

We do not see the opportunity for a value-creative investment in Realty Income at this time.

# FWI Tear Sheet : Realty Income (O)

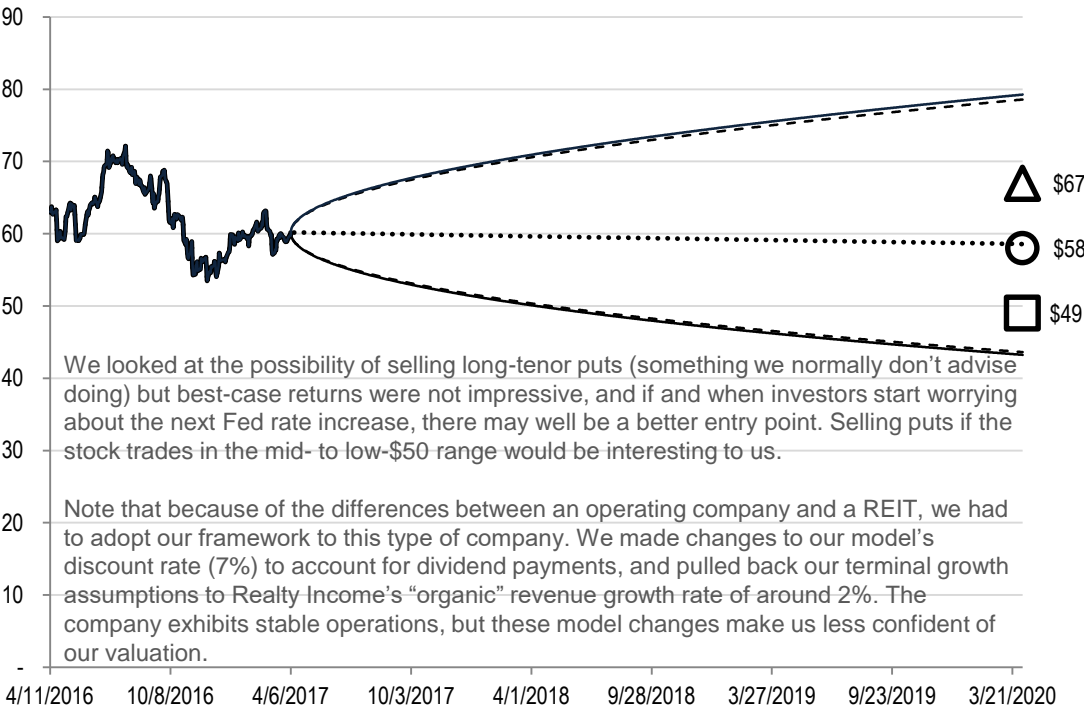
**Valuation Only**  
Data as of 12 January 2017

## Framework's Take

We valued O using a dividend discount model and converted operational statistics (e.g., revenues) to per-share values to normalize growth rates. O must continue to acquire properties (sale-leaseback transactions, acquisitions of other REITs) in order to grow and in growing, it issues debt and equity. Management is experienced, conservative, and seeks to maximize profits over the life of its loans. It specializes in free-standing retail locations, and targets businesses with a service component (theaters), low cost (dollar stores), and local necessity (drugstores). It's a well-run firm, but the market's quest for yield has pushed up its stock price too far to recommend.

## Drivers

<b>S-T Revenue Growth</b>	Revenue growth tied to acquisitions and client bankruptcies. Proj: +6.5% (Best), +3.5% (Worst)
<b>S-T Profitability</b>	Profitability is very stable, even through 2009 bust. Proj: +72% (B), +68% (W)
<b>Investment Level / Eff.</b>	High efficacy based on spread between borrow rate and cap rate. Proj (med-term growth): +7% (B), 4% (W)
<b>Balance Sheet</b>	No issues noted.



## Valuation & Return

## Valuation Uncertainty: Medium

	Low	Likely	High
<b>Stock Fair Value (\$)</b>	49	58	67
<b>Stock Return (%)</b>	-18	-3	11
<b>Option Period Return (%)</b>	NA	NA	NA
<b>Option Annual Return (%)</b>	NA	NA	NA

## Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	4	4
Profit Margin (%)	71	71
Med-term Growth	GDP	GDP

## Market Risk

Market perceives O's business as sensitive to interest rates, so talk of rising short-term rates may push the stock price down into a more reasonable range. Retail-focused so exposed to swings of perceived consumer spending.

**Scenarios Key**  
ST Rev Growth | ST OCP Margin | Med-Term Growth

Case / Scenario	Value
PSR Implied Low	43
4%   68%   4%	49
4%   72%   4%	52
<b>252-day Low</b>	<b>53</b>
4%   68%   7%	55
7%   68%   4%	56
PSR Implied High	58
4%   72%   7%	58
7%   72%   4%	60
7%   68%   7%	63
7%   72%   7%	67
<b>252-day High</b>	<b>72</b>

Probability / Materiality

