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PECO.OQ - Phillips Edison & Co Inc To Host Financial Advisors And Retail Investors Call

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PRESENTATION

Operator

Good day and welcome to Phillips Edison & Company's PECO Grow webcast presentation for its financial advisors and retail investors. My name is Krista, and I will be your operator today. Please note that today's webcast is being recorded.

I will now turn the call over to Kimberly Green, Head of Investor Relations. You may begin.

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Thank you, operator. Thank you, everyone, for joining us for the PECO Grow update for financial advisors and retail investors. I'm joined on today's webcast by our Chairman and Chief Executive Officer, Jeff Edison; President, Bob Myers; and Chief Financial Officer, John Caulfield. Once we conclude our prepared remarks, we will answer questions submitted through the webcast chat function. An archived version of the webcast and presentation slides will be published on our Investor Relations website.

Before we begin, I would like to remind our audience that statements made during today's webcast may be considered forward-looking, which are subject to various risks and uncertainties as described in our SEC filing. In addition, we may also refer to certain non-GAAP financial measures. Information regarding our use of these and reconciliations of these measures to our GAAP results are available for download on our website.

With that, it's my pleasure to turn the call over to Jeff Edison, our Chief Executive Officer. Jeff?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Thank you, Kim. Good morning, everyone, and thank you for joining us. The PECO team delivered solid growth during the first half of the year. The consistency of our growth is a testament to our differentiated and focused strategy of owning high-quality, right-size, grocery-anchored neighborhood shopping centers. Our results at the property level are driven by our integrated operating platform and our experienced and cycle-tested team.

I'd like to highlight the Board's announcement earlier this month to increase PECO's dividend distribution rate by 5.1%. We offer a predictable income stream from monthly distributions combined with our unique ability to drive internal and external growth. We believe an investment in PECO provides shareholders with the right balance of stability and growth.

The operating environment remains strong with a resilient consumer. Retailers want to be located in our centers where our grocers drive consistent and recurring foot traffic. PECO's leasing team continues to convert this demand into high rents at our centers. PECO continues to benefit from positive macroeconomic trends that create strong tailwinds and drive strong neighbor demand. These trends include a resilient consumer, hybrid work, migration to the sunbelt, population shifts that favor suburban neighborhoods, and the importance of physical locations in last mile delivery.

Leasing demand remains at historically high levels for our inline spaces, as these macro tailwinds have retailers more focused on having stores in our centers. The impact of these demand factors is further amplified due to a limited new supply over the last 10 years and going forward because the cost of construction is too high compared to current market rents. Current economic returns do not justify new construction of shopping centers.

Looking at total returns, PECO has the highest total shareholder return of the shopping center REITs at 46% since our IPO through June 30th of 2024. Your investment in neighborhood, grocery-anchored, necessity-based retail provides you with economic resilience and the opportunity to realize additional growth from here. Our largest stockholders include many high-quality institutional investors. Together, these funds manage trillions of dollars and continue to believe in the PECO story. They are invested right alongside you.

We continue to believe there's untapped demand for PECO's stock in both the retail and institutional markets. PECO has always been a growth company. Since our IPO, we have accomplished $200 million to $300 million of net acquisitions per year. We continue to find attractive opportunities. Year-to-date, our acquisitions have totaled $181 million. Activity in the third quarter remains strong. With our low leverage, we're well positioned to continue to grow.

We continue to target an unlevered IRR of 9% for our acquisitions. If we look at everything we have acquired over the past few years, we are currently exceeding our estimated underwriting returns by over 100 basis points. We will maintain our disciplined approach and focus on accretively growing our portfolio.

In addition to our acquisition growth, we continue to invest in value-creating, ground-up, out-parcel development and repositioning projects. We continue to expect to invest $40 million to $50 million annually in ground-up development and repositioning opportunities, with a weighted average cash-on-cash yield between 9% and 12%. This activity remains a great use of free cash flow and produces attractive returns with less risk. Our team continues to stay focused on growing this pipeline as the returns are credo to the portfolio. We are confident that the PECO team will continue to deliver market-leading results for the remainder of the year.

Moving to the Kroger-Albertsons merger, the market still gives the merger a low probability of occurring. Should it close, we believe the impact on PECO is a net positive for our centers and to the overall value of our portfolio. PECO has two Kroger locations and 10 Albertsons locations that would be operated by CNS wholesale grocers. CNS has been operating for over 100 years. They're one of the biggest wholesale operators with demonstrated experience in retail operations.

In addition, it was recently announced that the Albertsons Chief Operating Officer would move to CNS to become President and CEO of its retail business if the merger were to close. Our remaining 20 Albertsons stores would be operated by Kroger, which reinvests regularly in their stores and produces higher sales volumes on average. Importantly, Kroger's divestiture plan continues to ensure no stores will close as a result of the merger. If the merger does not occur, our Albertsons-anchored centers will continue the strong performance that they have produced to date.

With that, I'll turn it over to Bob to provide more color on the operating environment. Bob?

Robert Myers - *Phillips Edison & Co Inc - President*

Thank you, Jeff. Good afternoon, everyone, and thank you for joining us. We are excited about the future growth opportunities at PECO, and we hope you will continue to remain invested alongside us for many years to come. Here is why we are excited about the future of PECO. We exclusively own and operate high-quality, grocery-anchored neighborhood shopping centers anchored by the number one or number two grocer by sales in the market. Our differentiated strategy and strong operating results allow us to provide regular income and strong total returns to our investors.

We are an omni-channel landlord. Our neighborhood centers are complimentary to e-commerce and have thrived in this emerging omni-channel environment. We are well aligned and experienced. Management is one of PECO's largest stockholders, and it is hard to find better alignment than having meaningful skin in the game.

For over 30 years, we have built a fully integrated operating platform and become one of the nation's largest owners and operators of grocery-anchored shopping centers. PECO's 3-mile trade area demographics include an average population of 67,000 people and an average median household income of $87,000, which is 12% higher than the US median. These demographics are in line with the store demographics of Kroger and Publix, PECO's number one and number two neighbors respectively. Our centers are situated in trade areas where our top grocers are profitable, and our neighbors are successful.

Over 70% of PECO's total rent comes from necessity-based goods and services which drive regular and reoccurring foot traffic from customers in the 3-mile trade area. These categories include grocery stores, quick-service restaurants, beauty and healthcare, and medical retail, or medtail, as we call this growing category. We believe consumers will continue to visit and spend in these categories even if they do reduce spending on vacations, luxury items, and other discretionary purchases.

We focus on building community at each center we own, which is why we refer to our tenants as neighbors. We are creating locally smart centers that will have the right mix of neighbors. Our nationwide portfolio is geographically diverse. We compete on the corner of Maine and Maine. Rather than focusing exclusively on coastal markets, we focus on well-located suburban markets with growing populations and strong demographics.

In addition, our exposure to at-risk retailers continues to remain limited. This is deliberate and a result of our grocery-anchored strategy and focus on necessity-based goods and services. All these factors combined create regular monthly income and strong returns for our investors.

PECO's properties and our experienced team have delivered strong performance in many market cycles. We have a consistent track record of growing stock order value. Our goal remains constant. We are focused on increasing the principal amount of your investment and providing income in the form of regular monthly distributions that can grow over time.

As Jeff mentioned earlier, PECO announced that the Board of Directors approved a 5.1% increase to the monthly distribution rate. PECO has a stable payout ratio, which gives us confidence in the stability of our distribution rate while allowing us to invest meaningfully in our portfolio and drive additional cash flow growth. PECO offers reoccurring income and a solid dividend yield while also offering the upside of equity with the downside protection of income-producing real estate within the high-quality, grocery-anchored shopping center sector. We believe PECO is an excellent portfolio diversifier that can help reduce overall portfolio risk and increase returns.

Year to date through September 12, total returns for PECO shareholders were 7%. We are proud of our track record of positive results. We believe our future is bright. We are well positioned to drive strong investor returns going forward.

We are an omnichannel landlord which allows us to capitalize on the future of retail real estate. Our brick-and-mortar centers are a critical component to both last-mile delivery and buy online and pick up in store. This is called BOPUS. Through BOPUS, customers order their products online and then pick them up at our centers. Grocers have embraced BOPUS as delivering groceries continues to be logistically and economically challenging.

Our brick-and-mortar assets are conveniently located in the communities they serve. This makes them ideal for BOPUS customers. Our centers help solve the last-mile delivery dilemma faced by retailers. Because they are located close to the end consumer, our centers can also act as local distribution points serving the surrounding neighborhoods.

Our centers continue to be essential to their communities. As the needs of consumers and neighbors change, we are successfully evolving with them. As an omnichannel landlord, we are helping our neighbors grow their own businesses.

Lastly, we are well aligned with our investors. PECO's experienced and aligned management team owns 8% of the company. We have meaningful skin in the game and are committed to driving stockholder value. At PECO, we cultivate a culture in which our associates think and act like owners every day in every decision.

Since our founding, PECO is focused on developing the best culture and team in the business. You can see that reflected in our associate engagement results and in the average number of years that our leaders and associates have been with the PECO team. PECO associates are focused on operational excellence and innovation.

A few recent examples include: PECO was recently honored at the 2024 Realcomm Conference with a Digital Innovation Award. Known as the Digi Awards, an inaugural award was given for best use of artificial intelligence. And PECO won top honors from a field of finalists. This is PECO's third Digi Award.

PECO continues to pioneer AI advancements that foster cross-functional collaboration. We are cultivating a culture where AI is a catalyst for long-term growth. This award is a meaningful and well-deserved recognition for the PECO team as we continue to stay on the cutting edge of technological advancements that help propel new initiatives and reinforce our position as a leader in the shopping center sector.

DashComm, which has been one of PECO's greatest innovations in our 30-year history, continues to deliver best-in-class customer experiences and communications to more than 3,000 neighbors. This technology is now being utilized by ID Plans to their Tenant Portal tool. PECO's internship program was recently recognized by ICSC. We posted the article to our IR website in July. Be sure to check it out.

In addition, PECO has been named a top place to work in Cincinnati for the eighth year in a row. We are proud of our team and how much we have accomplished. Their engagement, expertise, dedication, and innovation will continue to drive our growth and success.

Now I would like to turn the call back over to Jeff. Jeff?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Thank you Bob. In summary, we are encouraged by the meaningful growth opportunities that lie ahead. We encourage you to continue to grow with us. We firmly believe PECO is a great long-term investment opportunity. As PECO's largest stockholder, it's important for you to know that I have never sold a share of PECO, and I do not plan to sell any of my shares.

We appreciate your confidence in our team and your many years of support. We could not be more excited about the future of PECO, and we sincerely thank you for your investment. We'll now answer your questions.

QUESTIONS AND ANSWERS

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Thank you, Jeff. We will now begin the question-and-answer session. (Operator Instructions)

Our first question comes from an investor asking about the health of the consumer. Jeff, maybe you can take this one. Can you speak to PECO's current view on the health of the consumer? And what is PICO's current outlook for the retail environment and also heading into 2025?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yeah, well, thank you for the question. Surprisingly, the consumers stayed very strong. We're seeing some things in terms of being a little bit more cautious with buying off-brand labels and things like that. So they're watching the environment, but if you look at retail sales, they continue to grow, and our grocers continue to post, quarter after quarter, really strong results.

So we're -- we feel like the consumer is strong and will keep strong, but we're watching that. And a recession would obviously impact that, but the beauty of our portfolio is that we're so necessity focused that we are the last thing that people stop buying. So you may not go out to dinner as much, but you're going to buy your groceries, and you're probably going to buy more groceries, and our grocers have historically done well in those times.

So I would say we're optimistic about the consumer. And if we do have more unsettlement than that and we get into a recession, we're really well positioned to, again, provide upside in our company, but also provide that really strong base that keeps us from being highly impacted by a downturn.

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Thank you, Jeff. Our next question, Bob, maybe you take this one. How has higher inflation impacted PECO's neighbors?

Robert Myers - *Phillips Edison & Co Inc - President*

Well, thanks, Kim, and thank you for the question. Well, the good news is that we've been seeing inflation stabilize. Our neighbors continue to demonstrate resiliency in their abilities to successfully manage many of the challenges including inflation. I think despite higher inflation, they continue to invest in their stores, their technology platforms, and the customer experience.

They've also been successful to pass along the increased cost to the consumer in the form of higher prices especially the grocers and necessity-based retailers. In summary, the demand is the best I've ever seen it. We're in the best operating environment we've seen.

Health ratios for our neighbors continue to be in line under 10%. And with the lack of new supply in the market, I feel really confident about our leasing spreads in the remainder this year and next year. So despite the higher inflation, the portfolio is very solid.

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Great, thank you, Bob. Another question, and maybe just looking at more of the macro environment. Jeff, if you want to take this one, we had a question about how PECO's outlook could change if the US would move into a recession?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yeah, the -- I answered a little bit of that on the last question, but I think the resiliency of our portfolio over time, I think, really has demonstrated how we provide a buffer against recessions. And if you look at the questions we get on recessions like what's going to happen if we have a bad recession? We look back, and we start with the pandemic, we say, okay, we lost 0.6% of our occupancy, and we were back to that occupancy within 12 to 18 months.

And they're like, well, yeah, but that was just one case and maybe that was a different kind of recession. And so we go back to the great financial crisis, which was one of the recessions that we've had in our 30-year history. And I think we lost 1.6% of our occupancy. We had that back in 12 -- I think it was 12 months. It may have been 18 months.

So we are not hit the same way other kinds of retail is, particularly the discretionary side of the business. So that has helped us weather these really difficult storms. And although we don't -- we're not anticipating any kind of deep recession or major recession, we're well positioned if that were to occur.

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Great. Thank you, Jeff. Another question. This one maybe for John. We received a question from Susan asking about the analysts that cover PECO and asking maybe why PECO doesn't have more buy ratings. John, you want to take that one?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Sure. Thanks for the question. So we have 12 research analysts that we spend time with from all the major banks. We currently have five, or excuse me, four buy ratings from Bank of America, Goldman Sachs, Deutsche Bank, and Mizuho. And we spend time with analysts to ensure that they understand the Phillips Edison story.

And I think we have opportunities with the incremental coverage that we have, but it's really important that we're talking directly with these large institutional investors that were referenced during the prepared remarks. But we think this is an opportunity. We continue to be very bullish about our growth prospects, and we'll talk to them and answer questions.

Jeff, Kim, and I just spent two days talking to investors in Chicago and Minneapolis, sharing the PECO story to build incremental demand for the PECO stock base. And so they're going to have their views at any point in time, and the most important thing that we can do is focus on the long term that we're doing the right decisions to grow our cash flow, grow our income, grow our dividend, and deliver the equity returns that we know our investors want.

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Thank you, John. Another question we received from Kathleen. Great question. In this election year, is there a candidate with policies that would favor PECO's investment? Jeff, you want to take that one?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

I'll tell you, my best answer to that is we did really well through four years with Trump as president. We've done very well for 3-1/2 years with Biden as president. PECO, we've got an engine that had some really good tailwinds, and we tended to be able to outperform with whoever is in that position.

There are pluses and minuses in terms of -- well, first of all, we're not sure what any of them are going to do because they're all promising everything right now. But our feeling is that we'll -- in a time where there is uncertainty, being invested in necessity goods and a company that creates opportunities for people who sell necessity goods, it's a really good place to be. And we're hopeful interest rates come down, that'll help as a tailwind.

But it's really the macro tailwinds that are the most beneficial to us. And that is suburbanization, working from home, buying local, and last mile delivery. All are really supporting our bricks and mortar stores within 3 miles of your house at the corner of Maine and Maine, where you go on Saturday morning to get your necessity goods done. That is what we do, and that works with a wide variety of different political scenarios. But interest rates coming down is extremely helpful to our share price.

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Thank you, Jeff. We'll take a couple more questions. (Operator Instructions)

Next question, Bob, maybe this one for you. We talk a lot about necessity-based goods and services. Obviously, grocery anchors is necessity-based. Can you provide some other examples of retailers and PECO centers offering necessity-based goods and services, maybe speak to where you're seeing demand today?

Robert Myers - *Phillips Edison & Co Inc - President*

Yeah. Thanks, Kim, and thank you for the question. First of all, I'll just say that 70% of our portfolio is necessity-based, and that's critical when merchandising these types of properties. That's where we're seeing the demand from our retailers. Our occupancy is at all-time highs at 97.5%, and as I mentioned earlier, our leasing spreads for new deals is around 34% and for renewals is 20.5%.

The demand is coming partly from the lack of supply, but our retailers want to be in the number one, number two grocery-anchored shopping centers. So we continue to see a lot of demand from our restaurants, specifically quick service restaurants and fast casual. A few examples of that would be Jersey Mike's and Wingstop, Dave's Hot Chicken, Chipotle, Starbucks to name a few.

We also see a lot of demand from personal services including hair and nail salons. Hand and stone massage is very active. Alta, Sola Salon, Salon Suites, and Great Clips to name a few.

And then the last tranche is really medical, which includes dentists, chiropractors, urgent care. We continue to see a lot of activity with Heartland Dental, Pacific Dental. The Joint is a great chiropractic franchise. And a couple on the urgent care, Humana, AFC Urgent Care is very active. So again, when we merchandise around our properties, we're heavily invested in necessity-based goods and services.

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Thank you, Bob, and thank you for the question. Next question comes from an investor saying, we've seen PECO issue a few press releases on recent credit rating upgrades from both S&P and Moody's. John, maybe this one you can answer. Can you provide a little color on these upgrades and maybe speak to why these are positive for PECO?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

So Kim, I appreciate the question. I certainly spent a lot of time with both of these rating agencies to encourage them to take the positions. So in August, we were upgraded to BBB flat. And in September by S&P, and in September, we were upgraded to Baa2 by Moody's. These investment-grade ratings are really important because it's a great brand that they're giving us a mark that they're setting, saying that they recognize the high-quality portfolio that we have, moderate leverage, the liquidity, the good liquidity we have, and our ability to good fixed charge coverage.

What does this mean? Well, first of all, we're now paying less on our bank facilities. So we have a corporate revolver that is more or less a credit card that when we borrow on it, there's an interest rate. We save 25 basis points right off the bat as soon as those ratings came through. So that'll save us real money today and going forward.

But even more importantly, those credit ratings will allow us to continue to build support with fixed income investors that are going to allow us to issue long-term debt. So with the credit ratings that we have, last week, we put out a different press release that we raised $350 million at 4.95% for 10 years. And that's really important because it adds duration to our debt profile. It continues to build support from both existing investors, and we saw new investors in that space.

And it's going to allow us to continue to grow Phillips Edison. And that support from them was very important to us, as we continued to ladder and issue debt. So it was well recognized, and we worked really hard to do that. And now we're going to continue to buy properties and use those ratings.

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Thank you, John. Last question, we get these two questions a lot. A lot of REITs have moved towards a quarterly dividend. Is PECO planning to change its monthly dividend to a quarterly distribution?

And as a follow-up question, does PECO have plans to increase its dividend? Jeff, you want to take those?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes, certainly. The answer is, no, we are not moving away from our monthly dividend to a quarterly dividend. It's an important part for our investors. It's an important part to all of us as owners of the company to have a cashflow distribution on a regular basis. And so we believe in that, and we will continue to do that.

We did announce that we will increase the dividend by 5.1% this year, which is similar to what we've been able to grow the cashflow of the company this year and is an important part of our long-term strategy to continue to increase our dividend on a regular basis and to have it match cash flows so that we're distributing to our investors the benefits of the cash flow that we're growing.

And there are two important pieces to an investment in PECO. One is, can you grow the share price? And two, will you keep the dividend? And to those, we're really committed.

And as we've said a number of times, the management team owns 8% of the company. We are focused on thinking and acting like owners every day. And that is one of the secrets to the success that we've had since the IPO and actually for the last 30 years. Thinking like an owner allows you, I think, to make really good decisions, both at the property level and also at the corporate level, and dividend are part of that.

So thank you for your question. That is one of those things that we feel very strongly about.

Kimberly Green - *Phillips Edison & Co Inc - Head of Investor Relations*

Thank you, Jeff. And again, thank you, everyone, for the questions. This now concludes our question-and-answer session. Please do not hesitate to reach out to us with additional questions or information requests. We have provided the email address to our investor relations team in today's PECO Grow presentation, which has also been posted to our website.

Now I'd like to turn the webcast back over to Jeff for some closing comments. Jeff?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Great. Thank you, Kim. Again, thanks everyone for your questions.

In closing, the PECO team continued our strong operating performance in the first half of 2024. We delivered record-high inline leasing occupancy. We executed high, record-high renewal rent spread. We executed new leases with spreads among the highest in the peer group.

We have among the highest retention among all of our peers. We're on track to acquire $200 million to $300 million of net acquisitions for the year. Our targeted unlevered IRR remains among the highest of our peers at over 9% for our acquisitions.

We completed, at the beginning of the year, a $350 million bond offering. And just last week, we completed a second $350 million bond offering at very attractive rates. We continue to have one of the lowest levered balance sheets in the shopping center space. And despite meaningful interest headwinds, we delivered strong earnings growth.

As I said earlier, we increased our monthly dividend by 5.1%. And PECO has had the highest total shareholder return of anyone in the shopping center business at 46% since the IPO, and that's through June of 2024. We believe our differentiated and focused strategy and our talented and innovative team combined to create a market leader in the shopping center space.

We're confident that the PECO team will continue to deliver market-leading results for the remainder of the year. Looking beyond 2024, PECO is well positioned to continue to successfully grow as we look forward. We believe we provide our investors with more alpha and less beta.

On behalf of the entire management team, I'd like to express our appreciation for your continued support. Again, thank you for joining us today, and that will end our presentation. Have a great rest of your day.

Operator

Thank you. You may now disconnect.