



# Innovative Industrial Properties

STOCK ASSESSMENT

NYSE: IIPR

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**QUANTINNOVA**

Quantinova™ S.à r.l.  
[www.quantinova.com](http://www.quantinova.com)  
[info@quantinova.com](mailto:info@quantinova.com)



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## A. Executive Summary

Innovative Industrial Properties (IIPR) operates as a Real Estate Investment Trust (REIT) with a specialized focus on the cannabis sector. The company specializes in acquiring cannabis cultivation and processing facilities, leasing them back to operators through sale-leaseback transactions.

The company serves a critical market function by providing alternative financing solutions to cannabis operators, addressing a significant gap due to limited conventional banking access in the sector.

The company maintains a conservative leverage profile with minimal debt exposure, complemented by strong operational efficiency, as reflected in robust income statement metrics and cash flow generation. Adhering to REIT regulations, which mandate a 90% taxable income distribution, the company supports its acquisition-driven growth strategy through regular equity issuance. Its NYSE listing further enhances access to capital markets and ensures trading liquidity.

Current market pricing reflects rental income growth expectations, elevated market beta, and high risk-free rates, with anticipated moderation in the intermediate term. The recent PharmaCann rent default has pressured the stock price, potentially creating a highly attractive entry point for investment.

The primary downside risk stems from tenant default concentration, while the business model appears well-structured to capture industry expansion opportunities, with risk factors remaining manageable within the current operating framework.



## B. Company Description

IIPR is a REIT specializing in acquiring income-generating properties within the regulated US cannabis industry. The company primarily utilizes a sale-leaseback strategy, partnering with financially stable cannabis operators nationwide. This approach appeals to leading cannabis operators, as it reduces upfront capital requirements for expansion in exchange for recurring annual lease commitments.



Source: IIPR Corporate Website

Founded in 2016, IIPR is the first REIT focused on the cannabis industry to be listed on the NYSE. The company has grown significantly, investing approximately US\$2.5 billion across 110 properties, spanning 9M ft<sup>2</sup> in 19 states and serving 30 tenants.

IIPR has a market capitalization of US\$1.7 billion. Institutional investors hold 72% of the company's outstanding shares. BlackRock and Vanguard are the largest shareholders, with 17.5% and 16.0% stakes, respectively. Insiders collectively own approximately 1.5% of the company, with notable shareholders including:

- Alan Gold (Executive Chairman & Co-founder): 1.0% stake.
- Paul Smithers (President & CEO): 0.4% stake.



- Gary Kreitzer (Independent Vice Chairman of the Board): 0.2% stake.

Alan Gold, Executive Chairman and Co-founder, brings extensive real estate experience, having previously co-founded two NYSE-listed REITs: BioMed Realty Trust and Alexandria Real Estate Equities. His career spans multiple segments, including office and commercial properties, mortgage banking, and life sciences.

Paul Smithers, President & CEO, has a strong legal and entrepreneurial background. Before joining IIPR, he served as Managing Partner at Smithers & Player, Attorneys at Law, for 24 years. In 2013, he co-founded ISO Nano International, a company specializing in the design and manufacturing of advanced materials.

The management team has collective expertise in acquisitions, dispositions, construction, development, management, finance, and capital markets, positioning it well to drive growth and manage the Company's expanding portfolio.

IIPR's growth is primarily fueled by acquisitions, with capital raised from equity markets being a key component. Its listing on the highly liquid NYSE provides a strategic advantage, granting access to a diverse and robust investor base.



## C. Cannabis-Specialized REIT Industry

REITs are corporations that own and manage a portfolio of real estate assets (properties or mortgages) on behalf of their shareholders. To qualify as REITs, these entities must primarily invest in real assets and generate most of their income from real estate-related activities, such as property rents or mortgage interest.

There are two primary types of REITs:

1. Equity REITs: Focused on acquiring and managing real estate properties, these REITs primarily generate income from rents.
2. Mortgage (or Debt) REITs: These REITs lend capital to real estate buyers through debt instruments, earning income from interest payments.

Each type has distinct investment strategies and varying sensitivities to factors such as interest rates, market cycles, inflation, and real estate asset appreciation.

Equity REITs can be categorized based on the types of properties they own:

- Residential: Includes apartments and single-family rentals.
- Office: Consists of office buildings.
- Retail: Covers shopping centers and malls.
- Industrial: Comprises warehouses and distribution centers.
- Healthcare: Includes hospitals, medical offices, and senior living facilities.
- Data Centers: Specializes in data centers.
- Self-Storage: Provides facilities for individual and business storage needs.
- Hospitality: Covers hotels and resorts.
- Specialty: Encompasses unique assets like cell towers, billboards, timberland, and cannabis-related properties.



Each property type has specific characteristics, including unique capital expenditure requirements and maintenance costs, which are ultimately reflected in rental rates.

Three key variables significantly impact the medium- to long-term performance of real estate assets:

1. Tenancy:

- Long-term contracts increase earnings predictability, reduce volatility, and limit property vacancies.
- Contracts often include inflation-linked rent revision clauses, providing a hedge against market cycles.

2. Expertise:

- Certain asset types, such as data centers, healthcare facilities, and cannabis-related properties, demand specialized operational or legal expertise.
- This expertise can create differentiation, resulting in a polarized market with clear winners and losers within specific verticals.

3. Supply and Demand Dynamics:

- While demand is fundamental, it varies across asset types. For instance:
  - Alexandria Real Estate Equities (ARE), a leader in office REITs, has lost approximately 50% of its value since 2021 due to declining demand for office spaces.
  - Conversely, data centers have experienced increasing demand despite underinvestment.

The cannabis industry hosts only a limited number of equity REITs. This niche market requires specialized knowledge and presents unique opportunities for investors willing to navigate its regulatory and operational complexities.



## D. Business Model

IIPR operates a pure sale-and-leaseback model, specializing in industrial real estate assets. These properties are leased on a triple-net basis, where the tenant assumes all property-related expenses, including structural repairs, maintenance, real estate taxes, and insurance. The primary uses of these assets include cultivation, processing, manufacturing and distribution.

### Cultivation and Distribution Facility in Hagerstown, Maryland



Source: IIPR Corporate Website

Sale-and-leaseback arrangements enable companies to liquidate the capital tied up in fixed assets while retaining full operational control of the asset through leasing. In this arrangement:

- Seller-Lessee: The original owner sells the property to the buyer-lessor, converting a fixed asset into liquid capital.
- Buyer-Lessor: The buyer purchases the asset and leases it back to the seller-lessee, generating stable rental income.

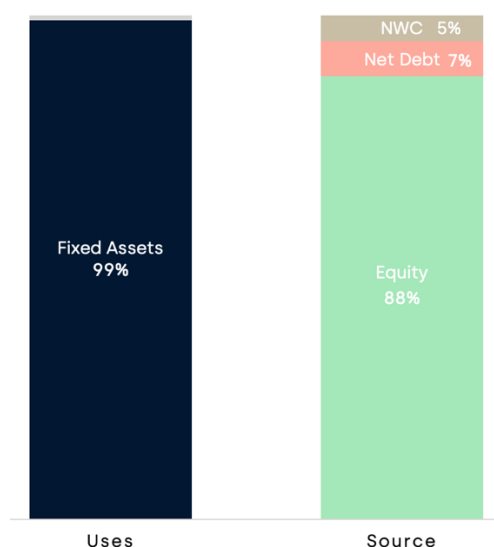


For cannabis operators, these transactions are particularly advantageous, as the federal classification of cannabis limits access to traditional banking services, leaving operators with limited financing options. Sale-and-leaseback transactions reduce the capital investments needed for growth, providing a much-needed influx of capital.

IIPR capitalizes on this financing gap to offer a compelling value proposition. By providing access to high-quality real estate assets, it charges above-market rents, monetizing its competitive position. Additionally, competition among REITs in this niche is limited, with IIPR being the clear leader by a significant margin.

REITs are governed by specific regulations, with key characteristics including Tax Transparency - REITs are exempt from corporate income tax if they distribute the majority of their taxable income, Capital Concentration - REITs must primarily invest and derive earnings from real estate assets, and thirdly Mandatory Payouts - at least 90% of taxable income must be distributed to shareholders annually. As a result, REITs typically finance acquisitions through fundraising in equity and debt capital markets. IIPR has historically favored equity financing, maintaining a conservative debt profile with a gearing ratio of just 0.15x.

**Balance Sheet with Minimal Leverage**



Source: Quantinova Analysis and Estimates, S&P Capital IQ



Since its inception in 2016, IIPR has grown significantly. By 2024, after nine years, the REIT surpassed US\$300 million in annual rental revenue and generated over US\$230 million in funds from operations (FFO).

IIPR has consistently achieved cap rates of 9–10% since 2020, exceeding the industry average for industrial triple-net properties (4.5–6.5%). This premium reflects the cannabis industry's restricted access to banking and financing. Through sale-leaseback arrangements, IIPR serves as both a real estate provider and a key source of capital for cannabis companies.



## E. Financial Risk

The company concluded fiscal year 2024 with a total of 110 properties, 107 of which are part of the operating portfolio.

Since 2016, the company's strategic focus has been on acquiring properties and expanding its presence across additional US states. Most transactions occurred between 2019 and 2021.

Summary of Operations									
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Acquisitions	1	4	6	35	20	37	9	2	2
Properties	1	5	11	46	66	103	110	108	109
US States	1	4	9	14	17	19	19	19	19
Lease years	15	14.7	14.7	15.3	16.6	16.6	15.3	14.6	13.7
Assets PTF	0.03	0.07	0.15	0.49	1	1.7	2.2	2.4	2.4
Leased %	100%	100%	100%	100%	99%	n/a	100%	96%	98%

Source: IIPR 10-K, 2016-2024

The quality of allocation agreements is strong, backed by long lease terms, contractual rental rate increases, and a triple-net lease structure. This structure shifts all property management responsibilities and costs to the tenants, effectively hedging against fluctuations in facility management and maintenance expenses.



### Top 10 States by Annualized Base Rent

State	ABR (\$000s)	% of ABR	# of Properties	Square Feet (000s)
Illinois	44,276	14.5	7	965
Pennsylvania	41,384	13.5	10	1,361
Massachusetts	38,962	12.7	10	989
New York	32,855	10.7	2	623
Michigan	31,305	10.2	14	946
Florida	29,404	9.6	5	1,153
Ohio	17,753	5.8	5	374
New Jersey	13,658	4.5	4	291
Maryland	13,457	4.4	5	316
California	12,433	4.1	8	814
<b>Total</b>	<b>275,487</b>	<b>90.0</b>	<b>70</b>	<b>7,832</b>

Source: IIPR Investors Presentation, May 2025

The company's primary business risk is the tenants' ability to meet rent obligations. This risk materialized in December 2024 when PharmaCann reportedly defaulted on its obligations, placing significant pressure on IIPR shares. A detailed analysis of tenants' credit quality and the PharmaCann default are presented in subsequent sections ("Tenant Creditworthiness" and "PharmaCann Default Analysis").

Following PharmaCann default, other smaller tenants began showing signs of financial distress in Q1 2025, notably Medical Investor Holding, 4Front Ventures, TILT Holdings and Gold Flora. While most of these tenants have negligible exposure vis-à-vis the company, 4Front is reported to be worth approximately 6% of the company contractual rent revenues. This revenue loss is supposed to be almost fully offset by six new leases signed before the defaults, covering roughly 6% of the total portfolio.

The company has consistently focused on industrial real estate. Its revenue sources and square footage allocation are perfectly aligned: 92% of revenues come from industrial assets, which also account for 92% of the total square footage in the real estate portfolio. This alignment extends to retail and mixed-



use properties, which contribute 2% and 6% of revenues and square footage, respectively.

## Portfolio Composition

Property Type	Number of Properties	Rentable Square Feet		Contractual Rent Collected, year end 2023 (US\$)	Percentage of Total
		Operating (000s)	Under Development or Redevelopment (000s)		
Industrial	68	7,782	603	262,279	92
Retail	33	150	0	6,981	3
Industrial/Retail	8	423	63	15,435	5
<b>Total</b>	<b>109</b>	<b>8,355</b>	<b>666</b>	<b>284,695</b>	<b>100</b>

Source: IIPR 10-K, 2024

Financing is a critical aspect for a REIT, as regulations require this corporate structure to distribute at least 90% of taxable income through dividends. This obligation prevents the company from self-financing through retained earnings, making continuous access to capital markets essential for funding new investments.

The company primarily funds its investments through equity issuances. Fully diluted shares have grown 28x, from 1.0 million in 2017 to 28.5 million by the end of 2024, while the share price has surged 3x, from US\$18 to US\$56 per share.

IIPR maintains a strong balance sheet, with minimal leverage. The company's gearing ratio stands at just 0.15x, with net debt of US\$162 million and total equity of US\$1.9 billion as of Q1 2025.

## Tenant Creditworthiness

The primary risk facing IIPR is the creditworthiness of its tenants, which is a structural characteristic inherent to the cannabis industry that remains largely beyond the company's control.



Many of the tenants have limited operational histories and are either unprofitable or have only recently become profitable. Each tenant is affiliated with its parent company, which provides a corporate guarantee. Notably, a single parent company may have multiple tenant subsidiaries leasing properties from IIPR. This analysis includes one pre-leased tenant but excludes non-cannabis tenants.

For instance, in 2022, King Gardens, Parallel, and Green Peak Industries defaulted on their rent obligations, while in 2023, Holistic and Calyx Peak entered into limited rent deferral agreements. These events have already been factored into the company's projections and are anticipated in the near term. The cannabis industry remains in its early stages and continues to face significant financial challenges.

### Top 10 Tenants by Annualized Base Rent

Tenant	ABR (\$000s)	% of ABR	Square Feet (000s)	ABR/Square Feet
PharmaCann Inc. ("PharmaCann")	49,706	16.2	697	71
Ascend Wellness Holdings, Inc. ("Ascend")	30,873	10.1	624	49
Green Thumb Industries, Inc. ("Green Thumb")	22,535	7.4	664	34
Curaleaf Holdings, Inc. ("Curaleaf")	20,566	6.7	578	36
Trulieve Cannabis Corp. ("Trulieve")	19,562	6.4	740	26
The Cannabist Company (f/k/a Columbia Care Inc.)	18,173	5.9	588	31
4Front Ventures Corp. ("4Front")	17,750	5.8	488	36
Holistic Industries, Inc. ("Holistic")	16,932	5.5	298	57
Cresco Labs Inc. ("Cresco")	16,726	5.5	379	44
SH Parent, Inc. ("Parallel")	16,034	5.2	593	27
<b>Total</b>	<b>228,857</b>	<b>74.7</b>	<b>5,649</b>	<b>41</b>

Source: IIPR Investors Presentation, May 2025

The financial stability assessment of IIPR's tenant portfolio highlights significant systemic vulnerabilities within the US cannabis cultivation sector. Credit ratings are concerning, with a broad distribution ranging from D to BBB, reflecting substantial variability in tenant creditworthiness. The operational analysis reveals a striking uniformity among business models, all of which share 3 critical structural weaknesses: (1) low barriers to entry, (2) minimal technological differentiation, and (3) suboptimal management capabilities.



The financial profile assessment highlights a clear divide between public and private entities, with the latter facing significant challenges related to information asymmetry. However, select cases demonstrate strong private capital support structures. Industry-wide risk factors exacerbate these issues, driven by three primary factors: (1) heightened market volatility, (2) moderate seasonal revenue fluctuations, and (3) declining access to equity capital markets since 2021.

Governance framework analysis, particularly through the Parallel case study, uncovers additional risk layers, suggesting systemic instability across both operational and financial dimensions of the sector.

### Tenants' Credit Ratings

Company	Business profile	Financial profile	Rating
PharmaCann	2.5	0.2	D
Ascend Wellness Holdings	2.6	0.5	D
Green Thumb Industries	2.6	4.5	BBB
Curaleaf Holdings	2.6	2.5	B+
The Cannabist Company	2.6	1.7	B
Trulieve Cannabis Corp.	2.6	2.8	B+
Holistic Industries	2.6	0.0	D
Cresco Labs	2.6	1.7	B
4Front Ventures	2.4	0.3	D
Parallel (SH Parent)	2.2	0.0	D

Source: Quantinova Analysis and Estimates

### PharmaCann Default Analysis

In December 2024, PharmaCann defaulted on US\$4.2 million in rent payments across 6 of 11 properties leased from IIPR, raising concerns about future revenue stability. This event warrants careful analysis given its potential implications for both entities involved.



The default situation presents several nuanced characteristics. PharmaCann now resumed making payments on all its leased properties but two, with the remaining two covered by a security deposit. Notably, IIPR's fiscal year 2024 remained materially unaffected as the company successfully covered the missing payments using existing security deposits. However, the primary concern centers on future revenue stability, considering PharmaCann currently represents 16% of IIPR's revenue stream.

Consequently, two notable dynamics stand out: firstly, the default implied two different strategic negotiation tactics by both parties; secondly, it underscores IIPR's ability to manage tenant defaults effectively, through re-leasing efforts and the use of security deposits.

The negotiation strategy hypothesis gains credibility through multiple sources. Compass Point research analyst Merrill Ross, Managing Director and Senior Research Analyst, interprets this default as a calculated negotiating tactic by both parties, suggesting PharmaCann's primary objective is to exit the Warren lease, while IIPR is "wielding a big stick in the cross-default provision." This assessment aligns with statements from PharmaCann's Senior VP Jeremy Unruh, who communicated to MJBizDaily via email that the company does not view this action as a material impediment to resolving outstanding issues with IIPR. The situation appears time-sensitive for both entities, as PharmaCann requires the production capacity while IIPR needs to maintain its revenue stream.

IIPR's operational resilience is evidenced by its proven track record in managing defaults and property transitions. Over the past 12 months, the company has successfully re-leased 5 properties totaling 586,000 ft<sup>2</sup>. However, the current PharmaCann portfolio represents a notably larger challenge, encompassing 677,000 ft<sup>2</sup> of cultivation/production space — marking the largest potential default in IIPR's history. The company's historical performance metrics demonstrate its ability to manage payment irregularities: FY 2023 saw 98% rent collection with US\$4.8 million in missing and accepted late payments, while FY 2022 recorded 94% collection with US\$4.7 million missed.

While PharmaCann situation is a notable event, it must be viewed within the broader context of the cannabis industry, which remains relatively immature



and prone to similar occurrences in the future. However, interpreting this event as a material impediment to IIPR's long-term success would be overly pessimistic given the company's proven operational resilience and strategic management capabilities.

## F. Liquidity Risk

IIPR maintains strong liquidity, with no financial debt maturing in 2024 or 2025. The expected funds from operations (FFO), a key cash flow metric in real estate investment, are forecasted at US\$205 million for FY 2025, down 11% year-over-year.

This could potentially lead the company to implement a temporary dividend cut, triggering short-term stock volatility. However, the company's recent dividend declaration for Q2 2025 suggests a commitment to maintaining its payout policy, despite market uncertainties, as it still retains enough financial resources to navigate a volatile environment. With no financial debt expiring in the short term, IIPR can count on a liquidity buffer of additional US\$128 million, along with a fully committed and undrawn credit facility of US\$87.5 million raised to this level in November 2024 — underscoring continued support from the banking sector despite challenging conditions.

Given these resources, the company's liquidity appears more than sufficient to meet its financial obligations over the next 12 months.



## G. Market Profile

The company currently trades at an attractive price-to-book ratio of 0.82x, 7.2x EV/EBITDA, and 8.8x EV/Unlevered FCF. The stock price has declined by 57% since the peak in October 2024, following PharmaCann's default on 6 out of 11 leases. The company trades very similarly to the comparable NewLake Capital Partners, suggesting an investor's alignment on the two companies.

For a conservative valuation, we assume a 4.5% perpetual growth rate exclusively from reinvestments of FFOs.

### Valuation

Assumptions	
Risk Free Rate	4.5%
Country Selected for MRP	United States
Market Risk Premium (MRP)	4.5%
Raw Beta	1.7
Cost of Equity Levered	8.8%
Cost of Debt	6.0%
Country Selected for Tax Rate	United States
Tax Rate	0.0%
Net Debt (\$ Mln)	162.0
Equity (\$ Mln)	1,650.0
Perpetual Growth Rate	4.5%
Weighted Average Cost of Capital (WACC)	8.0%
Common Share Price (\$)	58.9
Date	24/06/2025

Source: Quantinova Analysis and Estimates, Damodaran, S&P Capital IQ



Key considerations for IIPR's valuation include:

- Interest Rate Environment: The market is trending toward lower interest rates, driven by declining inflation and political factors, which could positively impact valuations.
- Cannabis Industry Growth: Significant growth in the cannabis industry could lead to substantial asset appreciation, as demand for production facilities rises. IIPR is well-positioned to capitalize on this opportunity.
- Volatility and Maturity: Industry expansion may reduce market volatility and shift IIPR towards more stable REIT levels. Currently, the company's beta is 1.74, compared to the REIT average of 0.59, indicating higher risk.
- Leverage Capacity: As the cannabis industry matures, IIPR could sustain significantly higher leverage than its current minimal gearing ratio of 0.15x, well below the REIT average of 0.62x, offering potential for enhanced returns.

### Target Price and Implied Upside

#### Target price:

		Perpetual Growth				
		4.0%	4.3%	4.5%	4.8%	5.0%
WACC	7.0%	111.5	117.2	123.9	132.2	142.5
	7.5%	95.0	98.6	102.8	107.8	113.8
	8.0%	82.5	85.0	87.8	91.0	94.7
	8.5%	72.9	74.6	76.5	78.6	81.1
	9.0%	65.2	66.4	67.7	69.2	70.8

#### Implied upside:

		Perpetual Growth				
		4.0%	4.3%	4.5%	4.8%	5.0%
WACC	7.0%	89.3%	98.9%	110.4%	124.4%	141.9%
	7.5%	61.2%	67.4%	74.6%	83.1%	93.3%
	8.0%	40.1%	44.3%	49.0%	54.5%	60.9%
	8.5%	23.8%	26.6%	29.9%	33.5%	37.7%
	9.0%	10.7%	12.7%	15.0%	17.5%	20.3%

Source: Quantinova Analysis and Estimates

The primary risk for the company is widespread defaults on rent obligations.



However, the likelihood of an increase in the company's WACC remains low, given the expectation of declining risk-free rates, stable or decreasing beta, and no imminent debt deleveraging requirements. Furthermore, current price levels imply a perpetual growth rate near the company's minimum structural growth rate, offering a degree of valuation support.

In analyzing comparable peers within the cannabis real estate market, the current industry structure significantly limits the pool of suitable peers. Power REIT, with revenue at approximately 1% of IIPR's, has been deemed unsuitable for comparison due to its substantially smaller scale and current financial distress.

NewLake Capital Partners (NLCP) emerges as the most relevant peer despite its smaller scale, generating revenue of US\$50.7 million compared to IIPR US\$304.8 million as of Q1 2025 TTM. The companies exhibit very similar fundamental performance metrics and balance sheet structures, with their market profiles showing since NLCP began trading on the OTC market in 2021. Key valuation metrics reinforce this resemblance: NLCP's price-to-book ratio is 0.91x versus IIPR's 0.82x, while their dividend yields stand at 11.57% and 13.49%, respectively. Additionally, both companies have a similar EV/Revenue multiple of 6.2x (NLCP) and 5.7x (IIPR).

An important consideration lies in the beta measurements: while NLCP appears to have a lower market levered beta of 0.93 compared to IIPR's 1.74, this differential likely reflects the smoothing effect inherent in OTC trading rather than genuine lower volatility. The close alignment of valuation metrics suggests market participants view these companies as fundamentally comparable despite their size difference.

From a dividend perspective, both companies exhibit a notable correlation between their dividend yields and levered cost of capital, supporting a P/B ratio of 1.0x in a zero-growth scenario. However, current market valuations reflect more cautious outlook, driven by investor wariness stemming from the historical and ongoing volatility in the cannabis industry. This pricing dynamic suggests markets are effectively incorporating industry-specific risks into their valuations while still maintaining relative parity between these two leading cannabis-focused REITs.



## Peer Valuation

Peer		IIPR	NLCP	Power REIT
<i>Exchange</i>		<i>NYSE</i>	<i>OTC</i>	<i>NYSEAM</i>
Revenue	<i>(US\$ Mln)</i>	304.8	50.7	3.0
EBITDA	<i>(US\$ Mln)</i>	240.1	41.9	-0.4
Net Income	<i>(US\$ Mln)</i>	153.3	25.5	-24.0
FCF	<i>(US\$ Mln)</i>	197.8	34.3	7.1
Book Value of Equity	<i>(US\$ Mln)</i>	1,922.2	401.1	5.5
Gearing		0.15x	0.02x	6.96x
Market Capitalization	<i>(US\$ Mln)</i>	1,578.0	324.0	3.9
EV	<i>(US\$ Mln)</i>	1,740.0	313.3	48.62
Market Levered Beta (5y)		1.74	0.93	1.33
EV/Revenue		<b>5.7x</b>	<b>6.2x</b>	16.2x
EV/EBITDA		<b>7.2x</b>	<b>7.5x</b>	EBITDA <0
P/E		<b>10.3x</b>	<b>12.7x</b>	Net Income <0
Price / Tangible Book Value		<b>0.82x</b>	<b>0.91x</b>	0.70x
Dividend Yield		<b>13.49%</b>	<b>11.57%</b>	0.00%

Source: Quantinova Analysis and Estimates, S&P Capital IQ



## H. Short-Term Catalysts

In the short term, the primary catalyst for the stock is the resolution of the PharmaCann default. While this situation resulted in minimal material losses, it aligns with IIPR's history of successfully managing all previous defaults. Specifically, PharmaCann will reduce its rent payments on some properties to IIPR in exchange for a right issue and a 10-year tenor promissory notes issued by PharmaCann. This favorable outcome should help restore investor confidence in the company.

The investment thesis on the stock right now is built on the premise that historically, in a growing sector, infrastructure-like companies such as IIPR are less likely to be significantly impacted by the default of a single customer, facing primarily short-term uncertainty.

A clear example of this dynamic can be seen in the airline sector, where defaults are not uncommon. Airports, despite frequent air carrier defaults, are able to recover swiftly.

For instance, when the Hungarian national air carrier Malev defaulted in 2012, it left 40% of the traffic slots at the Budapest airport vacant. However, within a short period, the airport replaced this capacity primarily through agreements with Wizzair and Ryanair, leading to only a modest 4% decline in traffic during 2012 and 2013. By 2014, traffic had fully recovered and even exceeded pre-default levels.

A similar situation occurred in 2001 at Brussels Airport, where the default of Sabena was quickly mitigated by new agreements with Brussels Airlines and Virgin Express. This led to minimal disruption to traffic volumes.

This proves that infrastructure-like players such as IIPR should not suffer much from tenant defaults, aside from the temporary impacts, considering their leading role as a lessor and the strong growth trajectory of the cannabis industry itself.

Additional catalysts include potential interest rate cuts and the DEA's rescheduling of cannabis from a Schedule I to a Schedule III substance.



# I. Investment Thesis

IIPR share price has been dropping this year for 3 main reasons:

1. Default of PharmaCann and other tenants.
2. Risk of a U.S. recession which could trigger additional tenant defaults.
3. Risk of a dividend cut.

In our view, market concerns surrounding IIPR's outlook appear overstated:

The company stated that the impact on the adjusted funds from operations (AFFO) from PharmaCann could be around 6-7% of the total which should be offset by growing property base and new lease signatures. In this respect, given its strong liquidity position, the company has the financial flexibility to continue to invest in new properties, without impacting too much its cash flows.

With respect to recession concerns, we believe the U.S. is likely to avoid a deep and prolonged downturn, as it did in 2018–2019, through renewed trade negotiations with key partners. This would be a positive catalyst for IIPR's share price recovery. In addition, potential Fed support for a slowing economy would improve conditions for small-cap and unprofitable companies — such as many of IIPR's tenants —thereby reducing lease default risk.

Finally, regarding the dividend, it is worth highlighting that it now accounts for 84% of consolidated AFFO, up from 80% last year. While a cautious reduction cannot be ruled out, we believe the company has the financial flexibility to sustain its payout through near-term challenges, while awaiting a more supportive macroeconomic backdrop.

All in all, we anticipate a full recovery over the next year toward our target price — driven in part by a declining market risk premium currently priced into riskier U.S. equities amid ongoing economic uncertainty.



## J. References

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Feel free to reach out.



**Viktor Mikus**  
Portfolio Manager



**Federico Puddu**  
Portfolio Analyst

**QUANTINNOVA**

Quantinova™ S.à r.l.  
[www.quantinova.com](http://www.quantinova.com)  
[info@quantinova.com](mailto:info@quantinova.com)