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PECO.OQ - Q2 2022 Phillips Edison & Co Inc Earnings Call

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## PRESENTATION

**Operator**

Welcome to the Phillips Edison & Company's Second Quarter 2022 Results Presentation. My name is Tanya, I will be your conference call operator today. Before we begin, I would like to remind our listeners that today's presentation is being recorded and simultaneously webcast.

The company's earnings release, quarterly financial supplement and 10-Q were issued yesterday, August 4, after market close. These documents and a replay of today's call can be accessed in the Investors section of the Phillips Edison & Company's website at phillipsedison.com.

I would now like to turn the call over to Kimberly Green, Vice President of Investor Relations with Phillips Edison & Company. Please proceed.

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**Kim Green**

Thank you, everyone, for joining us today. I'm joined on this call by our Chairman and Chief Executive Officer, Jeff Edison; our President, Devin Murphy; and our Chief Financial Officer, John Caulfield. During today's call, Jeff will highlight our strong second quarter performance, Devin will discuss our excellent operational results, and John will review our financial results, our recent capital markets activity and our increased guidance. Following our prepared remarks, we'll take questions.

Before we begin, I'd like to remind our audience that statements made during today's call may be considered forward-looking, which are subject to various risks and uncertainties as described in our SEC filings. We'll also refer to certain non-GAAP financial measures. Information regarding our use of these measures and reconciliations of these measures to our GAAP results are available in our earnings release and supplemental information packet, which were issued yesterday. Participants should refer to PECO's filings to learn more about these risks and other factors and for more information regarding our financial and operating results.

Now I'd like to turn the call over to Jeff Edison, our Chief Executive Officer. Jeff?

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**Jeffrey S. Edison** *- Phillips Edison & Company, Inc. - Chairman & CEO*

Thank you, Kim. Good morning, everyone, or good afternoon, everyone. Our strong second quarter results confirm that PECO's differentiated strategy of owning and operating high-quality, small format, grocery-anchored centers is driving performance. The PECO team's focused execution, combined with the strength of our national and local neighbors, are resulting in financial performance beyond our internal expectations.

Occupancy ended the quarter at an all-time high of 96.8%, and we're using our position of strength to continue to drive our pricing power. Customers are closer to PECO's grocery-anchored centers throughout the entire day. That's driving retailers to our neighborhood centers to meet this increased demand. We continue to benefit from the resiliency of PECO's grocery-anchored portfolio with more than 70% of our rents coming from necessity-based goods and services.

We continue to see strong foot traffic to grocery-anchored centers as business remain a part of customers' everyday routine, whether they shop for groceries or haircuts or business to local restaurants. Medical, beauty, fitness and restaurants all continue to exhibit increased leasing demand. This translates to strong rent growth for PECO. While retailers continue to offer an omnichannel presence in-person services are essential.

Given these dynamics, we expect to continue to see strong tenant demand and -- strong rent spreads. Higher cost and inflation headwinds are limiting new supply of grocery-anchored centers as the barriers for new construction are higher than they've ever been. We expect these trends will continue to positively impact existing shopping centers. There will be fewer new builds coming online and existing neighbors will be unlikely to relocate because of these cost and high occupancy levels.

While we're not currently seeing a slowdown in the strong demand for space at our grocery-anchored centers, we remain cautiously optimistic in our actions and continue to incorporate macroeconomic realities into our decision-making. We remain focused on managing our neighbor mix and credit quality as we prepare for market disruptions. One place we are starting to see some movement is in the transactions market. As such, we're updating our acquisitions guidance for the year, and John will provide more detail.

PECO is reassessing acquisitions based on our evolving cost of capital as interest costs and inflation headwinds impact the transaction market. We'll remain cautious in our capital allocation decisions, including the timing and volume of acquisitions to ensure that we're acquiring assets that are accretive to our financial results and meet our return expectations.

We're excited to add Centennial Lakes, a Whole Foods-anchored center to our portfolio during the quarter. Centennial Lakes Plaza is located in Minneapolis, Minnesota at the entrance to a 24-acre City Park space that drives additional foot traffic to the grocery-anchored center beyond the strong traffic generated by our neighbors. We believe the lease-up potential and below market rents in place at this center provide great opportunities for NOI growth.

We think movement in the transaction market will create opportunities for PECO. Our national footprint, experience and reputation gives us a unique advantage to be opportunistic. We expect our unlevered IRR for future acquisitions to be in the range of 8.5% to 9% plus in this environment. Our goal is to ensure we achieve these unlevered returns and that all acquisitions are accretive to our earnings.

We will continue to evaluate opportunities with the same diligence we've always exercised. Although we are cautious about the transaction market and particularly the timing of transactions, we remain optimistic about how our grocery-anchored portfolio will perform, and we're able to raise our guidance for same-center NOI and core FFO per share growth given the strong operating results that the PECO team has delivered to-date.

Now I will turn the call over to Devin, who will speak in more detail about our strong operating results for the quarter. Devin?

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**Devin Ignatius Murphy** - *Phillips Edison & Company, Inc. - President*

Thank you, Jeff, and hello, everyone. Thank you for joining our call. I will now review our operational and leasing highlights for the quarter and year-to-date. At the end of the second quarter, leased portfolio occupancy totaled 96.8% compared to 94.7% at June 30, 2021, up 210 basis points, reaching a historically high level. Anchor-leased occupancy increased 190 basis points from a year ago to 98.7%, and in-line leased occupancy increased by 260 basis points over last year to 93.2%.

We're excited about the record occupancy that we've achieved. And as you can see, these occupancy levels are driving immediate, measurable growth in our financial results. Our high occupancy levels are continuing to give us pricing power and allow us to grow rents at attractive rates. We believe that given the current operating environment, we can increase in-line occupancy to 95% and total occupancy between 97% and 98%.

During the second quarter, we executed 105 new leases and 160 renewal leases and options totaling 1.6 million square feet of space. We continue to see robust demand from retailers. Comparable new lease spreads were 39% and comparable renewal rent spreads were 14.4%. Our total combined rent spread for the quarter, including new, renewal, and options, was 10.7%. This quarter, we're excited to bring to our centers national neighbors, including AutoZone, Dollar Tree, 5 Below, Nektar Juice Bar, TJ Maxx, and Wingstop. And we also signed deals with many savvy, small business operators who can drive traffic to our centers through their unique offerings and operational excellence.

Taco Pros is one such operator. This fast casual Mexican street food concept started in business in 2019 and continues to expand. They currently have 4 open locations in the Chicago land area and will be opening their fifth location in our Oak Mill Station Center. Effectively using social media campaigns and collaborations with up-and-coming brands, Taco Pros is focused on attracting customers with their unique international foods and healthier lifestyle options, including protein bowls and vegetarian alternatives.

Building on the coffee trend, another one of our local tenants, SR Coffee started out as the mobile coffee truck, opened their first brick-and-mortar location last year and signed a lease to open their second location in our neighborhood center in Ashburn, Virginia this quarter. An omnichannel operator, SR's Ashburn location will provide a newly built full coffee bar featuring its signature blend coffee that seat in spring water for 22 hours and dining space for their locally sourced breakfast and lunch options.

Successful local operators prosper in our neighborhood centers and the proof can be found in our strong retention rates. During the second quarter, we had a retention rate of 92.1%. Record occupancy, strong leasing spreads, high retention rates and an optimal merchandise mix of successful neighbors operating in our grocery-anchored centers, all point toward a portfolio that is well positioned to deliver solid operational results in all economic environments.

I will now discuss our development and redevelopment activity. Our development and redevelopment activities continue to be strong as we develop and expand our pipeline of ground up and repositioning projects. We currently have 23 ground-up and redevelopment projects under active construction. Of these, 19 are being developed on land we already owned and 4 are being developed on adjacent land that we acquired. Our total investment in these 23 projects is estimated to be $60 million with an average estimated yield between 10% to 12%, 6 of these projects were stabilized during the quarter, and we delivered over 45,000 square feet of new space to our neighbors. We continue to look hard for new capital projects where we can achieve the attractive risk-adjusted returns that we require.

I will now turn the call over to John.

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**John P. Caulfield** - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Thank you, Devin, and good morning and good afternoon, everyone. Second quarter 2022 NAREIT FFO increased 18.8% to $71.1 million or $0.55 per diluted share. This result benefited from an increase in rental income, reduced interest expense and the realization of the promote incentive in our Necessity Retail Partners joint venture.

Our second quarter core FFO increased 11.8% to $71.8 million, driven by increased revenue at our properties from higher occupancy levels and strong leasing spreads as well as lower interest expense from our reduced leverage. On a per share basis, core FFO decreased to $0.56 per diluted share as a, result of the incremental shares we issued in our July 2021 underwritten IPO.

Our second quarter same-center NOI increased to $89.7 million, up 4.3% from a year ago. This improvement was primarily driven by higher occupancy and a 2.8% increase in average base rent per square foot, which was partially offset by lower collectability reserve reversals in the current period when compared to 2021.

Turning to the balance sheet. Our leverage ratio continues to be one of the strongest in the sector as a result of our continued earnings growth as well as our prudent balance sheet management with our net debt-to-adjusted-EBITDAR of 5.5x as of June 30 compared to 5.6x at December 31, 2021. At June 30, 2022, our debt had a weighted average interest rate of 3.2% and a weighted average maturity of 4.9 years. Approximately 87% of our debt was fixed rate. At the end of the period, we had approximately $784.4 million of total liquidity, including $741 million of borrowing capacity available on our $800 million credit facility. We have no significant debt maturities until 2024.

Between the free cash flow generated by our portfolio and the significant capacity available on our revolver, we can be strategic in our timing when accessing the debt market. This is a nice place to be given the current capital market environment. In the second quarter, we utilized our ATM facility for the first time and have raised a total of $90.1 million in gross proceeds. Our weighted average share price was $34.23.

With the macro market concerns around recession, inflation and rising interest rates, we believe the importance of a fortress balance sheet has increased. This equity returns us to our IPO leverage, which gives us meaningful capacity and flexibility to pursue accretive acquisitions as they arise in the market and extend our acquisition runway beyond 2024.

We still have a target leverage level of low to mid-6x net debt-to-EBITDAR, but this increases our capacity and flexibility. In addition, the Board recently authorized and approved a new $250 million share repurchase program. The Board and management team view this program as an important addition to our capital allocation decision-making process as we evaluate opportunities in the future. It's another tool in our toolbox, if you will.

Turning to guidance. As Jeff mentioned, we're updating our net acquisition guidance to a range of $200 million to $300 million for 2022. This reflects our current assessment of the transaction market. We continue to see assets that would allow us to meet and exceed our original targets for the year. But with market volatility and uncertainty ahead, we don't want to force an acquisition plan to hit a number, particularly if patients could lead to even better opportunities in the future. Acquisitions are a critical part of our long-term growth strategy, and we'll continue to participate in the market, but are exercising caution in the current environment.

Our strong internal growth allows us to raise our NAREIT FFO and core FFO per share guidance. Our new range for core FFO per share increased to $2.19 to $2.25. Additionally, we're increasing our same-center NOI guidance to a range of 3.75% to 4.5%. These changes are a result of the continued strong demand for space in our grocery-anchored centers, the great leasing spreads generated by our renewals team as well as the health of our national and local neighbors, which are driving our high retention rates.

With that, I would like to turn the call back over to Jeff to offer some additional remarks. Jeff?

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**Jeffrey S. Edison** - *Phillips Edison & Company, Inc. - Chairman & CEO*

Thanks, John. Now before we take your questions, I'd like to quickly recap our quarter. Our second quarter results highlight the strength of PECO's differentiated strategy of owning and operating small format neighborhood centers anchored by the #1 or #2 grocer in the market. This drives high recurring foot traffic and neighbor demand and results in strong financial and operating performance.

Our neighbors are thriving in our grocery-anchored centers, as evidenced by our strong retention rates and renewal spreads meaningfully above historical levels. Demand for space and grocery-anchored centers remain solid and PECO's leasing team continues to convert this demand into new leases with record occupancy at the end of the quarter.

PECO is a growth company, positioned to gain share as we identify and buy grocery-anchored shopping centers from a target market of 5,800 identified grocery-anchored shopping centers across the United States. Overall, we're in a great position to successfully execute our growth strategy. Having operated through multiple cycles in the past 30 years, our experienced, cycle-tested team and integrated operating platform have performed well in the first half of 2022. With the fortress balance sheet and liquidity, we are prepared for changes or opportunities as they arise.

With that, we'll begin the Q&A portion of our call. Operator?

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question will come from Craig Schmidt of Bank of America.

**Craig Richard Schmidt** - *BofA Securities, Research Division - Director*

My question is on the goal for occupancy. It seems really high. I mean, wouldn't structural vacancy inhibit you by getting as high as 98%, or are you seeing it otherwise?

**Jeffrey S. Edison** - *Phillips Edison & Company, Inc. - Chairman & CEO*

Craig, this is Jeff. Thanks for being on and your question. I think probably 2 years ago, we would have said, yes, that's a really high number. When we look at our leasing backlog and the strength of our sort of backlog going into this quarter, we think we've got the ability to grow, particularly the small store space, occupancy 100 to 200 basis points above where it is today. So we're -- again, we're going to keep monitoring the environment. But in the current environment we're in, we believe we've got upside from where we are today.

I don't know, Devin, if you have any other additions to that?

**Devin Ignatius Murphy** - *Phillips Edison & Company, Inc. - President*

No, Jeff I agree.

**Craig Richard Schmidt** - *BofA Securities, Research Division - Director*

Great. And then the barriers for the construction of the new shopping centers with grocers, how long do you think that might last?

**Jeffrey S. Edison** - *Phillips Edison & Company, Inc. - Chairman & CEO*

That is -- can I get my crystal ball out now and try and make a prediction? But the -- in our conversations with the grocers, there are select markets where you will see some development, but it is really limited when you compare it to the overall footprint of the grocery centers that are out there. So I would say, certainly, you got to go retailer- by-retailer and market-by-market but across the country, which obviously, we have the advantage of having a nationwide footprint. You're going to find most of the markets, there's very little new grocery-anchored centers being built. And I don't see that changing for the foreseeable future. And you'll get select moves, but in terms of any kind of percentage, it's going to be small. And so when the retailers are looking to expand, they have a limited amount of centers they can go to. And that is one of the things that's given us our pricing power. And as to your first question, it's one of the things that allowed us to get to occupancy numbers that are sort of as good as they've been.

**Operator**

Our next question will come from Hong Yang Zhang of JPMorgan.

**Hong Liang Zhang** - *JPMorgan Chase & Co, Research Division - Analyst*

Yes, so you've managed to keep a pretty tight spread between leased and physical occupancy historically. I guess just looking-forward as you continue to grow lease occupancy, do you expect to keep the spread between the 2, less than 100 basis points?

**Jeffrey S. Edison** - *Phillips Edison & Company, Inc. - Chairman & CEO*

Well, thanks for your question. John, do you want to take that one?

**John P. Caulfield** - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Sure. Hong, yes, that has been our historical level of being at about 60 basis points. And we think that we can continue that. And I think the advantage for us is it comes back to the size of our centers. And our anchor occupancy as high as it is, most of it is when you get to that 60 basis points is going to be in-line. And when you look at the average space that outside the grocer at 2,300 square feet, it allows us to get them in and paying rent very quickly. We have incentives in place for the operating team. So the operations team, that every day is a day of lost rent. So they're working actively to move them in. It's also an advantage of our local neighbors because they also move in and we get them paying very quickly even at times a step or 2 faster than the nationals. So we feel very good about that and really focus on both driving the total lease, but then also driving the rent-paying occupancy.

**Hong Liang Zhang** - *JPMorgan Chase & Co, Research Division - Analyst*

Got it. Great quarter.

**Jeffrey S. Edison** - *Phillips Edison & Company, Inc. - Chairman & CEO*

It was a good quarter, but that really -- that spread that you're talking about and the consistency of it over time is one of the -- just the financial things that explains the difference in our strategy between a big box sort of concept where the leasing takes so much longer to get from lease to open versus our smaller format center.

**Operator**

And our next question will come from Haendel St. Juste of Mizuho.

**Unidentified Analyst**

This is [Ravi Evany] on the line for Haendel St. Juste. I hope you guys have been well. Your variable debt exposure right now after accounting for the swap is about 13%. Is this the level that you're comfortable at or are you trying to reduce exposure of additional swaps? What is your target variable debt rate exposure?

**Jeffrey S. Edison** - *Phillips Edison & Company, Inc. - Chairman & CEO*

John, do you want to take that one?

**John P. Caulfield** - *Phillips Edison & Company, Inc. - CFO, Executive VP & Treasurer*

Sure. Yes, we are at 87% fixed right now, and we do utilize swaps on our term loans. And from our perspective, an advantage of only being 5.5x debt-to-EBITDA and having a laddered maturity schedule is the ability to allow a greater percentage to float at 13%. We are constantly evaluating what the rate market is, but believe that at this time, we are watching and we're being very patient. Thankfully, we have expanded our revolver to $800 million in the quarter that gives us timing in terms of accessing financing in itself. But from a rate perspective, we're watching and at this point are very comfortable with the 13% and we'll be opportunistic on rates, whether it be through issuing in the unsecured bond market or swapping from a term loan perspective as we go forward. But yes, we are comfortable with the 87% at this time.

**Unidentified Analyst**

Got it. That's helpful. Just one more. Your leasing spreads were really strong this quarter. Can you please comment on what sort of mark-to-market opportunities embedded across the portfolio, given the elevated leasing demand?

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**Jeffrey S. Edison** - *Phillips Edison & Company, Inc. - Chairman & CEO*

Devin, do you want to take that one?

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**Devin Ignatius Murphy** - *Phillips Edison & Company, Inc. - President*

Sure. I think if you look at what our spreads have been this quarter, you note that our in-line spreads were over 14%. Our new spreads were over 39%. So our view is that if we were to mark-to-market that on in-line, there would probably be a 15% to 20% in-line increase if we were to do that. And there are a number of things that are driving our -- and this is all being driven by our pricing power and our pricing power is evidenced by the fact that we are enjoying increased occupancy. Our occupancy has increased over 200 basis points. We're enjoying higher retention rates. Our retention rates have increased over 600 basis points. Our lease spreads continue to increase, and we're continuing to get attractive contractual rent bumps.

So all of this pricing power is being driven by the fact that, as Jeff articulated earlier, there's very limited supply being delivered in our sector. And there's a simple fundamental reason for that, which is that construction costs are at a level where rents would need to rise dramatically 40% to 50% from where they are on average in order to get an attractive return on development, so limited supply. And then demand is being driven by the macro trends that we've been talking about now for a number of quarters, which is, suburbanization, work from home, migration to the Sunbelt, et cetera, that we benefit from. So it's a function of all these factors that we believe lead to pretty attractive mark-to-market opportunities in our portfolio.

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**Operator**

Our next question will come from Floris Van Dijkum of Compass Point.

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**Floris Gerbrand Hendrik Van Dijkum** - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

I guess I have 2 questions. Number 1, sort of getting back to the signed not open spread of 60 basis points. Obviously, that's significantly less than some of your sector peers which indicates that a lot of your earnings growth presumably is going to come from your lease spreads. And obviously, you've been -- you've averaged some very attractive lease spreads. But you have about, call it, 10% to 15% of your leases come due each year. So you're looking at, call it, 10% to 15% spreads are less. You have nice growth. Are you also doing other things to boost your same-store underlying growth in terms of increasing your fixed rent bumps? And maybe if you can give a little bit of color on that and how those negotiations are going? And then touch upon the redevelopments, because your redevelopment type, maybe that's the other way an avenue inside your portfolio where you can increase -- your returns on the development are pretty attractive. How much more can you ramp up that pipeline?

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**Jeffrey S. Edison** - *Phillips Edison & Company, Inc. - Chairman & CEO*

Devin, I'll turn it over to you in one second. But our belief has always been that being able to go from leased occupancy to economic occupancy in a shorter period of time is a huge benefit. And that's really what the 60 basis points, I think that you're talking about is showing is that not only are we talking about it, we're actually getting leases signed and getting rents paid in a much shorter period of time than most of our peers. And that does give us a huge benefit in terms of as we lease the space, it's going to hit our results much more quickly than if these -- if you had a much bigger spread there. And so that's sort of how we view it. But Devin, I don't know if you want to cover the -- anything else on the leasing side and the redevelopment.

**Devin Ignatius Murphy** - *Phillips Edison & Company, Inc. - President*

Sure. I mean, Floris, our historical spread has been circa 60 basis points, which is where it is currently. And our portfolio has a number of characteristics that allow us to enjoy this attractive metric relative to our peers. Number 1, our level of retention at above 90% clearly is a factor. Number 2, our average tenant size is another factor, because we're able to get the tenant into the space faster.

Like if you look at the average amount of time that it takes us to get a small shop tenant in the space, it's 5.7 months. And we're doing things currently that are allowing us to maintain this metric, which is we're now preordering certain types of components like HVAC equipment because some of the delay in getting tenants into the space is being created by the supply chain. And so we're trying to mitigate that supply chain issue by preordering it and having it available. And so we believe that this metric will -- we will be able to maintain over time. And as Jeff indicated, it allows us to get the tenant paying the rent a lot faster, which obviously everyone benefits from.

And then your second question, Floris, I think, turn to our redevelopment pipeline. Is that correct?

**Floris Gerbrand Hendrik Van Dijkum** - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

Yes. Actually, Devin, maybe I wanted to maybe delve into the -- your occupancy is probably among the highest in the sector. Your rent spreads are very attractive, and you've got -- again, you're indicating you've got continued strong demand. Are you able to tweak your lease terms to get higher fixed rent bumps or other things that make -- that you can get in your lease terms that make it more attractive for yourselves?

**Devin Ignatius Murphy** - *Phillips Edison & Company, Inc. - President*

Got it. So yes, if you look at what our CAGRs have been over time, like if you look at our renewal CAGR forms, if you look at what it was in the second quarter of '21, it was 2.2%. This quarter, it was 2.64%. So we are increasing our CAGRs as well as getting these attractive spreads. So we are pushing hard to getting our CAGRs as well as getting these attractive spreads. So we are pushing hard to get as much rent growth as we possibly can. And as we've discussed on the call, there are so many factors that are giving us this increased pricing power that we intend to continue to take advantage of. And if you look at the metrics, you can see that we're able to, A, get wider spreads and B, get higher CAGRs.

**Floris Gerbrand Hendrik Van Dijkum** - *Compass Point Research & Trading, LLC, Research Division - MD & Senior Research Analyst*

Great. And then maybe on the redevelopment is there -- do you have opportunity or scope to increase that because the returns seem -- appear pretty attractive?

**Devin Ignatius Murphy** - *Phillips Edison & Company, Inc. - President*

The returns are very attractive, and we've been able to maintain those attractive rates of return. We would like to do as much of this as we possibly can do, and we're actively looking for those opportunities. As we indicated, there is approximately $60 million of this currently under -- in the pipeline. And as you know, we're doing it on land we currently own, but we're also acquiring land that's adjacent to our centers to do it on.

So we believe that we can do circa $50 million of this a year. Our current pipeline is slightly higher than what we've guided to on a go-forward basis. And we're going to work as hard as we can to find as many of those opportunities as we can because those returns, as you know, are highly attractive.

**Operator**

Our next question comes from Tayo Okusanya of Credit Suisse.

**Omotayo Tejamude Okusanya** - *Crédit Suisse AG, Research Division - Analyst*

Congrats on a strong quarter. My question has to do with the stock repurchase program. I mean the stock is up 15% over the past 12 months. It's basically flat year-to-date. It's really down maybe 3%, the past 3 months. I'm just kind of curious why the decision was made to have a program in place and when you may actually buy back stock, under what circumstances?

**Jeffrey S. Edison** - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes, it's a great question. As John talked about in his prepared remarks, this is just adding a tool to the toolbox. We have no intention of -- at the current moment of using it. But market has changed, and we want to have that tool if at some point in time that became a smart use of capital. But I will -- it's being put in that, guys, not in terms of any kind of short-term use of it. But we do want to be able to use that when the opportunity came up.

**Devin Ignatius Murphy** - *Phillips Edison & Company, Inc. - President*

And Jeff -- sorry, I was going to just say to you, I think, I mean, from our perspective, as we had indicated as well, like we think that there are going to be acquisition opportunities, and that's where we're focused is really using our capital for external growth and driving the business that way. But as we said, this is something that our peers have in place. And should the market get out of line, then that's something we'd look at. But right now, we're very focused on pursuing that external growth strategy.

**Omotayo Tejamude Okusanya** - *Crédit Suisse AG, Research Division - Analyst*

And then again, the cautious optimism about the future, I don't kind of fully get it because of the uncertainty out there. Could you just talk a little bit about, again, within your portfolio or generally, when you kind of think about inflection points, is there any kind of retail categories that maybe you are starting to see soften up within your portfolio or even in a particular market, kind of irrespective of just how strong your results were in the quarter?

**Jeffrey S. Edison** - *Phillips Edison & Company, Inc. - Chairman & CEO*

Yes. Our boots on the ground feedback from our agents and you look at the backlog of leases we have, you look at our retention rates, we just are not seeing anything right now. And there are -- we are not finding any categories that would like be sort of a scenario in the coal mine that would say this is going to happen. So we are certainly watching it and looking and actually trying to find it. But right to-date, we have not -- we're not seeing anything. I don't know, Devin if you had any additional thoughts on that one.

**Devin Ignatius Murphy** - *Phillips Edison & Company, Inc. - President*

Jeff, the only thing I would add, Tayo, is that when we look at our portfolio, one of the things that we think we benefit from is the fact that our tenant base is extremely diverse, and that allows us to have a positive perspective on this issue. As you know, our centers are anchored by the 1 or 2 grocer in their markets, and these grocers are doing extremely well.

If you look at our top tenants, Kroger, Publix, Albertsons, they're all enjoying high single-digit same-store growth, and they're maintaining their margins. So our grocers, which are our largest component of our tenant base are all doing well, and we have no concerns there.

And then the diversity comes in next where our largest non-grocery tenant is TJ Maxx, and they only represent less than 1.5% of our ABR. And then when you look at our small shop tenants, they all -- the largest ones all represent circa 1% of our rents. So Subway is 1.1, Starbucks is 1, UPS is 90 basis points. So we're highly diverse, which we think is a real benefit to our strategy, and there are no categories in particular that we're concerned about at this point in time.

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**Operator**

And I'm showing -- this concludes our question-and-answer session. I would like to turn the call back to Mr. Edison for closing comments.

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**Jeffrey S. Edison** - *Phillips Edison & Company, Inc. - Chairman & CEO*

Well, thanks, everybody, for being on the call. And on behalf of the entire management team, I'd like to express our appreciation for the continued support of our stockholders, our associates, our agents and importantly, our neighbors. We're in a great position to successfully execute our differentiated strategy of owning and operating small format neighborhood centers anchored by the #1 or #2 grocer in the market.

We believe the best is yet to come for PECO. We're cautiously optimistic as we approach a difficult -- potentially a difficult environment, but feel very good about the position we're in today. So we look forward to updating you again in the near future. And again, thank you, everybody, for being on the call.

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**Operator**

Ladies and gentlemen, this concludes today's conference. You may now disconnect.

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