income rents properties in all 50 U.S. states. This diversity in tenants insulates the company from downturn within any one region or industry.
- **Long term net lease structure:** Realty Income employs net lease structures, meaning that the tenant is responsible for not only monthly rent, but also property taxes, insurance, and maintenance costs. This protects Realty Income from the expenses incurred through wear and tear which vary greatly between industries and clients and leaves the sole responsibility for damage incurred within a tenant's property to the tenants.

RISKS OF THESIS

- **Interest rate uncertainty:** Rising interest rates increase the cost of borrowing for REITs. When debt financing is costlier, the firm will either slow their rate of acquisitions or incur more interest on loans, which slows earnings growth, as the drivers of revenue growth are rent increases and property acquisitions. The length which these rates remain elevated will determine Realty Income's acquisition and growth in the near future. Our model estimates this will result in a decline in acquisitions to a 7% increase in 2023, compared to the 12.7% increase in square footage in 2022 when interest rates were lower.
- **Decline in retail sales:** Realty Income's primary tenants are retailers spread across many industries. Many of these tenants are in no risk of bankruptcy in the event of a minor economic downturn. However, minor changes in retail sales or consumer spending could lead to an increase in vacancies. Our model compensates for the risk of slowing retail sales continuing over the next ten years by setting a lower occupancy rate than in 2021 and 2022, dropping from 99% to 98.43%. The assumption is such that actual vacancy rates will fluctuate, but that the average over the ten-year time horizon will be ~98.43%.

Snapshot

Valuation Methods:

DCF/EP	\$71
DDM	\$66
P/E (2023)	\$55
P/FFO (2023)	\$57
Beta (5Y Monthly)	0.80

Stock Performance Highlights:

52-Week High	\$75.40
52-Week Low	\$55.50

Company Statistics:

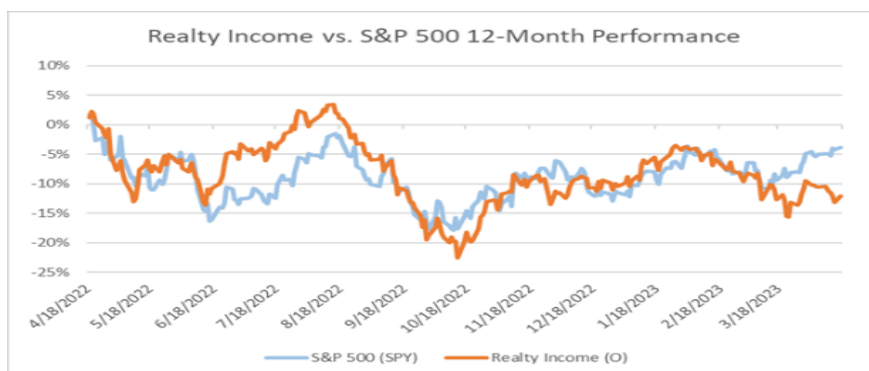
Market Capitalization	\$40.14B
Share Outstanding	660.3M
EPS (2022)	\$1.42
Revenue (2022)	\$3.34B

Financial Ratios:

Dividend Yield (2022)	4.88%
Current Ratio (2022)	2.03
Debt-to-Equity (2023E)	0.66
ROA	1.90%

Company Description

Realty Income Corporation (NYSE: O) is a Real Estate Investment Trust (REIT) that holds a portfolio of free-standing, single-tenant commercial properties in all 50 states, Spain, Italy, and the United Kingdom that are subject to triple net (NNN) leases. As the largest REIT in the NNN class based on market cap and enterprise value, they oversee a portfolio comprising 12,237 properties worth \$44.1 Billion. The company stands out as one of the few that pay dividends monthly as opposed to quarterly. With a remarkable track record of 634 consecutive months of dividends and 102 straight quarters of increasing dividend payments, Realty Income has been able to distinguish itself from competitors.



Executive Summary

We recommend a **BUY** rating for Realty Income Corporation, due in large part to the growth and predictability of rental revenue in the foreseeable future, ensured through beneficial net lease structures and portfolio diversification. Risk to the company's earnings exist in the form of interest rate uncertainty, which raises cost of capital for the company, and declining retail sales, which raises occupancy rate risks, but Realty Income has the strongest financials and business model out of the major REITs to handle uncertainty of major economic factors.

Company Analysis

Company Description

Realty Income is a retail real estate investment trust (REIT), with properties throughout the United States, Puerto Rico, Italy, Spain, and the United Kingdom. They were founded in 1969 and are headquartered in San Diego, CA. Their portfolio is comprised of mostly single-unit retail properties across a wide variety of industries. Some of their top clients include investment-grade companies such as 7-Eleven, Walgreens, Dollar General, and FedEx^[xvi]. The company positions itself in the Retail REIT space as the largest by net asset value and is notorious for distributing monthly dividends.

Top Tenants	Investment Grade	% of Rent
Walgreens	Y	5%
Dollar General	Y	4%
Family Dollar	Y	4%
FedEx	Y	3%
7Eleven	Y	3%
LA Fitness	N	3%
Walmart	Y	2%
CVS Pharmacy	Y	2%
Sainsburys	Y	2%
BJ's	N	2%

Source: Realty Income 2021 Investor Presentation^[xvi]

The company currently owns 12,237 properties, a number which has grown rapidly from 5,172 properties five years ago. These properties are all leased under what is called a net lease agreement. This structure means the tenant is responsible for monthly rent and property taxes, insurance, and maintenance. These favorable conditions insulate Realty Income from minor wear-and-tear or other damages incurred through day-to-day tenant operations, ensuring a stable and predictable expense ratio. This also provides

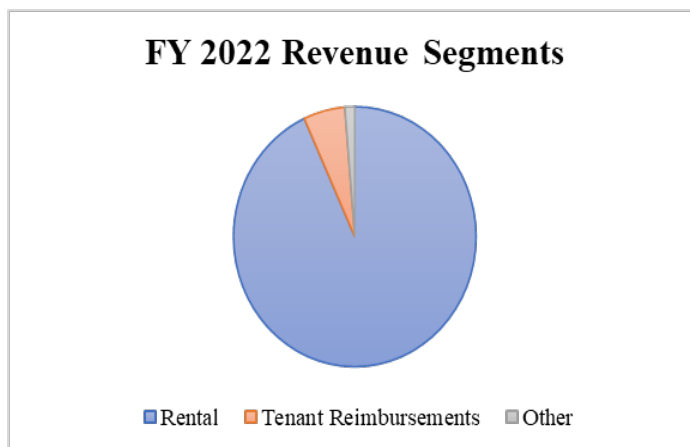
Realty Income with a large gross profit margin, at approximately 93.6%.

Top Industries	% of Rent
Convenience Stores	9%
Grocery Stores	8%
Dollar Stores	8%
Drug Stores	8%
Restaurants - Casual	7%
Restaurant - Quick Service	7%
Health and Fitness	5%
Home Improvement	4%
Theaters	4%
Transportation Services	4%

Source: Realty Income 2021 Investor Presentation^[xvi]

Revenue Analysis

Historically, Realty Income has earned revenue in three segments. In 2022, rentals comprised 93.2% of revenues, tenant reimbursements represented 5.5%, and other revenue represented 1.3%. Rental income consisted of contractual lease obligations from tenants. Reimbursement income came from contractually obligated reimbursements from clients for recoverable real estate taxes, insurance, and operating/maintenance expenses. Other revenue is primarily related to interest income recognized on financing receivables for certain leases with above-market terms.

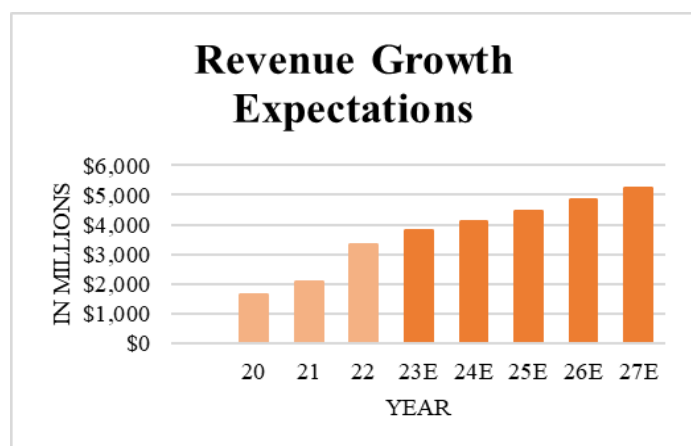


Source: Realty Income 2022 Form 10K^[vi]

Fluctuations in the reimbursables and “other” segments ran proportional with portfolio growth, which was a major factor in bringing rental income below its historical average of 95% in the year prior. We project a steady increase in leasable square footage over the next 10 years, starting with a 7% increase in 2023 and tapering down over the years to a 4% increase in 2032. This steady portfolio growth will provide predictable proportions of rental income in relation

to the other two segments, with rental comprising ~ 95% of annual revenues over the forecast period.

To drive revenue growth, not only does Realty Income acquire new properties, but also increases the profitability of its existing portfolio. This is done through stable, annual rent increases. Our model estimates that the increase in rent will be 3.0% annually – with 2.5% of that being credited as expected inflation, and an additional 0.5% premium to outpace that projected inflation. These steady increases will provide Realty Income with increased profitability across their portfolio, while remaining a good value to clients by being under the average annual growth rate of commercial rent of 3-5%^[xix].

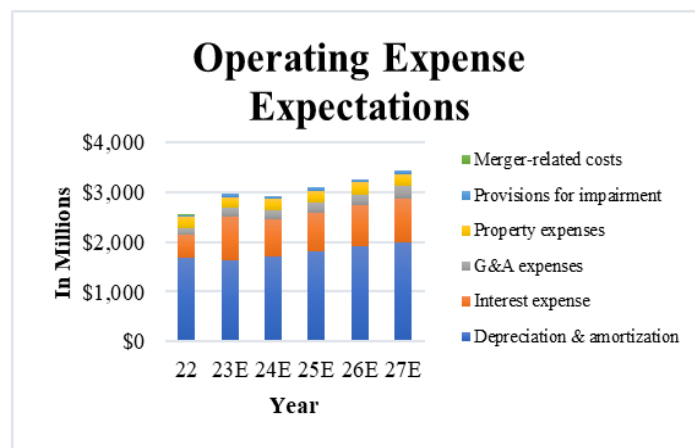


Source: Realty Income 2022 Form 10K^[vi]

Expense Analysis

Realty Income’s operating expenses for fiscal year end 2022 totaled \$2.54 billion, and are broken into six segments, including depreciation and amortization, interest expense, general and administrative expenses, property expenses, provisions for impairment, and merger related costs. Depreciation and amortization make up the bulk of the company expenses at ~50% and is standard for REITs. Increases in recent years are directly correlated with increases in acquisitions, but since it is a non-cash expense, it is added back to net income available to stockholders. We anticipate that depreciation and amortization will continue over the forecasted period at a rate of 3.57% of total real estate value. Property expenses remain lower than 7% of revenues, owing to the net lease structure leaving most property expenses in the hands of the client. In total, operating expenses totaled 76% of total revenues, leaving a favorable 24% operating margin. Realty Income’s expenses are directly tied to balance sheet values or percent of sales values, resulting in consistent and predictable expenses. Moving forward, as rental income grows through steady rent increases, the proportion of expenses relative to revenues will decrease, resulting in an operating margin

that steadily increases throughout the forecast period, reaching 42.9% by 2032.



Source: Realty Income 2022 Form 10K^[vi]

Capital Structure Analysis

Realty Income’s capital structure is made up of 65.83% equity, and 34.17% debt plus operating leases. The equity is entirely comprised of common stock, with a current market cap of approximately \$40.13 billion. The firm’s beta of 0.8, combined with the risk-free rate of 3.515%, and a market risk premium of 4.88% leads to a cost of equity of 7.42%. Their debt is predominantly long-term, with approximately \$2.7 billion as a current portion of long-term debt alongside \$15.38 billion of long-term debt. This long-term debt is fixed rate, leading to insulation from interest rate risk. The cost of debt is approximately 5.12% after tax. With this structure, Realty Income maintains a 6.63% WACC. As a result, the company’s philosophy is to invest only in properties that will provide value more than this 6.63% cost of capital to provide maximum shareholder value, which they have routinely found through single-tenant units rather than mixed-use, multi-tenant properties.

Capital Expenditure Analysis

Realty Income’s growth has a direct relationship with their capital expenditures, as their ability to acquire high value properties serves to increase their revenue streams. In addition to major property expenditures, the company oversees a much smaller recurring landlord capital expenditure obligations, and non-recurring capital expenditures to extend the useful life of their properties. These minor expenditures vary greatly, but due to the net lease structure which leaves building maintenance primarily in the hands of the tenant, are only a fraction of their total capital expenditures. While the company has invested heavily in the prior two years in acquiring new properties, we anticipate these expenditures to taper off slightly, and become more proportional with revenue

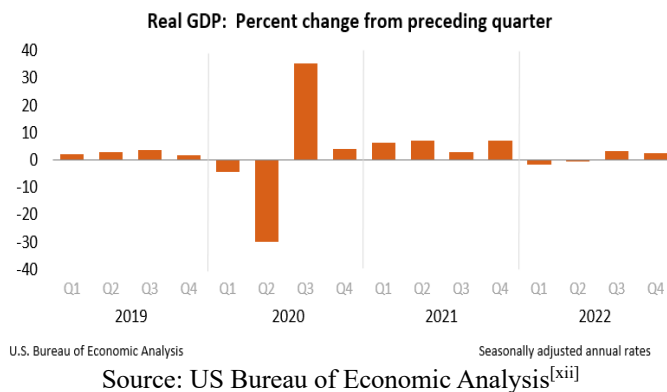
moving forward. Capital Expenditures in 2023 are projected to be \$2.986 billion, a sharp decline of 67% from the \$8.9 billion invested in real estate in 2022, but higher than the average of the prior nine years. The capital expenditures in 2022 and 2021 increased sharply due to their merger with VEREIT, another single-tenant retail REIT which held \$13.3 billion in assets prior to the merger in 2021^[xiii]. As the forecast does not predict any large-scale mergers such as this, capital expenditures should return to a more stable rate primarily based off a 7% growth target in leasable square footage. We anticipate as the company's growth continues, they will gradually reduce the annual percentage growth target, which will result in capital expenditures over the 10-year forecast period remaining consistently within the \$2-3 billion range.

Economic Analysis

Real GDP Growth

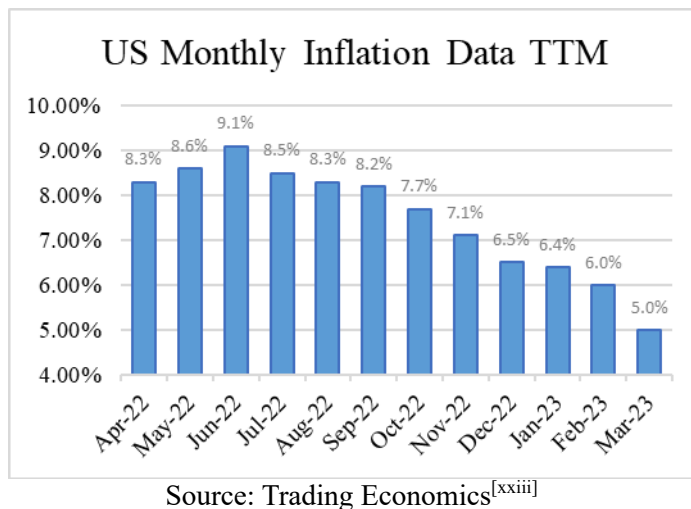
The percentage change in GDP is a direct indicator as to the well-being of the US economy. Despite fears of a recession spurred by two consecutive quarters of negative real GDP growth in 2022, GDP has since increased by 3.2% in Q3 of 2022, and by 2.6% in Q4 of 2022^[xiii], indicating that the economy is still in a growth cycle. Current analyst forecasts are conflicting, with the projections of a Q1 2023 growth rate of 2.5%^[xii]. However, forecasts for Q2 were heavily impacted by the March 2023 banking crisis, leading projections to predicting a subsequent decline in GDP.

In the event GDP continues to climb, Realty Income will face a favorable operating environment, as firms hire and demand retail space, and customers continue to spend, driving retail sales. In the event of a recession, which would be spurred by increasing interest rates determined to drive down inflation, consumer spending would take a hit, potentially leading to higher vacancy rates for Realty Income until the end of the recession. However, many of Realty Income's top tenants are in recession proof industries, such as dollar stores, convenience stores, and big box grocers. Regardless, a recession would still increase vacancies slightly for the company as there will certainly be tenants who find themselves unable to renew their leases in a downtrodden economic outlook. And with rental income being their sole revenue driver, an increase in vacancy rates would lead to a proportional decrease in revenues. Given the cyclical nature of the economy, tenants would likely rebound during the subsequent economic expansion, allowing Realty Income to continue growing revenues by re-leasing to tenants and acquiring more properties.



Inflation

The annual inflation rate slowed in the US in March 2023 to 5%, the lowest level since May 2021^[xxiii]. Inflation measures are key to driving rent increases, along with negatively impacting the cost of borrowing. High inflation, which the US has faced for the last year, decreases purchasing power for Realty Income, and causes properties to become less desirable as assets. However, real estate has typically hedged well against high periods of inflation, with REIT dividend payouts consistently outperforming inflation^[xx]. As inflation continues to ease through Fed rate increases, Realty Income will be able to continue their acquisition strategy of steadily growing their portfolio of properties year-over-year.

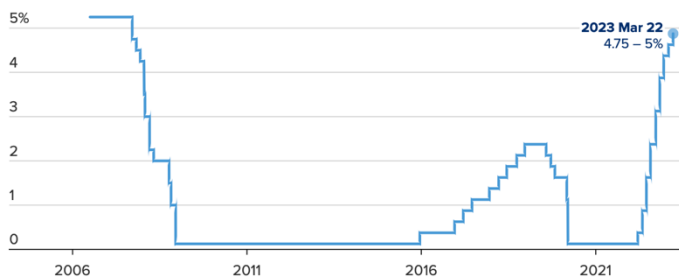


Interest Rates

The Federal Reserve raised the federal funds rate target by 25 basis points in March of 2023^[xi], to further slow inflation. This puts rates currently in the range of 4.75%-5.00%, a level unseen since before the 2008 recession^[xi]. A growing consensus is that the slowing of rate hikes indicates the Fed is near the end of their rate hike scheme, as the economy corrects itself. However, in the current time, these elevated rates will increase the cost of borrowing for Realty Income. This is impactful, as the company is 34.17%

debt financed, meaning that the company will find it more expensive to acquire funds to purchase new properties and pay out dividends to shareholders. This will cause a slowdown compared to the aggressive rates of acquisitions from the prior two years, calming to 7% in our forecast for 2023. As rates eventually decline, borrowing will become cheaper for Realty Income, making property acquisitions cheaper in the long run, and decreasing their interest expense as a percentage of revenue.

Federal funds target rate
Since July 2006



Source: Federal Reserve Bank of New York (via CNBC)^[iii]

Vacancy Rates

Vacancy rates are the ratio of unused property relative to total available property space. Across commercial real estate sectors, vacancy rates fluctuate in response to many financial metrics, such as interest rates, inflation, etc., all of which impact demand for property. However, employment trends also lead to changes in vacancy rates. During the COVID-19 pandemic, vacancy rates steepened in response to employees adopting work-from-home models^[xxvii]. Single-tenant retail units typically renewed their leases throughout the recession, as their business models were more resilient to the slowed spending. Increases in consumer spending over the past year will revitalize retailers who were reeling from the effects of the COVID-19 pandemic and subsequent supply chain issues. This should stabilize vacancy rates, returning a sense of predictability to the rate.

Industry Analysis

REIT Requirements

A real estate investment trust (REIT) is a publicly or privately traded company that owns, operates, and/or finances income-generating real assets and follows strict procedures to maintain REIT status. The income produced by a REIT is not taxed until it is passed to its shareholders as dividends—at least 90% of taxable income must be distributed to shareholders each year. REITs must also have a minimum of 75% of their assets in real estate, cash, or treasuries and generate a minimum of 75% of gross income

from rental income, mortgage interest, or real asset dispositions.

There are approximately 13 different sectors of REITs^[xxxi], broken down by the property types of the company holds. Realty Income operates in the retail REIT sphere, where tenants are typically customer facing companies selling goods or services. In this industry, there are 6 major public REITs, of which Realty Income positions itself as the leader on many key performance indicators.

Tenant Quality

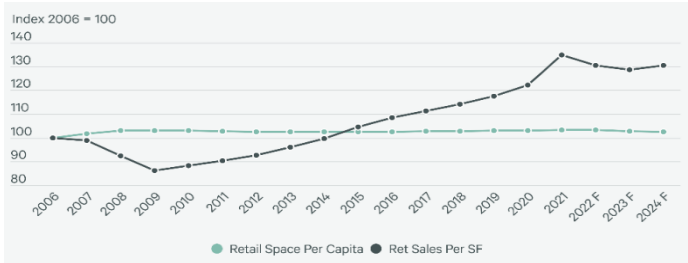
A key driver of occupancy rates and profitability is the quality of tenants a company lease to. When a company has a proven track record of success in the retail space, they become a reliable tenant to count on for steady revenues over an extended time horizon. Realty Income's tenant portfolio contains many household names, including Walgreens, Walmart, and Dollar General. Of their top 10 clients, eight out of the ten have a credit rating that corresponds to an investment grade rating^[xvi]. This strongly suggests that the tenants can remain in business and able to fulfill its obligations, including paying their landlord, for the foreseeable future. Having a robust tenant base enables Realty Income to better safeguard its long-term revenues and avoid missing rent revenues or experiencing vacancies resulting from tenant's inability to make payments or renew leases.

Retail Trends

Realty Income primarily leases to retail clients, whose ability to pay and renew their leases is propagated by their operational success. Retail deliveries have reached record lows over the past 3 years, a trend that likely will continue in 2023^[xxviii]. In addition, more than 50 million sq. ft. of retail space has been removed from the market since 2003, including 10 million sq. ft. within the past five years^[ii]. For Realty Income, this threatens their tenants, and therefore, their occupancy rates, as the slowdown of retail sales corresponds directly with increased vacancies. These trends will likely continue in 2023, as owners of struggling malls and centers convert their existing properties to mixed-use developments.

On the positive end for Realty Income, continued supply side constraints and positive demand growth in many U.S. markets will increase rent, and ultimately retail property values, as development costs remain inflated with little activity in the pipeline. As the sales per square foot rise even with retail space in total fall, firms should better be able to pay their rent, while Realty Income would have better standing to increase rents.

Retail Space Per Capita vs. Net Sales Per SF, Historical

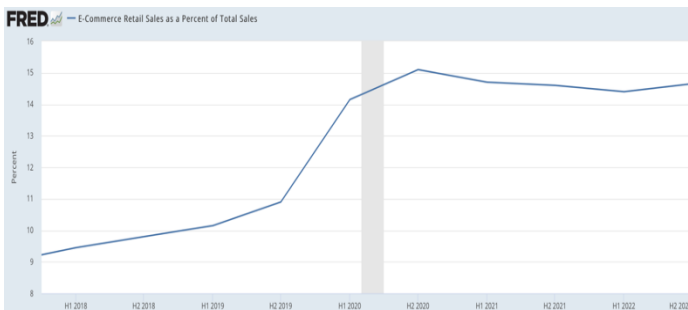


Source: Atlanta Fed [ii]

E-Commerce Sales

A large threat to many retail companies is the growth and consumer shift to online purchasing. Websites like Amazon have become the one stop shop for many shoppers, leading them to visit brick and mortar retail stores for their shopping at increasingly lower rates^[v]. While some industries are better insulated from the rise of e-commerce, such as clothing and convenience stores, others are easily replaced, such as electronics retailers. This is where Realty Income's portfolio diversification further protects them from market forces, as their portfolio will likely feature tenants who are helped or unaffected from harm due to changes in consumer shopping habits. However, their portfolio is not infallible, and if the growth of e-commerce share of retail sales continues, retail tenants in Realty Income's portfolio will face threats to their sales and profitability, which would lead to drops in their occupancy rate, and their revenue.

U.S. E-commerce Retail Sales as a Percent of Total Sales



Source: St. Louis Federal Reserve^[v]

Competitive Analysis

Firms Within Retail REIT Sector

Ticker	Revenue (In Millions)	Gross Profit Margin	Debt-to-Equity
O	\$3,140.1	93.60%	0.63
SPG	\$5,217.7	80.75%	6.23
KIM	\$1,364.6	69.37%	0.74
REG	\$1,206.4	71.90%	0.64
FRT	\$1,048.5	66.84%	1.40

Source – Yahoo! Finance

Ticker	Dividend Yield	FFO (In Millions)	Market Cap
O	4.40%	\$2,125.0	\$40.11 B
SPG	5.58%	\$3,315.4	\$41.50 B
KIM	3.50%	\$1,013.0	\$11.82 B
REG	3.87%	N/A	\$10.37 B
FRT	3.87%	\$504.0	\$8.02 B

Source – Yahoo! Finance

Simon Property Group (SPG)

Simon Property Group, SPG, is the largest retail REIT by square footage and revenue, with their property portfolio primarily comprised of shopping malls, outlets, and community/lifestyle centers^[ix]. Due to industry trends shifting away from large shopping centers, this property mix leads to a lower occupancy rate of 94%, and lower gross profit margin of 80.75%, introducing more variability into their performance. The company is also heavily exposed to debt financing, with a debt-to-equity ratio ten times greater than Realty Income's. This leaves the company's performance greatly exposed to interest rate sensitivity, compared with Realty Income's predominantly equity financed capital. Compared to traditional single-occupant retail spaces that Realty Income owns, malls have been seeing declining sales and higher vacancy rates for many years. While SPG's client list is narrower in scope and therefore easier to fully grasp, this lack of diversification opens the company up to greater risks of economic and consumer changes impacting their profitability moving forward.

Kimco Realty Corporation (KIM)

Kimco Realty Corporation, KIM, is a retail REIT investing primarily in shopping centers in the suburban areas outside of major metropolitan cities^[xx]. They have a lower occupancy rate of 95.7%, a result of both industry standards and the declining sales in multi-unit shopping centers. The company does have a long weighted average remaining lease term of 20.5 years, resulting in long-term stability of returns relative to other retail REITs, but limits their future ability to raise rents if high inflation persists.

Federal Realty Investment Trust (FRT)

Federal Realty Investment Trust, FRT, is a retail REIT that invests predominantly in shopping centers in the Northeastern and Mid-Atlantic U.S, California, and South Florida. A small portion of their portfolio also consists of mixed-use office and residential properties. FRT owns roughly 26 million square feet of commercial real estate occupied at 92.8%. On-going foot traffic and sales difficulties within malls and brick and mortar stores have resulted in difficulty leasing the remaining vacant space. The complicated matter of leasing to retail tenants in a recessionary environment may limit their upside in the future.

Realty Income's Competitive Advantage

Realty Income's primary advantage over other REITs is their high occupancy rate, along with their large, diverse property portfolio that grows every year. This ensures minimal lost revenue, alongside greater growth prospects. Realty Income's ability to reliably increase rent to outpace inflation also ensures the company's profitability will remain intact regardless of minor changes to market forces. The company also has the highest gross profit margin amongst their top four competitors, demonstrating they can generate more profit per leasable square foot than competitors. While the company does not generate the highest revenues and does not have as tight of a focus with their portfolio, their consistent revenue growth, quality tenant base, and substantial property diversification will allow them low-risk and steady growth for the foreseeable future.

Valuation Analysis

Overview

In constructing our valuation model, we considered the historical growth and trends of the company, current commercial real estate market conditions, and the future stability in the freestanding retail real estate sector. We expect Realty Income to continue its strong growth in net real estate owned, net income, and dividend payments for the foreseeable future. The company continues to grow its market share in this niche sector with very few competitors. The ability to continue acquisitions of quality portfolios and properties along with consistent rent increases to existing tenants will significantly impact the growth of Realty Income in the forecasted period.

Revenue Decomposition

Nearly all of Realty Income's revenue is generated from leasing its real estate properties. In 2022, 93% of total revenue was from rentals, 5.5% from tenant reimbursement which includes contractually obligated reimbursements from tenants, and 1% from other sources. The historic distribution of revenue sources has been consistent with rental revenues being no lower than 93% for the past decade.

Realty Income has maintained exceptional leasing rates, with occupancy rates remaining above 97.9% in the past decade and reaching a peak of 99.0% in 2022. We project this high-level lease ability will continue in the future. Realty Income has demonstrated its capability to obtain new real estate assets, with an average annual increase of

9% in total square footage and 8% in the total number of properties throughout the past decade (excluding 2021, due to the acquisition of VEREIT).

WACC (Weighted Average Cost of Capital)

To calculate the Weighted Average Cost of Capital, we used the weighted average of its cost of equity and after-tax cost of debt. Realty Income's WACC is estimated to be 6.63%, with the cost of equity being 7.42% and the cost of debt being 5.12%.

Cost of Equity

Using the Capital Asset Pricing Model (CAPM), we determined Realty Income's cost of equity to be 7.42%. In our calculation, we utilized the U.S. 10 Year Treasury yield as our risk-free rate, Realty Income's 5 Year monthly beta, and Aswath Damodaran's implied equity risk premium as of April 1, 2023^[iv]. The values used in our calculation were 3.52%, 0.80, and 4.88% respectively.

Cost of Debt

The cost of debt was established using the yield to maturity on Realty Income's corporate bond maturing March 15th, 2047 of 5.26%. Following adjustments for the tax shield on debt interest (1 – marginal tax rate of 2.61%), the after-tax cost of debt was 5.12%.

DCF and EP Model

Using a 10-year forecast horizon, we discounted Realty Income's expected free cash flow and economic profit by the WACC to calculate a DCF and EP valuation for operating assets. We calculated the present value of operating assets in the DCF model to be \$65,864.0 million. In the EP model, the present value of economic profit is \$29,195.7 million. After adding the \$36,668.4 million of invested capital from 2022 back in, the resulting value of operating assets from the EP model is also \$65,864.0 million. Adjustments for non-operating, debt, and other items totaled -\$19,123.0 million resulting in an equity valuation of \$46,741.0 million for both models. Dividing the equity value by a total of 660.3 million shares outstanding resulted in Realty Income's valuation at approximately \$71.33 today using a discounted cash flow and economic profit valuation.

Dividend Discount Model

Using a 10-year forecast horizon, we discounted Realty Income's expected future dividends by the cost of equity to calculate the present value of future dividends. Historically,

Sensitivity Analysis

Risk-Free Rate vs. Rental Growth Rate

Rental Growth Rate	DCF Price		Risk Free Rate					
	2.75%	3.00%	3.25%	3.52%	3.75%	4.00%	4.25%	
2.25%	72.78	65.50	59.19	53.25	48.79	44.44	40.56	
2.50%	80.18	72.32	65.52	59.11	54.29	49.61	45.42	
2.75%	87.73	79.29	71.98	65.09	59.92	54.89	50.39	
3.00%	95.45	86.41	78.57	71.20	65.66	60.28	55.46	
3.75%	119.60	108.68	99.22	90.32	83.63	77.14	71.33	
4.00%	127.99	116.42	106.39	96.96	89.88	83.00	76.84	
4.50%	145.32	132.39	121.20	110.67	102.76	95.08	88.21	

Valuing a company using DCF involves two crucial factors: the risk-free rate and rental growth rates. The risk-free rate determines the WACC, and the level of discount applied to future cash flows. Conversely, the rental growth rate determines the amount in future cash flows. These two factors typically move in opposite directions, with rental growth being linked to inflation and a high risk-free rate being used to counter inflation. A rise in the risk-free rate should lead to a reduction in growth rates and a higher valuation, whereas a drop in the risk-free rate should result in higher growth rates and a lower valuation. table.

Occupancy Rate vs. CV Growth of NOPLAT

CV Growth of NOPLAT	DCF Price		Occupancy Rate					
	92.50%	95.00%	97.00%	98.43%	98.75%	99.00%	99.25%	
3.00%	45.90	51.38	55.76	58.89	59.59	60.14	60.68	
3.25%	47.58	53.37	58.00	61.31	62.05	62.63	63.21	
3.50%	49.53	55.68	60.60	64.12	64.90	65.52	66.14	
4.00%	54.53	61.61	67.28	71.33	72.24	72.95	73.65	
4.25%	57.82	65.51	71.67	76.07	77.06	77.83	78.60	
4.50%	61.87	70.33	77.09	81.92	83.01	83.85	84.70	
4.75%	67.01	76.42	83.95	89.33	90.53	91.47	92.41	

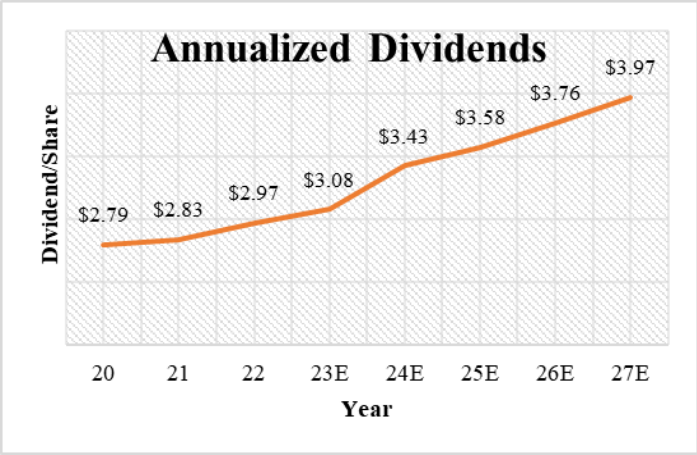
The occupancy rate and CV growth of NOPLAT are positively correlated with each other, and both are critical in the DCF valuation. The occupancy rate is a significant determinant of total revenues, which are directly linked to NOPLAT. As the occupancy rate of all properties increases, revenues generated should also increase, leading to higher NOPLAT growth. Conversely, a decrease in occupancy rates will cause a decrease in NOPLAT growth and a reduction in share price.

D&A Expense Ratio vs. Interest Expense Ratio

Interest Expense Ratio	DDM Price		D&A Expense Ratio					
	3.00%	3.20%	3.40%	3.57%	3.70%	3.80%	4.00%	
1.25%	76.24	74.39	72.54	70.97	69.77	68.84	66.99	
1.35%	74.58	72.73	70.89	69.32	68.11	67.19	65.34	
1.45%	72.93	71.08	69.23	67.66	66.46	65.54	63.69	
1.55%	71.28	69.43	67.58	66.01	64.81	63.88	62.04	
1.65%	69.62	67.78	65.93	64.36	63.15	62.23	60.38	
1.75%	67.97	66.12	64.27	62.70	61.50	60.58	58.73	
1.85%	66.32	64.47	62.62	61.05	59.85	58.92	57.08	

Accurately estimating the expenses of Depreciation/Amortization and Interest is crucial in forecasting net incomes and dividend payouts for Realty Income, as these are two of the largest expenses for the company. Forecasts for these expenses are computed by comparing each to the total real estate held for investment at cost. An increase in the expense ratio of either category

Realty Income has paid out an average of 83.4% of its funds from operations (FFO) annually. This value was used to assume future payments of dividends. Using this calculation, dividends are expected to be \$3.08 per share in 2023 and then increase by an average of 5% annually, which is in line with Realty Income's historic dividends growth.



Source: Realty Income 2022 Form 10K^[vi]

After discounting future dividends, we also discounted the value from the CV year by the cost of equity of 7.42%. For the CV, an assumption of 4.5% EPS growth and 11.66% ROE was used and indicated a P/E of 21.0 on a \$3.67 EPS. A future CV value of \$77.20 was discounted by the cost of equity to a present value of \$40.54. After summing the discounted dividends with this present value of CV, our model provided an implied price of \$66.09 as of today. This valuation suggests the stock is slightly undervalued and has an upside of approximately 9%.

Relative Valuation

To perform a relative valuation, we analyzed the future P/E ratios of six different competitors: SPG, KIM, PLD, WELL, ADC, and NNN. The average 2023 P/E of these companies was 47.8, which we used with our expected 2023 EPS for Realty Income resulting in a relative value of \$55.00. Similarly, the average 2024 P/E of the six companies was 35.4, of which we used to calculate an implied relative value of \$59.26.

An analysis of the P/FFO ratio was also conducted to produce a relative valuation. The average 2023 P/FFO of the same six companies was 15.46. We multiplied this ratio by the expected FFO/share of Realty Income in 2023 which was 3.7 and received an implied relative value of \$57.01.

would lead to a decrease in the DDM valuation, as future dividend payments would be reduced. Consequently, the best potential for the stock's growth is to significantly decrease both expenses.

Cost of Equity vs. CV EPS Growth

CV EPS Growth	DDM Price		Cost of Equity					
	\$66.09	6.00%	6.50%	7.00%	7.42%	8.00%	8.50%	9.00%
3.75%	92.58	77.88	67.63	61.13	54.20	49.53	45.71	
4.00%	98.45	81.25	69.69	62.53	55.05	50.09	46.08	
4.25%	106.01	85.37	72.12	64.16	56.02	50.72	46.49	
4.50%	116.09	90.51	75.04	66.07	57.13	51.43	46.95	
4.75%	130.20	97.12	78.61	68.33	58.40	52.23	47.46	
5.00%	151.36	105.94	83.07	71.06	59.90	53.15	48.03	
5.25%	186.62	118.28	88.80	74.42	61.66	54.21	48.68	

The cost of equity is used to discount future dividends while the CV EPS growth is utilized to determine the CV. Increasing the cost of equity decreases share price as dividends are discounted by a higher factor. Increasing the CV EPS growth increases the CV value resulting in an increase in share price.

Cash Distributions Ratio vs. ERP

Equity Risk Premium	DDM Price		Cash Distributions Ratio					
	\$66.09	50.00%	65.00%	75.00%	83.39%	90.00%	95.00%	100.00%
4.00%	57.20	68.80	76.53	83.02	88.13	92.00	95.86	
4.25%	53.00	63.88	71.14	77.23	82.02	85.65	89.28	
4.50%	49.44	59.71	66.56	72.31	76.83	80.26	83.68	
4.88%	44.94	54.44	60.77	66.09	70.27	73.44	76.60	
5.00%	43.71	52.99	59.18	64.38	68.47	71.56	74.66	
5.25%	41.37	50.25	56.16	61.13	65.04	68.00	70.96	
5.50%	39.29	47.81	53.49	58.25	62.01	64.85	67.68	

The DDM valuation is significantly affected by the cash distributions ratio and equity risk premium. A higher cash distribution ratio leads to an increase in share price as higher amounts of dividends are paid relative to FFO. However, a higher equity risk premium results in a decrease in share price, as the cost of equity increases, causing a higher discount factor. Ideally, the best scenario for DDM valuation is an increase in the distribution ratio and a decrease in the equity risk premium.

Beta vs. Marginal Tax Rate

Marginal Tax Rate	DDM Price		Beta					
	\$66.09	0.65	0.70	0.75	0.80	0.85	0.90	1.00
0%	86.68	79.28	73.21	68.13	63.81	60.09	54.01	
1.00%	85.62	78.33	72.35	67.35	63.09	59.43	53.43	
2.00%	84.56	77.39	71.50	66.57	62.38	58.77	52.86	
2.61%	83.92	76.81	70.97	66.09	61.94	58.37	52.51	
5.00%	81.39	74.55	68.93	64.23	60.23	56.79	51.15	
15.00%	70.80	65.08	60.37	56.43	53.07	50.18	45.43	
21.00%	64.45	59.40	55.24	51.75	48.78	46.22	42.00	

Realty Income's beta and marginal tax rate are both critical factors for its DDM valuation. A higher beta leads to an increase in the cost of equity resulting in a higher discount factor. Although the company's historical marginal tax rate has been substantially low due to its REIT status, any future tax code changes or company management alterations could affect the amount of tax paid. If Realty Income happens to lose the REIT status in the future or pay out significantly less than the 90% required threshold, their marginal tax rate could increase up to the corporate income tax rate of 21% causing a decline in firm valuation.

Important Disclaimer

This report was created by students enrolled in the Applied Equity Valuation class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the students' skills, knowledge, and abilities. Members of the Krause Fund are not registered investment advisors, brokers or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

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Realty Income*Key Assumptions of Valuation Model*

Ticker Symbol	O
Current Share Price	\$60.77
Current Model Date	4/16/2023
FY End (month/day)	Dec. 31
Last FYE Date	12/31/2022
Next FYE Date	12/31/2023
Pre-Tax Cost of Debt	5.26%
Beta	0.80
Risk-Free Rate	3.52%
Equity Risk Premium	4.88%
CV Growth of NOPLAT	4.00%
CV Growth of EPS	4.50%
Current Dividend Yield	4.75%
Forecasted Marginal Tax Rate	2.61%
Forecasted Effective Tax Rate	2.61%
Cost of Equity	7.42%
WACC	6.63%
Normal Cash Estimate (% sales)	0.40%
Rental Growth Rate	3.00%
Inflation Rate	2.50%
Occupancy Rate	98.43%

Realty Income
Sensitivity Tables

DCF Price		Risk Free Rate						
\$71.33		2.75%	3.00%	3.25%	3.52%	3.75%	4.00%	4.25%
Rental Growth Rate	2.25%	72.78	65.50	59.19	53.25	48.79	44.44	40.56
	2.50%	80.18	72.32	65.52	59.11	54.29	49.61	45.42
	2.75%	87.73	79.29	71.98	65.09	59.92	54.89	50.39
	3.00%	95.45	86.41	78.57	71.20	65.66	60.28	55.46
	3.75%	119.60	108.68	99.22	90.32	83.63	77.14	71.33
	4.00%	127.99	116.42	106.39	96.96	89.88	83.00	76.84
	4.50%	145.32	132.39	121.20	110.67	102.76	95.08	88.21

DDM Price		Cost of Equity						
\$66.09		6.00%	6.50%	7.00%	7.42%	8.00%	8.50%	9.00%
CV EPS Growth	3.75%	92.58	77.88	67.63	61.13	54.20	49.53	45.71
	4.00%	98.45	81.25	69.69	62.53	55.05	50.09	46.08
	4.25%	106.01	85.37	72.12	64.16	56.02	50.72	46.49
	4.50%	116.09	90.51	75.04	66.07	57.13	51.43	46.95
	4.75%	130.20	97.12	78.61	68.33	58.40	52.23	47.46
	5.00%	151.36	105.94	83.07	71.06	59.90	53.15	48.03
	5.25%	186.62	118.28	88.80	74.42	61.66	54.21	48.68

DCF Price		Occupancy Rate						
\$71.33		92.50%	95.00%	97.00%	98.43%	98.75%	99.00%	99.25%
CV Growth of NOPLAT	3.00%	45.90	51.38	55.76	58.89	59.59	60.14	60.68
	3.25%	47.58	53.37	58.00	61.31	62.05	62.63	63.21
	3.50%	49.53	55.68	60.60	64.12	64.90	65.52	66.14
	4.00%	54.53	61.61	67.28	71.33	72.24	72.95	73.65
	4.25%	57.82	65.51	71.67	76.07	77.06	77.83	78.60
	4.50%	61.87	70.33	77.09	81.92	83.01	83.85	84.70
	4.75%	67.01	76.42	83.95	89.33	90.53	91.47	92.41

DDM Price		D&A Expense Ratio						
\$66.09		3.00%	3.20%	3.40%	3.57%	3.70%	3.80%	4.00%
Interest Expense Ratio	1.25%	76.24	74.39	72.54	70.97	69.77	68.84	66.99
	1.35%	74.58	72.73	70.89	69.32	68.11	67.19	65.34
	1.45%	72.93	71.08	69.23	67.66	66.46	65.54	63.69
	1.55%	71.28	69.43	67.58	66.01	64.81	63.88	62.04
	1.65%	69.62	67.78	65.93	64.36	63.15	62.23	60.38
	1.75%	67.97	66.12	64.27	62.70	61.50	60.58	58.73
	1.85%	66.32	64.47	62.62	61.05	59.85	58.92	57.08

DDM Price		Cash Distributions Ratio						
\$66.09		50.00%	65.00%	75.00%	83.39%	90.00%	95.00%	100.00%
Equity Risk Premium	4.00%	57.20	68.80	76.53	83.02	88.13	92.00	95.86
	4.25%	53.00	63.88	71.14	77.23	82.02	85.65	89.28
	4.50%	49.44	59.71	66.56	72.31	76.83	80.26	83.68
	4.88%	44.94	54.44	60.77	66.09	70.27	73.44	76.60
	5.00%	43.71	52.99	59.18	64.38	68.47	71.56	74.66
	5.25%	41.37	50.25	56.16	61.13	65.04	68.00	70.96
	5.50%	39.29	47.81	53.49	58.25	62.01	64.85	67.68

DDM Price		Beta						
\$66.09		0.65	0.70	0.75	0.80	0.85	0.90	1.00
Marginal Tax Rate	0%	86.68	79.28	73.21	68.13	63.81	60.09	54.01
	1.00%	85.62	78.33	72.35	67.35	63.09	59.43	53.43
	2.00%	84.56	77.39	71.50	66.57	62.38	58.77	52.86
	2.61%	83.92	76.81	70.97	66.09	61.94	58.37	52.51
	5.00%	81.39	74.55	68.93	64.23	60.23	56.79	51.15
	15.00%	70.80	65.08	60.37	56.43	53.07	50.18	45.43
	21.00%	64.45	59.40	55.24	51.75	48.78	46.22	42.00

Realty Income

Revenue Decomposition

(In Millions)

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenue													
Rental	1,560.2	1,960.1	3,115.0	3,627.2	3,922.8	4,262.7	4,632.1	5,009.6	5,417.9	5,831.6	6,276.8	6,723.7	7,202.5
Tenant Reimbursements	79.4	104.9	184.7	158.3	171.2	186.0	202.1	218.6	236.4	254.4	273.9	293.4	314.2
Other	7.6	15.5	44.0	11.4	17.0	10.3	13.2	23.9	24.7	28.2	49.7	95.0	40.7
Total Revenue	1,647.1	2,080.5	3,343.7	3,796.9	4,110.9	4,459.0	4,847.4	5,252.0	5,679.0	6,114.2	6,600.3	7,112.1	7,557.4
Breakdown Criteria													
Square Footage Owned	110.8	210.1	236.8	253.4	266.1	280.7	296.2	311.0	326.5	341.2	356.6	370.8	385.7
Properties Owned	6,592	11,136	12,237	13,216	14,141	14,990	15,889	16,683	17,518	18,306	19,130	19,895	20,691
Occupancy Rate	97.90%	98.50%	99.00%	98.43%	98.43%	98.43%	98.43%	98.43%	98.43%	98.43%	98.43%	98.43%	98.43%
Growth													
Square Footage Growth Year over Year	4.2%	89.6%	12.7%	7.00%	5.00%	5.50%	5.50%	5.00%	5.00%	4.50%	4.50%	4.00%	4.00%
Property Growth Year over Year	1.7%	68.9%	9.9%	8.00%	7.00%	6.00%	6.00%	5.00%	5.00%	4.50%	4.50%	4.00%	4.00%
Breakdown													
Annual Revenue by Square Foot (actual amount)	\$14.87	\$9.90	\$14.12	\$14.54	\$14.98	\$15.43	\$15.89	\$16.37	\$16.86	\$17.36	\$17.88	\$18.42	\$18.97
Annual Revenue by Property (actual amount)	\$249,861	\$186,823	\$273,244	\$287,296	\$290,709	\$297,475	\$305,083	\$314,808	\$324,190	\$334,005	\$345,032	\$357,486	\$365,259
Maximum Revenue													
Potential Revenue with 100% Occupancy	1,682.4	2,112.1	3,377.5	3,857.5	4,176.5	4,530.1	4,924.8	5,335.8	5,769.6	6,211.8	6,705.6	7,225.5	7,678.0
Missed Revenue From Vacancy	35.3	31.7	33.8	60.6	65.6	71.1	77.3	83.8	90.6	97.5	105.3	113.4	120.5

Realty Income
Income Statement
(In Millions)

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Net Revenues:													
Rental (excluding reimbursable)	1,560.2	1,960.1	3,115.0	3,627.2	3,922.8	4,262.7	4,632.1	5,009.6	5,417.9	5,831.6	6,276.8	6,723.7	7,202.5
Tenant reimbursements	79.4	104.9	184.7	158.3	171.2	186.0	202.1	218.6	236.4	254.4	273.9	293.4	314.2
Other revenue (includes interest income)	7.6	15.5	44.0	11.4	17.0	10.3	13.2	23.9	24.7	28.2	49.7	95.0	40.7
Total revenues	1,647.1	2,080.5	3,343.7	3,796.9	4,110.9	4,459.0	4,847.4	5,252.0	5,679.0	6,114.2	6,600.3	7,112.1	7,557.4
Operating Expenses:													
Depreciation & amortization	677.0	897.8	1,670.4	1,628.9	1,710.3	1,804.4	1,903.6	1,998.8	2,098.7	2,193.2	2,291.9	2,383.5	2,478.9
Interest expense	309.3	323.6	465.2	885.4	740.9	781.7	824.7	865.9	909.2	950.1	992.9	1,032.6	1,073.9
General & administrative expenses	73.2	97.0	138.5	179.4	194.3	210.7	229.1	248.2	268.4	288.9	311.9	336.1	357.1
Property expenses	104.6	133.6	226.3	205.2	215.5	227.4	239.9	251.9	264.5	276.4	288.8	300.3	312.4
Provisions for impairment	147.2	39.0	25.9	59.4	62.4	65.8	69.4	72.9	76.6	80.0	83.6	87.0	90.4
Merger-related costs		167.4	13.9										
Total operating expenses	1,311.4	1,658.4	2,540.2	2,958.4	2,923.4	3,089.9	3,266.7	3,437.7	3,617.3	3,788.6	3,969.0	4,139.5	4,312.7
Gain on sales of real estate	76.2	55.8	103.0	51.5	41.2	41.2	43.2	45.4	47.7	50.1	52.6	55.2	57.9
Foreign currency & derivative gains, net	4.6	0.7	-13.3										
Gain (loss) on extinguishment of debt	-9.8	-97.2	0.4										
Equity in income of unconsolidated entities		1.1	-6.4	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7
Other income, net		9.9	30.5										
Income before income taxes	411.2	392.4	917.6	887.3	1,226.1	1,407.6	1,621.4	1,857.1	2,106.7	2,373.0	2,681.2	3,025.1	3,300.0
Income taxes	14.7	31.7	45.2	23.2	32.1	36.8	42.4	48.6	55.1	62.0	70.1	79.1	86.3
Income from continuing operations	396.5	360.7	872.4	864.1	1,194.0	1,370.8	1,579.0	1,808.6	2,051.6	2,311.0	2,611.1	2,946.0	3,213.7
Discontinued Operations:													
Income from discontinued operations													
Net income (loss) attributable to noncontrolling interests	-1.0	-1.3	-3.0	-3.0	-3.3	-3.5	-3.9	-4.2	-4.5	-4.9	-5.3	-5.7	-6.0
Net income attributable to the company	395.5	359.5	869.4	861.1	1,190.7	1,367.2	1,575.1	1,804.4	2,047.1	2,306.1	2,605.8	2,940.4	3,207.7
Preferred stock dividends													
Excess of redemption value over carrying value of preferred shares redeemed													
Net income available to common stockholders	395.5	359.5	869.4	861.1	1,190.7	1,367.2	1,575.1	1,804.4	2,047.1	2,306.1	2,605.8	2,940.4	3,207.7
Weighted-average common shares outstanding:	345.3	414.5	611.8	677.3	711.4	745.4	776.4	804.2	832.1	859.9	873.9	873.9	873.9
Year end shares outstanding:	361.3	591.3	660.3	694.3	728.4	762.4	790.3	818.2	846.0	873.9	873.9	873.9	873.9
Net Income(loss) per share:	\$1.15	\$0.87	\$1.42	\$1.27	\$1.67	\$1.83	\$2.03	\$2.24	\$2.46	\$2.68	\$2.98	\$3.36	\$3.67
Cash distributions paid per common share:	\$2.79	\$2.83	\$2.97	\$3.08	\$3.43	\$3.58	\$3.76	\$3.97	\$4.18	\$4.39	\$4.70	\$5.11	\$5.46

Realty Income

Balance Sheet

(In Millions)

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Assets:													
Land	6,318.9	10,753.8	12,948.8	13,855.3	14,548.0	15,348.2	16,192.3	17,001.9	17,852.0	18,655.4	19,494.8	20,274.6	21,085.6
Buildings & improvements	14,696.7	25,155.2	29,707.8	31,787.3	33,376.7	35,212.4	37,149.1	39,006.5	40,956.8	42,799.9	44,725.9	46,514.9	48,375.5
Total real estate held for investment, at cost	21,015.6	35,908.9	42,656.6	45,642.5	47,924.7	50,560.5	53,341.4	56,008.4	58,808.9	61,455.2	64,220.7	66,789.6	69,461.1
Less accumulated depreciation & amortization	3,549.5	3,949.8	4,904.2	6,533.0	8,243.3	10,047.7	11,951.3	13,950.1	16,048.9	18,242.1	20,533.9	22,917.5	25,396.4
Real estate held for investment, net	17,466.2	31,959.1	37,752.4	39,109.5	39,681.3	40,512.8	41,390.0	42,058.3	42,760.0	43,213.2	43,686.8	43,872.1	44,064.8
Real estate & lease intangibles held for sale, net	19.0	30.5	29.5	26.2	26.9	27.6	28.2	28.9	29.7	30.4	31.2	32.0	32.8
Net real estate	17,485.2	31,989.6	37,782.0	39,135.7	39,708.2	40,540.4	41,418.3	42,087.2	42,789.7	43,243.6	43,718.0	43,904.0	44,097.5
Cash & cash equivalents	824.5	258.6	171.1	606.2	333.9	1,127.8	1,564.3	2,143.0	2,692.2	3,407.6	2,669.8	2,151.3	148.9
Accounts receivable, net	285.7	426.8	568.0	694.1	751.6	815.2	886.2	960.2	1,038.2	1,117.8	1,206.7	1,300.2	1,381.6
Lease intangible assets, net	1,710.7	5,275.3	5,168.4	5,061.4	4,954.5	4,847.6	4,740.6	4,633.7	4,526.8	4,419.8	4,312.9	4,206.0	4,099.0
Goodwill	14.2	3,676.7	3,731.5	3,731.5	3,731.5	3,731.5	3,731.5	3,731.5	3,731.5	3,731.5	3,731.5	3,731.5	3,731.5
Investment in unconsolidated entities		141.0											
Other Assets:													
Right of use asset - financing leases	118.6	218.3	467.9	484.7	491.8	502.1	513.0	521.2	529.9	535.6	541.4	543.7	546.1
Right of use asset - operating leases	112.0	631.5	603.1	624.7	633.8	647.1	661.1	671.8	683.0	690.3	697.9	700.8	703.9
Financing receivables	131.3	323.9	933.1	471.7	495.3	522.5	551.3	578.8	607.8	635.1	663.7	690.2	717.9
Restricted escrow deposits	21.2	68.5	37.6	41.5	43.6	46.0	48.5	50.9	53.5	55.9	58.4	60.7	63.2
Derivative assets & receivables - at fair value	0.0	29.6	83.1	85.2	87.3	89.5	91.7	94.0	96.4	98.8	101.2	103.8	106.4
Non-refundable escrow deposits	1.0	28.6	5.7	12.5	12.8	13.1	13.5	13.8	14.2	14.5	14.9	15.2	15.6
Prepaid expenses	11.8	18.1	28.1	32.3	35.0	37.9	41.2	44.7	48.3	52.0	56.2	60.5	64.3
Corporate assets, net	8.6	10.9	12.3	12.6	13.0	13.3	13.6	14.0	14.3	14.7	15.0	15.4	15.8
Investment in sales type leases		7.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Impounds related to mortgages payable	5.0	5.3	18.2	20.1	21.1	22.3	23.5	24.7	25.9	27.1	28.3	29.4	0.0
Note receivable		4.5											
Credit facility origination costs, net	7.7	4.4	17.2	4.3	4.3	4.3	4.3	0.0	0.0	0.0	0.0	0.0	0.0
Value-added tax receivable		1.1											
Receivable for property rebuilds													
Non-refundable escrow deposits for pending acquisitions													
Deferred financing costs, net													
Loans receivable													
Other items	1.8	18.6	39.9	39.6	42.9	46.6	50.6	54.8	59.3	63.8	68.9	74.3	78.9
Total assets	20,740.3	43,137.5	49,673.1	51,064.2	51,366.5	53,013.0	54,359.1	55,630.3	56,916.8	58,114.0	57,890.6	57,593.0	55,776.6
Liabilities:													
Distributions payable	85.7	146.9	165.7	194.0	210.0	227.8	247.7	268.3	290.1	312.4	337.2	363.4	386.1
Accounts payable & accrued expenses	241.3	351.1	399.1	456.1	493.8	535.6	582.3	630.9	682.2	734.5	792.9	854.4	907.8
Lease intangible liabilities, net	321.2	1,308.2	1,379.4	860.8	932.0	1,010.9	1,098.9	1,190.6	1,287.4	1,386.1	1,496.3	1,612.3	1,713.3
Other liabilities	256.9	759.2	774.8	873.9	946.1	1,026.2	1,115.6	1,208.8	1,307.0	1,407.2	1,519.1	1,636.9	1,739.3
Line of credit payable		1,551.4	2,729.0	1,965.7	1,960.4	1,958.3	1,959.2	1,960.6	1,963.8	1,966.9	1,973.5	1,980.9	1,975.5
Term loans, net	249.4	249.6	249.8	1,249.8									
Mortgages payable, net	300.4	1,142.0	853.9	962.3	1,010.4	1,066.0	1,124.6	1,180.9	1,239.9	1,295.7	1,354.0	1,408.2	
Notes payable, net	8,267.8	12,499.7	14,278.0	15,118.8	15,874.8	16,747.9	17,669.0	18,552.4	19,480.1	20,356.7	21,272.7	22,123.6	23,008.6
Total liabilities	9,722.6	18,008.1	20,829.8	21,681.3	21,427.5	22,572.7	23,797.3	24,992.5	26,250.5	27,459.5	28,745.7	29,979.6	29,730.7
Realty Income stockholders' equity:													
Preferred stock & paid in capital													
Common stock & paid in capital	14,700.1	29,578.2	34,159.5	36,023.3	37,887.2	39,751.0	41,276.6	42,802.2	44,327.7	45,852.9	45,852.9	45,852.9	45,852.9
Distributions in excess of net income (Retained Earnings)	-3,659.9	-4,530.6	-5,493.2	-6,767.5	-8,072.0	-9,431.0	-10,831.2	-12,276.6	-13,769.2	-15,301.2	-16,805.6	-18,331.4	-19,892.9
Accumulated other comprehensive income (loss)	-54.6	4.9	46.8										
Total stockholders' equity	10,985.5	25,052.6	28,713.1	29,255.8	29,815.2	30,320.0	30,445.4	30,525.6	30,558.5	30,551.6	29,047.3	27,521.5	25,959.9
Noncontrolling interests	32.3	76.8	130.1	127.1	123.8	120.3	116.4	112.3	107.7	102.9	97.6	92.0	86.0
Total equity	11,017.7	25,129.4	28,843.3	29,383.0	29,939.0	30,440.3	30,561.8	30,637.9	30,666.3	30,654.5	29,144.9	27,613.4	26,045.9
Total Liabilities and Total Equity	20,740.3	43,137.5	49,673.1	51,064.2	51,366.5	53,013.0	54,359.1	55,630.3	56,916.8	58,114.0	57,890.6	57,593.0	55,776.6

Realty Income

Common Size Income Statement

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Net Revenues:													
Rental (excluding reimbursable)	94.7%	94.2%	93.2%	95.5%	95.4%	95.6%	95.6%	95.4%	95.4%	95.4%	95.1%	94.5%	95.3%
Tenant reimbursements	4.8%	5.0%	5.5%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.1%	4.1%	4.2%
Other revenue	0.5%	0.7%	1.3%	0.3%	0.4%	0.2%	0.3%	0.5%	0.4%	0.5%	0.8%	1.3%	0.5%
Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating Expenses:													
Depreciation & amortization	41.0%	43.2%	50.0%	42.9%	41.6%	40.5%	39.3%	38.1%	37.0%	35.9%	34.7%	33.5%	32.8%
Interest expense	18.7%	15.6%	13.9%	23.3%	18.0%	17.5%	17.0%	16.5%	16.0%	15.5%	15.0%	14.5%	14.2%
General & administrative expenses	4.4%	4.7%	4.1%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
Property expenses	6.3%	6.4%	6.8%	5.4%	5.2%	5.1%	4.9%	4.8%	4.7%	4.5%	4.4%	4.2%	4.1%
Provisions for impairment	8.9%	1.9%	0.8%	1.6%	1.5%	1.5%	1.4%	1.4%	1.3%	1.3%	1.3%	1.2%	1.2%
Merger-related costs		8.0%	0.4%										
Total operating expenses	79.4%	79.7%	76.0%	77.9%	71.1%	69.3%	67.4%	65.5%	63.7%	62.0%	60.1%	58.2%	57.1%
Gain on sales of real estate	4.6%	2.7%	3.1%	1.4%	1.0%	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%
Foreign currency & derivative gains, net	0.3%	0.0%	-0.4%										
Gain (loss) on extinguishment of debt	-0.6%	-4.7%	0.0%										
Equity in income of unconsolidated entities		0.1%	-0.2%										
Other income, net		0.5%	0.9%										
Income before income taxes	24.9%	18.9%	27.4%	23.4%	29.8%	31.6%	33.4%	35.4%	37.1%	38.8%	40.6%	42.5%	43.7%
Income taxes	0.9%	1.5%	1.4%	0.6%	0.8%	0.8%	0.9%	0.9%	1.0%	1.0%	1.1%	1.1%	1.1%
Income from continuing operations	24.0%	17.3%	26.1%	22.8%	29.0%	30.7%	32.6%	34.4%	36.1%	37.8%	39.6%	41.4%	42.5%
Discontinued Operations:	0.0%	0.0%	0.0%										
Income from discontinued operations													
Net income (loss) attributable to noncontrolling interests	-0.1%	-0.1%	-0.1%										
Net income attributable to the company	23.9%	17.3%	26.0%	22.7%	29.0%	30.7%	32.5%	34.4%	36.0%	37.7%	39.5%	41.3%	42.4%
Preferred stock dividends													
Excess of redemption value over carrying value of preferred shares redeemed													
Net income available to common stockholders	23.9%	17.3%	26.0%	22.7%	29.0%	30.7%	32.5%	34.4%	36.0%	37.7%	39.5%	41.3%	42.4%

Realty Income

Historical Cash Flow Statement

(In Millions)

Fiscal Years Ending Dec. 31	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash Flows From Operating Activities:											
Net income	159.2	246.3	271.9	284.9	316.5	319.3	364.6	437.5	396.5	360.7	872.4
Depreciation & amortization	149.6	306.6	374.7	409.2	449.9	498.8	539.8	594.0	677.0	897.8	1,670.4
Loss (income) from discontinued operations	-13.2	-67.1	-2.8	-	-	-	-	-	-	-	-
Loss (gain) on extinguishment of debt	-	-	-	-	-	42.4	-	-	9.8	97.2	-0.4
Amortization of share-based compensation	10.0	20.8	12.0	10.4	12.0	13.9	27.3	13.7	16.5	41.8	21.6
Non-cash revenue & expense adjustments	-	-5.6	-6.8	-8.6	-10.2	-3.9	-7.8	-9.3	-3.6	-23.4	-57.0
Amortization of net premiums on mortgages payable	-0.7	-9.5	-12.9	-7.5	-3.4	-0.5	-1.5	-1.4	-1.3	-3.5	-13.6
Amortization of net discounts (premiums) on notes payable	-	-	-	-	-	-	-1.3	-1.0	-1.8	-10.3	-63.0
Amortization of deferred financing costs	-	9.4	8.3	9.0	8.9	9.2	9.0	9.8	11.0	12.3	15.6
Loss (gain) on interest rate swaps	-	-	-	3.0	-1.6	-3.3	-2.7	2.8	4.4	2.9	0.7
Foreign currency & derivative losses (gains), net	-	-	-	-	-	-	-	-2.3	-4.6	-0.7	220.9
Loss (gain) on sale of real estate	-	-	-39.2	-22.2	-22.0	-40.9	-24.6	-30.0	-76.2	-55.8	-103.0
Equity loss (income) of unconsolidated entities	-	-	-	-	-	-	-	-	-	-1.1	6.4
Distributions from unconsolidated entities	-	-	-	-	-	-	-	-	-	0.4	1.6
Provision for impairment on real estate	2.8	0.3	4.1	10.6	20.7	14.8	26.3	40.2	147.2	39.0	25.9
Other non-cash adjustments	-0.3	-	-	-	-	-	-	-	-	-	-
Cash from discontinued operations - real estate	7.4	7.2	0.4	-	-	-	-	-	-	-	-
Cash from discontinued operations - proceeds from sale of real estate	-	0.6	0.8	-	-	-	-	-	-	-	-
Cash from discontinued operations - collection of notes receivable by Crest Net Lease, Inc.	0.1	0.2	-	-	-	-	-	-	-	-	-
Accounts receivable & other assets	2.8	-3.1	-4.3	-2.6	-1.2	-0.1	-6.9	-9.0	-79.2	-38.3	-29.5
Accounts payable, accrued expenses & other liabilities	8.8	12.8	21.5	6.2	34.5	26.1	18.7	24.1	19.7	3.2	-5.3
Net cash flows from operating activities	326.5	518.9	627.7	692.3	804.0	875.9	940.7	1,068.9	1,115.5	1,322.2	2,563.9
Cash Flows From Investing Activities:											
Investment in real estate	-	-	-	-1,266.9	-1,798.9	-1,413.3	-1,769.3	-3,572.6	-2,283.1	-6,313.1	-8,886.4
Acquisition of investment properties, net of cash received	-1,015.7	-1,429.5	-1,228.2	-	-	-	-	-	-	-	-
Improvements to real estate, including leasing costs	-6.6	-8.5	-6.0	-11.5	-13.4	-15.2	-25.4	-23.5	-8.7	-19.1	-95.5
Proceeds from sales of real estate	50.6	126.8	95.6	65.8	99.1	167.0	142.3	108.9	259.5	250.5	436.1
Net proceeds from sale of unconsolidated entities	-	-	-	-	-	-	-	-	-	-	108.1
Proceeds from note receivable	-	-	-	-	-	-	-	-	-	-	5.9
Insurance proceeds received	-	-	-	-	-	14.4	7.6	-	-	-	49.1
Collection (issuance) of loans receivable	-34.9	-10.7	0.4	-	12.5	0.1	5.3	-	-	-	-
Non-refundable escrow deposits	-1.8	-10.2	-36.5	33.6	-0.4	-7.5	-0.2	-	-	-	-5.7
Return of investment from unconsolidated entities	-	-	-	-	-	-	-	-	-	38.3	1.4
Net cash paid in merger	-	-	-	-	-	-	-	-	-	-366.0	-
Net cash flows from investing activities	-1,008.4	-1,332.0	-1,174.9	-1,179.1	-1,701.1	-1,254.5	-1,639.7	-3,501.8	-2,032.4	-6,437.7	-8,387.1
Cash Flows From Financing Activities:											
Cash distributions to common stockholders	-236.3	-409.2	-479.3	-533.2	-610.5	-689.3	-761.6	-852.1	-964.2	-1,169.0	-1,813.4
Cash dividends to preferred stockholders	-39.4	-41.9	-38.3	-27.1	-27.1	-6.2	-	-	-	-	-
Borrowings on line of credit	1,074.0	2,624.7	1,672.3	1,448.0	3,879.0	1,465.0	1,774.0	2,816.6	3,528.0	9,082.2	28,539.3
Payments on lines of credit	-1,153.4	-2,654.7	-1,577.3	-1,433.0	-2,997.0	-2,475.0	-1,632.0	-2,365.4	-4,246.8	-7,508.3	-27,434.6
Principal payment on term loan	-	-	-	-	-	-	-125.9	-70.0	-250.0	-	-
Proceeds from notes & bonds payable issued	-	750.0	598.6	-	592.0	2,033.0	497.5	897.7	2,200.5	1,033.4	2,154.7
Principal payment on notes payable	-	-100.0	-	-150.0	-275.0	-725.0	-350.0	-	-250.0	-1,700.0	-
Proceeds from term loan	-	-	-	-	-	-	250.0	-	-	-	-
Proceeds from mortgages payable	-	-	-	-	10.0	-	-	-	-	-	-
Payments upon extinguishment of debt	-	-	-	-	-	-41.6	-	-	-9.4	-96.6	-
Principal payments on mortgages payable	-11.7	-32.6	-85.2	-198.4	-231.7	-139.7	-21.9	-20.7	-108.8	-66.6	-312.2
Proceeds from term loans	-	70.0	-	250.0	-	-	-	-	-	-	-
Redemption of preferred stock	-127.5	-	-220.0	-	-	-408.8	-	-	-	-	-
Repayment of ARCT line of credit	-	-317.2	-	-	-	-	-	-	-	-	-
Repayment of ARCT term loan	-	-235.0	-	-	-	-	-	-	-	-	-
Proceeds from common stock offerings, net	-	1,133.6	528.6	793.6	383.6	704.9	-	845.1	728.9	1,263.2	4,556.0
Proceeds from preferred stock offerings, net	395.4	-	-	-	-	-	-	-	-	-	-
Proceeds from dividend reinvestment & stock purchase plan	2.2	55.8	158.5	363.0	10.3	69.9	9.1	8.4	9.1	11.2	11.7
Proceeds from At-the-Market (ATM) program	-	-	-	36.3	166.8	621.7	1,125.4	1,264.5	1,094.9	3,179.5	-
Net cash received from Orion Office REIT Inc. divestiture	-	-	-	-	-	-	-	-	-	593.5	-
Redemption of preferred units	-	-	-	-6.8	-	-	-	-	-	-	-
Redemption of common units	-	-	-	-	-9.0	-	-2.8	-21.1	-	-	-
Distributions to noncontrolling interests	-	-1.2	-1.8	-1.7	-12.7	-2.0	-1.9	-1.3	-1.6	-1.7	-3.9
Net receipts on derivative settlements	-	-	-	-	-	-	-	4.9	4.1	3.3	79.8
Proceeds from bonds issued, net	800.0	-	-	-	-	-	-	-	-	-	-
Debt issuance costs	-17.0	-10.7	-5.5	-10.3	-5.3	-17.5	-18.7	-9.1	-19.5	-13.4	-34.2
Other items, including shares withheld upon vesting	-3.1	-13.4	-9.8	-7.4	-7.0	-14.4	-33.4	-4.8	-23.3	-33.6	-4.8
Net cash flows from financing activities	683.0	818.1	540.8	523.2	866.2	375.1	707.9	2,492.6	1,692.1	4,577.1	5,738.2
Effect of exchange rate changes on cash & cash equivalents	-	-	-	-	-	-	-	-9.8	4.4	20.1	-20.5
Net increase (decrease) in cash & cash equivalents	1.1	5.0	-6.4	36.4	-30.9	-	-	-	-	-	-105.5
Cash & cash equivalents, beginning of year	4.2	5.2	10.3	3.9	40.3	15.7	12.1	21.1	71.0	850.7	332.4
Cash & cash equivalents, end of year	5.2	10.3	3.9	40.3	9.4	12.1	21.1	71.0	850.7	332.4	226.9
Net increase (decrease) in cash, cash equivalents & restricted cash	-	-	-	-	-	-3.5	8.9	49.9	779.7	-518.3	-105.5
Cash paid for interest	112.5	166.1	207.3	229.5	214.3	240.4	251.5	275.3	285.6	355.5	501.7
Cash paid for income taxes	1.0	2.1	3.7	3.1	3.6	3.8	4.7	4.2	13.1	19.7	45.0

Realty Income
Forecasted Cash Flow Statement

(In Millions)

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Cash Flows from Operating Activities										
Net Income	861.1	1,190.7	1,367.2	1,575.1	1,804.4	2,047.1	2,306.1	2,605.8	2,940.4	3,207.7
Add: Depreciation and Amortization	1,628.9	1,710.3	1,804.4	1,903.6	1,998.8	2,098.7	2,193.2	2,291.9	2,383.5	2,478.9
Changes in Working Capital Accounts										
Increase in Receivables	-126.2	-57.4	-63.6	-71.0	-74.0	-78.1	-79.6	-88.9	-93.6	-81.4
Increase in Inventories	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in Prepaid Expenses and Other Current Assets	417.0	-51.6	-63.8	-67.6	-56.5	-63.8	-55.2	-58.2	-48.3	-17.9
Increase in Accounts Payable	57.0	37.7	41.8	46.7	48.6	51.3	52.3	58.4	61.5	53.5
Increase in Accrued Compensation and Other Liabilities	-1,154.7	154.2	174.7	198.1	206.9	220.1	224.2	253.5	267.4	220.8
Increase (decrease) in other non-current liabilities										
Net cash flows from operating activities	1,683.1	2,984.0	3,260.7	3,584.9	3,928.3	4,275.4	4,641.1	5,062.5	5,510.9	5,861.5
Cash Flows from Investing Activities										
Increase in short-term investments	3.3	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8
Decrease in Accumulated Comprehensive Income	-46.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Decrease in Noncontrolling Interests	-3.0	-3.3	-3.5	-3.9	-4.2	-4.5	-4.9	-5.3	-5.7	-6.0
Capital Expenditures	-2,986.0	-2,282.1	-2,635.9	-2,780.8	-2,667.1	-2,800.4	-2,646.4	-2,765.5	-2,568.8	-2,671.6
Capitalization of Intangible Assets	106.9	106.9	106.9	106.9	106.9	106.9	106.9	106.9	106.9	106.9
(Increase) Decrease in other assets										
Net cash flows from investing activities	-2,925.6	-2,179.1	-2,533.1	-2,678.4	-2,565.0	-2,698.7	-2,545.1	-2,664.6	-2,468.3	-2,571.5
Cash Flows from Financing Activities										
Payments of Notes Payable and Long Term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from Issuance of notes payable and long term debt	1,949.2	-445.7	928.7	979.8	939.7	986.7	932.4	974.4	905.1	-523.2
Payment of Dividends	-2,135.4	-2,495.2	-2,726.3	-2,975.3	-3,249.8	-3,539.7	-3,838.2	-4,110.2	-4,466.2	-4,769.2
Proceeds from issuance of common stock	1,863.8	1,863.8	1,863.8	1,525.6	1,525.6	1,525.5	1,525.2	0.0	0.0	0.0
Repurchases of Common Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flows from financing activities	1,677.6	-1,077.1	66.2	-469.9	-784.5	-1,027.5	-1,380.6	-3,135.8	-3,561.1	-5,292.5
Net Increase (decrease) in cash	435.1	-272.3	793.8	436.5	578.7	549.2	715.4	-737.8	-518.5	-2,002.4
Cash, Beginning of Year	171.1	606.2	333.9	1,127.8	1,564.3	2,143.0	2,692.2	3,407.6	2,669.8	2,151.3
Cash, End of Year	606.2	333.9	1,127.8	1,564.3	2,143.0	2,692.2	3,407.6	2,669.8	2,151.3	148.9

Realty Income

Value Driver Estimation

(In Millions)

Fiscal Years Ending Dec. 31

	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
NOPLAT:													
Operating Revenues	1,647.1	2,080.5	3,343.7	3,796.9	4,110.9	4,459.0	4,847.4	5,252.0	5,679.0	6,114.2	6,600.3	7,112.1	7,557.4
Operating Expenses:													
Depreciation & amortization	677.0	897.8	1,670.4	1,628.9	1,710.3	1,804.4	1,903.6	1,998.8	2,098.7	2,193.2	2,291.9	2,383.5	2,478.9
General & administrative expenses	73.2	97.0	138.5	179.4	194.3	210.7	229.1	248.2	268.4	288.9	311.9	336.1	357.1
Property expenses	104.6	133.6	226.3	205.2	215.5	227.4	239.9	251.9	264.5	276.4	288.8	300.3	312.4
Provisions for impairment	147.2	39.0	25.9	59.4	62.4	65.8	69.4	72.9	76.6	80.0	83.6	87.0	90.4
Implied Interest on Operating Leases	5.7	32.4	30.9	32.0	32.5	33.2	33.9	34.4	35.0	35.4	35.8	35.9	36.1
EBITA	650.7	945.4	1,313.5	1,755.9	1,960.9	2,183.9	2,439.3	2,714.7	3,005.9	3,311.1	3,659.9	4,041.1	4,354.7
Adjusted Taxes													
Income Tax Provision	14.7	31.7	45.2	23.2	32.1	36.8	42.4	48.6	55.1	62.0	70.1	79.1	86.3
Add: tax shield on interest expense	11.1	26.1	22.9	23.2	19.4	20.4	21.6	22.6	23.8	24.8	26.0	27.0	28.1
Add: tax shield on merger related expense		13.5	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Add: tax shield on operating lease	0.2	2.6	1.5	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Less: tax on foreign currency & derivative gains	0.2	0.1	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less: tax on gain on extinguishment of debt	-0.4	-7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less: tax on income of unconsolidated entities		0.1	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Less: tax on other income	0.0	0.8	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total adj taxes	26.1	80.8	69.7	47.3	52.3	58.2	64.9	72.2	79.8	87.9	97.1	107.1	115.4
Change in Deferred Taxes													
NOPLAT:	624.6	864.7	1,243.8	1,708.7	1,908.6	2,125.7	2,374.4	2,642.5	2,926.0	3,223.2	3,562.8	3,934.0	4,239.3
Invested Capital (IC):													
Operating Current Assets:													
Normal Cash: +	6.5	8.3	13.3	15.1	16.3	17.7	19.2	20.8	22.5	24.3	26.2	28.2	30.0
Account receivable	285.7	426.8	568.0	694.1	751.6	815.2	886.2	960.2	1,038.2	1,117.8	1,206.7	1,300.2	1,381.6
Restricted escrow deposits	21.2	68.5	37.6	41.5	43.6	46.0	48.5	50.9	53.5	55.9	58.4	60.7	63.2
Non-refundable escrow deposits	1.0	28.6	5.7	12.5	12.8	13.1	13.5	13.8	14.2	14.5	14.9	15.2	15.6
Prepaid Expenses	11.8	18.1	28.1	32.3	35.0	37.9	41.2	44.7	48.3	52.0	56.2	60.5	64.3
Operating Current Liabilities:													
Accounts Payable & Accrued Expenses	241.3	351.1	399.1	456.1	493.8	535.6	582.3	630.9	682.2	734.5	792.9	854.4	907.8
Operating Working Capital	84.9	199.1	253.5	339.4	365.4	394.3	426.3	459.5	494.5	530.0	569.4	610.6	646.8
Net PPE (Gross PPE - Accumulated depreciation)	17,485.2	31,989.6	37,782.0	39,135.7	39,708.2	40,540.4	41,418.3	42,087.2	42,789.7	43,243.6	43,718.0	43,904.0	44,097.5
Net Other Operating Assets:													
Other Operating Assets	8.6	10.9	12.3	12.6	13.0	13.3	13.6	14.0	14.3	14.7	15.0	15.4	15.8
Net Other Operating Liabilities:													
Net intangible liabilities	321.2	1,308.2	1,379.4	860.8	932.0	1,010.9	1,098.9	1,190.6	1,287.4	1,386.1	1,496.3	1,612.3	1,713.3
Invested Capital (IC):	17,257.5	30,891.4	36,668.4	38,627.0	39,154.6	39,937.1	40,759.3	41,370.1	42,011.0	42,402.1	42,806.1	42,917.7	43,046.9
Free Cash Flow (FCF):													
FCF	-421.7	-12,769.2	-4,533.2	-250.0	1,381.0	1,343.3	1,552.2	2,031.8	2,285.1	2,832.1	3,158.9	3,822.4	4,110.1
Return on Invested Capital (ROIC):													
NOPLAT	624.6	864.7	1,243.8	1,708.7	1,908.6	2,125.7	2,374.4	2,642.5	2,926.0	3,223.2	3,562.8	3,934.0	4,239.3
Beginning IC	16,211.2	17,257.5	30,891.4	36,668.4	38,627.0	39,154.6	39,937.1	40,759.3	41,370.1	42,011.0	42,402.1	42,806.1	42,917.7
ROIC	3.85%	5.01%	4.03%	4.66%	4.94%	5.43%	5.95%	6.48%	7.07%	7.67%	8.40%	9.19%	9.88%
Economic Profit (EP):													
Beginning IC	16,211.2	17,257.5	30,891.4	36,668.4	38,627.0	39,154.6	39,937.1	40,759.3	41,370.1	42,011.0	42,402.1	42,806.1	42,917.7
x (ROIC - WACC)	-2.78%	-1.62%	-2.61%	-1.97%	-1.69%	-1.21%	-0.69%	-0.15%	0.44%	1.04%	1.77%	2.56%	3.24%
EP	-451.0	-280.3	-805.7	-724.1	-654.2	-472.1	-275.3	-61.7	181.3	436.0	749.6	1,093.9	1,391.9
Funds From Operations (FFO):													
Net Income	395.5	359.5	869.4	861.1	1,190.7	1,367.2	1,575.1	1,804.4	2,047.1	2,306.1	2,605.8	2,940.4	3,207.7
Depreciation and Amortization	677.0	897.8	1,670.4	1,628.9	1,710.3	1,804.4	1,903.6	1,998.8	2,098.7	2,193.2	2,291.9	2,383.5	2,478.9
Provisions for Impairments of Real Estate Assets	147.2	39.0	25.9	59.4	62.4	65.8	69.4	72.9	76.6	80.0	83.6	87.0	90.4
Gain on Property Sales	76.2	55.8	103.0	51.5	41.2	41.2	43.2	45.4	47.7	50.1	52.6	55.2	57.9
FFO available to common stockholders	1,143.5	1,240.5	2,462.7	2,497.9	2,922.3	3,196.2	3,504.9	3,830.7	4,174.7	4,529.3	4,928.7	5,355.7	5,719.1

Realty Income
Key Management Ratios

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Liquidity Ratios:													
Current Ratio (Current Assets/Current Liabilities)	4.74	2.28	2.03	3.04	2.38	3.81	4.39	5.09	5.64	6.33	5.05	4.20	1.84
Quick Ratio ((Current Assets - Inventory)/Current Liabilities)	4.74	2.28	2.03	3.04	2.38	3.81	4.39	5.09	5.64	6.33	5.05	4.20	1.84
Cash Ratio (Cash+Marketable Securities/Current Liabilities)	3.42	0.74	0.43	1.33	0.68	2.11	2.69	3.40	3.95	4.64	3.37	2.52	0.16
Financial Leverage Ratios:													
Debt Ratio (Total Debt/Total Assets)	0.43	0.36	0.37	0.38	0.37	0.38	0.39	0.39	0.40	0.41	0.43	0.45	0.45
Interest Coverage (EBIT/Interest Charges)	2.10	2.92	2.82	1.98	2.65	2.79	2.96	3.14	3.31	3.49	3.69	3.91	4.06
Debt to Equity (Debt/Equity)	80.81%	62.04%	0.63	0.66	0.64	0.66	0.69	0.72	0.75	0.78	0.86	0.94	0.97
Profitability Ratios:													
Return on Equity (NI/Beg TSE)	4.05%	3.27%	3.47%	3.00%	4.07%	4.59%	5.19%	5.93%	6.71%	7.55%	8.53%	10.12%	11.66%
Return on Assets (NI/Total Assets)	1.91%	0.83%	1.75%	1.69%	2.32%	2.58%	2.90%	3.24%	3.60%	3.97%	4.50%	5.11%	5.75%
Net Profit Margin (NI/Total Revenue)	24.01%	17.28%	26.00%	22.68%	28.96%	30.66%	32.49%	34.36%	36.05%	37.72%	39.48%	41.34%	42.44%
Cash Flow Margin (CF from Operating/Total Revenue)	64.90%	53.62%	39.54%	44.33%	72.59%	73.13%	73.95%	74.80%	75.28%	75.91%	76.70%	77.49%	77.56%
Payout Policy Ratios:													
Dividend Yield	4.60%	4.66%	4.88%	5.06%	5.64%	5.88%	6.20%	6.54%	6.88%	7.23%	7.74%	8.41%	8.98%
Dividend Payout Ratio (Dividend/EPS)	242.96%	325.63%	208.94%	241.90%	204.66%	194.95%	185.56%	177.04%	170.06%	163.78%	157.73%	151.89%	148.68%
Total Payout Ratio ((Divs. + Repurchases)/NI)	242.96%	325.63%	208.94%	241.90%	204.66%	194.95%	185.56%	177.04%	170.06%	163.78%	157.73%	151.89%	148.68%

Realty Income

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:

Risk-Free Rate	3.52%
Beta	0.80
Equity Risk Premium	4.88%
Cost of Equity	7.42%

ASSUMPTIONS:

10 Year Treasury YTM
5 Year Monthly Beta
Damodaran Implied ERP(As of 4/1/2023)

Cost of Debt:

Risk-Free Rate	3.52%
Implied Default Premium	1.75%
Pre-Tax Cost of Debt	5.26%
Marginal Tax Rate	2.61%
After-Tax Cost of Debt	5.12%

U.S. 10 Year Treasury YTM

Yield on Realty Income Corporate Bond Maturing 3/15/2047

Market Value of Common Equity:

Total Shares Outstanding	660,300,195
Current Stock Price	\$60.77
MV of Equity	\$40,126,442,850

MV Weights

65.83%

Market Value of Debt:

Short-Term Debt	1,339,634,000
Current Portion of LTD	2,729,040,000
Long-Term Debt	15,381,693,000
PV of Operating Leases	1,379,436,000
MV of Total Debt	\$20,829,803,000

34.17%

Market Value of the Firm

\$60,956,245,850

100.00%

Estimated WACC

6.63%

Realty Income*Relative Valuation Models*

Ticker	Company	Price	EPS		P/E 23	P/E 24	FFO		
			2023E	2024E			2023E	P/FFO 23	
SPG	Simon Property Group, Inc.	\$107.56	\$6.00	\$6.12	17.9	17.6	\$107.56	12.1	8.9
KIM	Kimco Realty Corporation	\$18.70	\$0.68	\$0.71	27.5	26.3	\$18.70	1.6	11.8
PLD	Prologis	\$119.76	\$2.78	\$2.84	43.1	42.2	\$119.76	5.6	21.5
WELL	Welltower Inc.	\$74.09	\$0.67	\$1.11	110.6	66.7	\$74.09	3.6	20.8
ADC	Agree Realty Corporation	\$66.10	\$1.73	\$1.75	38.2	37.8	\$66.10	3.9	16.8
NNN	National Retail Properties, Inc.	\$42.54	\$1.91	\$1.95	22.3	21.8	\$42.54	3.3	13.0
					Average	43.26	35.40	Average	15.46

O	Realty Income	\$60.77	\$1.27	\$1.67	47.8	36.3	\$60.77	3.7	16.5
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Implied Relative Value:

P/E (EPS23)	\$ 55.00
P/E (EPS24)	\$ 59.26
P/FFO (FFO23)	\$ 57.01

Realty Income*Present Value of Operating Lease Obligations*

(In Millions)

Fiscal Years Ending Dec. 31	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Year 1	373.8	454.7	526.6	809.4	929.5	998.6	1,146.1	1,197.0	1,299.0	1,541.7	1,684.8
Year 2	360.3	439.8	512.3	796.8	917.7	984.7	1,092.1	1,157.4	1,259.4	1,503.1	1,629.3
Year 3	346.1	422.6	497.1	782.5	898.6	960.9	1,042.1	1,108.3	1,209.2	1,435.8	1,543.9
Year 4	328.3	407.5	483.4	763.3	873.5	906.5	992.2	1,058.8	1,139.5	1,350.9	1,428.2
Year 5	314.9	392.1	465.0	740.1	817.7	857.5	940.4	990.6	1,056.3	1,233.1	1,343.7
Thereafter	2,637.9	3,105.4	3,399.1	5,074.5	5,376.3	5,539.7	6,043.5	6,319.4	6,682.4	8,055.6	8,371.3
Total Minimum Payments	4,361.3	5,222.0	5,883.5	8,966.6	9,813.1	10,248.0	11,256.2	11,831.5	12,645.9	15,120.2	16,001.3
Less: Cumulative Interest	1,255.8	1,470.6	1,603.1	2,386.3	2,545.2	2,628.1	2,869.3	3,005.3	3,188.5	3,850.6	3,998.6
PV of Minimum Payments	3,105.5	3,751.4	4,280.4	6,580.3	7,268.0	7,619.9	8,386.9	8,826.1	9,457.4	11,269.7	12,002.7
Implied Interest in Year 1 Payment		163.4	197.4	225.2	346.2	382.4	400.9	441.2	464.3	497.6	592.9
Pre-Tax Cost of Debt	5.26%	5.26%	5.26%	5.26%	5.26%	5.26%	5.26%	5.26%	5.26%	5.26%	5.26%
Years Implied by Year 6 Payment	8.4	7.9	7.3	6.9	6.6	6.5	6.4	6.4	6.3	6.5	6.2
Expected Obligation in Year 6 & Beyond	314.9	392.1	465.0	740.1	817.7	857.5	940.4	990.6	1,056.3	1,233.1	1,343.7
Present Value of Lease Payments											
PV of Year 1	355.1	432.0	500.3	768.9	883.0	948.7	1,088.8	1,137.2	1,234.1	1,464.7	1,600.6
PV of Year 2	325.2	397.0	462.3	719.2	828.2	888.8	985.6	1,044.6	1,136.6	1,356.6	1,470.5
PV of Year 3	296.7	362.3	426.2	670.9	770.5	823.9	893.5	950.3	1,036.8	1,231.1	1,323.8
PV of Year 4	267.4	331.9	393.8	621.8	711.5	738.4	808.2	862.5	928.2	1,100.4	1,163.4
PV of Year 5	243.7	303.4	359.8	572.7	632.8	663.6	727.7	766.6	817.4	954.2	1,039.9
PV of 6 & beyond	1,617.3	1,924.8	2,137.9	3,226.8	3,442.0	3,556.5	3,883.1	4,065.0	4,304.1	5,162.6	5,404.5
Capitalized PV of Payments	3,105.5	3,751.4	4,280.4	6,580.3	7,268.0	7,619.9	8,386.9	8,826.1	9,457.4	11,269.7	12,002.7

Realty Income

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding
(In Millions)

Number of Options Outstanding (shares): 0.045
 Average Time to Maturity (years): 5.80
 Expected Annual Number of Options Exercised: 0.008

Current Average Strike Price: \$ 54.75
 Cost of Equity: 7.42%
 Current Stock Price: \$60.77

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Increase in Shares Outstanding:	34.042	34.042	34.042	27.865	27.865	27.863	27.857			
Average Strike Price:	\$ 54.75	\$ 54.75	\$ 54.75	\$ 54.75	\$ 54.75	\$ 54.75	\$ 54.75	\$ 54.75	\$ 54.75	\$ 54.75
Increase in Common Stock Account:	1,864	1,864	1,864	1,526	1,526	1,526	1,525	-	-	-
Share Repurchases (\$)	0	0	0	0	0	0	0	0	0	0
Expected Price of Repurchased Shares:	\$ 60.77	\$ 62.39	\$ 64.06	\$ 65.77	\$ 67.52	\$ 69.32	\$ 71.17	\$ 73.07	\$ 75.02	\$ 77.03
Number of Shares Repurchased:	-	-	-	-	-	-	-	-	-	-
Shares Outstanding (beginning of the year)	660.30	694.34	728.38	762.43	790.29	818.16	846.02	873.88	873.88	873.88
Plus: Shares Issued Through ESOP	34.042	34.042	34.042	27.865	27.865	28	28	0	0	0
Less: Shares Repurchased in Treasury	-	-	-	-	-	-	-	-	-	-
Shares Outstanding (end of the year)	694.34	728.38	762.43	790.29	818.16	846.02	873.88	873.88	873.88	873.88

Realty Income*Valuation of Options Granted under ESOP*

(In Millions)

Current Stock Price	\$60.77
Risk Free Rate	3.52%
Current Dividend Yield	4.75%
Annualized St. Dev. of Stock Returns	22.28%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	0.045	54.75	5.80	\$ 10.36	\$ 0.470
Total	0.045	\$ 54.75	5.80	\$ 19.57	\$ 0.470