REFINITIV STREETEVENTS

EDITED TRANSCRIPT

PECO.OQ - Phillips Edison & Co Inc Update for Financial Advisors And Retail Investors Call

EVENT DATE/TIME: NOVEMBER 07, 2022 / 9:00PM GMT

CORPORATE PARTICIPANTS

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

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

Kim Green *Phillips Edison & Company, Inc. - VP of IR*

PRESENTATION

Operator

Good afternoon, and welcome to Phillips Edison & Company's webcast presentation for its financial advisers and retail investors. My name is Keith, and I will be your conference call operator today.

Before we begin, I would like to remind our listeners that today's webcast is being recorded and simultaneously webcast. I will now turn the conference over to Kim Green, Vice President of Investor Relations. You may begin.

Kim Green - *Phillips Edison & Company, Inc. - VP of IR*

Thank you, operator. Good afternoon, everyone. Thank you for joining us for the PECO GROW update for financial advisers and retail investors. Joining me on today's webcast are our Chairman and Chief Executive Officer, Jeff Edison; and our Chief Financial Officer, John Caulfield. Once we conclude our prepared remarks, we will answer questions submitted via e-mail or through the webcast chat function. After the Q&A, an archived version of the webcast and presentation slides will be published on our Investor Relations website.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 filings. In addition, we may also refer to certain non-GAAP financial measures. Information regarding our use of 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 webcast over to Jeffrey Edison, our Chief Executive Officer. Jeff?

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

Thank you, Kim. Good afternoon, everyone, and thank you for joining us today. Our grocery-anchored neighborhood centers continue to benefit from structural and macroeconomic trends that create tailwinds for PECO as we head into 2023 and beyond. These tailwinds include population shifts from urban to suburban communities, the increase in hybrid work, the importance of physical locations in last-mile delivery, low supply and lack of new construction, wage growth, student debt relief and low unemployment. And most importantly, the retailer's recognition of the benefits to them of being located in growing suburban markets.

Looking ahead, inflationary impacts on the consumer, combined with higher interest rates, introduce uncertainty. However, as we reflect on the resiliency of our portfolio throughout the pandemic, combined with the aforementioned tailwinds, we believe PECO's portfolio is well positioned for a recession. Due to our grocery-anchored and necessity-based neighbor mix, our rightsized format and well-positioned locations in growing markets, our record high occupancy and continued strong neighbor demand, our talented and cycle-tested team, our neighbor diversity and lack of big box exposure and the lack of distressed retailers in our portfolio.

U.S. markets have been negatively impacted this year by higher interest rates as well as continued projections for a global recession. PECO's portfolio is defensively positioned with a focused and differentiated strategy of owning and operating small format, neighborhood shopping centers anchored by the #1 or #2 grocer in the market. Over 70% of PECO's total rent comes from necessity-based goods and services like grocery stores, quick service restaurants, beauty and health care services. We believe consumers will continue to visit and spend in these categories even if they do reduce their spending on vacations, luxury items and other discretionary purchases.

PECO stock price was $29.96 per share as of market close on October 28, 2022. We believe that PECO's stock is currently undervalued and have an active investor relations strategy designed to improve our valuation. This includes a targeted program to add the major institutional funds that are not yet invested in the company. Although PECO's stock price 11% lower year-to-date, this compares favorably to the year-to-date declines in the S&P 500, which is down 18.7% during that time frame.

The MSCI Real Estate Index, which was down 24.6% and our retail shopping center peers, which were down 21.4% during the same period of time. We are currently covered by 10 sell-side research analysts and we work with them to amplify and educate investors about PECO to increase our brand recognition and ultimately drive incremental demand for our stock. These firms include Bank of Montreal, Bank of America, CompassPoint, Credit Suisse, Green Street Advisors, JPMorgan, KeyBank, Mizuho, Morgan Stanley and Wolfe Research.

Our largest stockholders include many high-quality institutional investors. Together, these funds manage trillions of dollars and believe in the PECO story, they're invested right alongside you. And of course, we have shareholders like you who have been invested in PECO from the beginning. We continue to believe there is untapped demand for PECO stock in both the retail and institutional markets.

PECO's differentiated strategy of owning and operating small format, neighborhood centers anchored by the #1 or #2 grocer in the market, which has been consistent since your initial investment in the company continues to result in strong financial and operating performance. As we said last week, during our Q3 earnings conference call, the PECO team delivered another strong quarter with same-center NOI growth of 4.3% and record occupancy of 97.1%.

Our impressive performance allowed us to raise the midpoint of our 2022 guidance for the third quarter in a row, as reflected in our results, 2022 has been a year of reaching record highs in occupancy and re-leasing spreads. Demand for space in grocery-anchored centers remained solid. PECO's leasing team continues to convert this demand into new leases and higher rents.

Additionally, PECO is positioned for growth and to gain share as we identify and buy grocery-anchored centers from a targeted market of 5,800 identified grocery-anchored centers across the United States. Acquisitions are part of our long-term growth strategy, and we will continue to participate in the market while exercising caution in the current environment. We will ensure these acquisitions will be accretive to our investors and we will continue to evaluate each acquisition with the same diligence we have always exercised.

We have acquired approximately $200 million of grocery-anchored shopping centers year-to-date, net of dispositions, and we still have 1 of the lowest levered balance sheets in the shopping center space. With a fortress balance sheet and liquidity, we are prepared for challenges or opportunities that may arise.

I would like to briefly now comment on the recently announced proposed merger between Kroger and Albertsons. Based on what we currently know, we believe that overall, this is positive news for PECO. With an expanded footprint post-merger, we will see our largest neighbor become stronger and more profitable.

Following the merger, these grocery stores will be managed by an operator who has generated higher sales volume productivity at the store level, invest in its physical stores and has a proven ability to drive strong customer traffic to our centers. It's still very early with a lot to be determined. We will continue to carefully evaluate the potential impact. And as we learn more, we will update you accordingly.

With regards to our PECO growth story, which is why you and thousands of other investors have invested with us, our strategy has been consistent since PECO's founding. We own and operate grocery-anchored neighborhood shopping centers. Our differentiated strategy and strong operating results allow us to provide regular income and strong total returns to our investors. We're an omnichannel landlord, our brick-and-mortar grocery-anchored shopping centers provide an attractive alternative for last-mile delivery and buy online or pick up in the store, or BOPIS commerce for the retailers. Our centers are complementary to e-commerce and have thrived in this emerging omnichannel environment. We're well aligned and experienced, Management is PECO's largest stockholder, owning approximately 8% of the company. It's hard to find better alignment than having meaningful skin in the game.

As of September 30, PECO manages 290 shopping centers, including 270 wholly-owned centers, comprising 31.1 million square feet across 31 states. We focus on owning rightsized centers with the #1 or #2 grocer in the area. You might ask why, and the answer is because we know the average American family visits a grocery store 1.6x per week. Our grocers draw consistent daily traffic to our properties. This regular foot traffic benefits the small shops in our centers.

Our top neighbors are strong grocers. Kroger and Publix are PECO's #1 and #2 neighbors, respectively. As we've said, PECO's 3-mile trade area demographics include an average population of 65,000 people and a median household income of $75,000. These are in line with Kroger's and Publix demographics. Our centers are in areas close to the end consumer where America's leading grocers make money. And in turn, our neighbors make money, which allows PECO to make money.

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

All of these factors combined create regular monthly income and strong returns for our investors. PECO's properties and its team have delivered strong performance in all market cycles. We have a consistent track record of growing stockholder value. Our goal remains constant. We are focused on increasing the principal (inaudible) investment and providing income in the form of regular monthly distributions that can grow over time.

PECO announced earlier in September that the Board of Directors approved an increase of 3.7% to the monthly distribution rate. We have said we will increase our distributions as our cash flow increases, PECO has a low payout ratio relative to our publicly traded shopping center peers, 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's guidance for 2022 is to acquire $200 million to $250 million of new acquisitions, net of dispositions, with our plans to acquire $1 billion of assets over 3 years from the date of our company's underwritten IPO.

PECO's conservative payout ratio will allow the company to retain approximately $100 million of cash flow after distributions to invest in these acquisitions and development opportunities. We are proud of our track record of positive results. We believe our future is bright. We are well positioned to increase investor returns going forward. The future of retail real estate combines traditional brick-and-mortar and e-commerce into an omnichannel retail environment.

Today, we primarily see the omnichannel strategy through BOPIS. Customers order their products online and pick them up at our centers. Grocers have embraced BOPIS 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 BOPIS customers. Our centers helped solve the last-mile delivery dilemma faced by retailers, because they are located close to the end consumer, our centers can 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're helping our neighbors grow their own businesses. PECO manages its portfolio as owners, and we make decisions that align with stockholders' interest because we are stockholders just like you. Every associate at PECO receives equity after being with PECO for one year. This creates ownership and alignment and encourages our associates to think like owners.

As we said, PECO's experienced and aligned management team owns 8% of the company. We have serious skin in the game. For 30 years, being a responsible corporate citizen has been integral to our strategy. Our approach has a particular emphasis on environmental stewardship, social responsibility and corporate governance and compliance. We believe that our corporate responsibility initiatives are critical to our success, and we are focused on actions designed to have long-term positive impact on all of our stakeholders.

We are well aligned with our investors' interest and our 30-year track record of success demonstrates this.

Looking forward to 2023 and beyond, we remain optimistic about the future growth opportunities at PECO. We hope you share this excitement and will continue to remain invested alongside us for many years to come. We firmly believe PECO is a great long-term investment opportunity. As the largest stockholder of PECO, I have never sold a share. I do not plan to sell shares anytime soon.

With that, we will now answer your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now open the floor for questions.

Kim Green - *Phillips Edison & Company, Inc. - VP of IR*

Thank you Keith. Thank you, Jeff. (Operator Instructions)

Our first question comes from a shareholder who asks a lot of REITs have moved towards a quarterly dividend. Are you planning to change your monthly dividend to a quarterly distribution?

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

Thanks, Kim, for the question. Thank you for whoever asked the question. The answer is no. We will continue to make monthly distributions. We think they're important to our investors. And as you all know, we are very focused on 2 things. One is growing the principal value of your shares, and two, continuing to have a strong cash dividend. That's something that we want to continue to grow that dividend as we grow the cash flow of the business. So the 2 are tied in our mind to happening. And we do think it's important and is important to a lot of our investors that we continue to have a monthly -- even though it's slightly more expensive to do it monthly than quarterly, the importance is not lost on us, and we're going to continue to do that.

Kim Green - *Phillips Edison & Company, Inc. - VP of IR*

Thank you, Jeff. Our next question, a shareholder asks, Other than grocery, can you provide some other examples of retailers and your centers offering necessity-based goods and services?

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

Sure. There are a lot of them. But the range for necessity is -- depends a little bit upon how you define necessity. But certainly, medical uses are a necessity for people, and that has become an increasing portion of our shopping centers, whether that's your Walgreens Pharmacy or whether that's a medical use where you're getting your medical treatment in the center and having Medicare -- we call it [remed] in terms of medical and retail kind of combined. But that's another big place.

There's a lot of necessity things like getting your haircut, and getting your dry clean done. Those are also places, whether or not you're -- it's a necessity to have a gym at one of our places, that's sort of a judgment thing, but it is -- does bring regular foot traffic to our centers and is something that people see as an important part of their everyday experiences. But if you think of anything that you really need to have on a regular basis and you want to be able to pick it up close to your house, that's what's in our shopping centers.

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

And Jeff, I would also add that on our website on the Investor Relations page, we do provide a quarterly supplemental and there's a page in there that actually breaks down the different categories that Jeff went through because there's -- behind grocery, it goes to quick service restaurant, medical, like Jeff referenced, but includes banks and insurance and dollar stores and the like. So we do have that additional information. So it's available on the website or you can reach out to us at Investor Relations, and we'd be happy to send it to you.

Kim Green - *Phillips Edison & Company, Inc. - VP of IR*

Thank you, Jeff and John, our next question, customer shareholder who asked: How should we think about the disconnect between the strong operating results PECO is delivering and then some of the less positive headlines we're seeing on retailers and the health of the consumer.

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

That's a great question. And we -- I think the way we think about it is there are 2 pieces to that question. One is what's happening in the environment. And there as we talked about in our prepared remarks earlier, there are a lot of tailwinds that are helping our business right now. And those are continuing to have more and more retailers want to be neighbors in our shopping center. So that is a trend that is not really being talked about a lot in the news, but is happening. And that's helping to drive the demand side of what we do.

The other piece is that for the consumer, and I think we all are in kind of the same position, there's stuff we have to buy, the necessity goods and then other things you kind of would like to buy, the discretionary things, whether that's vacation or jewelry or for a present or the things that -- like clothing, where you don't have to have them. And what happens in a recession and has for us historically is the first thing that goes is the discretionary spending. And the customer decides what do I have to have and what would be nice to have. And most of all, what would be nice to have is the stuff that you're actually hearing about in terms of the customer being more conservative in terms of their buying habits.

But it's also very early. We're -- the tightening of the FED does take time to get to have its impact. And I think we're in very early days of having that impact felt across the board for the customer. But we will see it. And fortunately, with our groceries and our necessity-based retail, you look at it, and those are the areas that are going to prevent sort of a major decline like you would in some of the other parts of the retail business.

Kim Green - *Phillips Edison & Company, Inc. - VP of IR*

Thank you, Jeff. Our next question comes from Maxwell and he asked, how has the rising interest rate environment changed your approach to acquisitions and new developments? And how much has inflation impacted your IRR on new development?

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

It's a great question and 1 that we're spending a lot of time internally talking about. And we really look at it as our cost of capital, which is if we want to buy a property or build a property, what does it cost us to raise that money? And part of it's debt and part of it's equity. And the debt side has gone up pretty dramatically. And as our stock price came down from its highs, that's gone up a little -- some as well. So today, our cost of capital is higher than it was 12 months ago. And because of that, when we're going to underwrite a property to buy, we think we have to get an unlevered return well north of a 9% return, whereas only a year ago, that was an 8% return.

So we're being tougher on the underwriting, and then we're also raising our -- the point at which we would be willing to buy. And we think that that's the prudent thing to do in this environment. It will probably slow down the acquisition pace. And -- but from our perspective, we are still committed to buying $1 billion of real estate 3 years from the IPO. We still think we can meet that goal, and it's an important goal for us. But we're going to be conservative in these times where things are changing because we think they're going to create some great buying opportunities for us.

And one of the things that we did last year was we raised about $100 million through our issuing new stock through our ATM. And what that did is that reset our acquisition position, and today, we're at 5.4% debt-to-EBITDA. Well, that's what we were right around when we got the IPO done. So we do have $1 billion from where we are today to be able to buy on a going-forward basis. which we think should help to create the external growth in addition to the internal growth we're going to get by increasing rents and growing occupancy.

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

And Jeff, just to add, I think there was also a question about the impact on new development. And that is something that we continue to invest in. And the benefit is that even though there have been rising costs, the way that we do development in our outparcel development is very secure as we work with these retailers that want to be at our centers. So we work very closely to ensure that as we are getting our cost assessments, we're matching the rental rates and the leases to get there, because as Jeff was articulating in the tailwind discussion, these retailers know that they want to be at our centers in our markets. And we're able to align that more closely, and that's something that we watch more than we ever did before because of that rate of change. But we are still able to produce our development in getting a yield in the 10% to 12% range.

Kim Green - *Phillips Edison & Company, Inc. - VP of IR*

Thank you, John. Thank you, Jeff. Next question, a shareholder asks, when will we receive our 1099 tax forms for 2022?

So I can answer that one. As you know, last week, we announced that the Board approved distributions for December, January and February, and we shared that information on our Investor Relations website. So the 1099 tax forms for 2022 should be mailed out by mid-February, including 1099-B forms. In addition, just looking at the calendar, your fourth quarter statement should be mailed out to shareholders by mid-January. So just wanted to provide that update.

Jeff, another question coming from the shareholders who asked how has food inflation impacted your grocery neighbors?

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

Well, the answer is it's actually been surprisingly a positive for them. They have been able to pass that cost on to the consumer at this point. So they're not seeing a deterioration in their margins and yet they're selling -- their sales are up because there's -- a box of Cheerios costs 7% more or 8% more than it cost a couple of months ago. So that inflation, as long as they're able to pass on the consumer, has been a net positive for the grocers.

What we're really watching is can they keep their margins up because that will be an indicator that they haven't been able to pass them fully on. And at that point, you'll start to see some deterioration in their profitability. We have not seen that yet, but certainly something that we're watching for. Generally, most retailers like a small amount of inflation better than a really low inflation environment, but they don't like the kind of environment we're in now where it's -- you've got very large amount of inflation. I think 3% inflation they're happy as can be, 6% is not good. So that's how they're -- they kind of look at the benefits and costs of inflation.

Kim Green - *Phillips Edison & Company, Inc. - VP of IR*

Thank you, Jeff. That concludes our question-and-answer session. If we didn't get to your question today or you didn't have a chance to ask a question, please send us an e-mail to our Investor Relations team. You can also find contact information on our Investor Relations website. And with that, I will turn the call back over to Jeff for some closing comments. Jeff?

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

Thanks, Kim, and thanks, everyone, for being on the call today. And as Kim said, reach out to us if you have questions, we are happy to answer them, and look forward to hearing them. So our year-to-date results continue to highlight the strength of PECO's focused and 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 superior financial and operating performance.

Our experienced and cycle-tested team integrated operating platform and grocer-anchored strategy placed PECO in a strong position despite an uncertain macroeconomic environment. Our fortress balance sheet and liquidity will allow us to take advantage of opportunities as they arise.

On behalf of the entire management team, I'd like to express our appreciation for your continued support. We hope you share our excitement about the future growth opportunities of PECO and remain invested alongside us for many years to come. Thank you again for your strong support and being on the call today. Have a great rest of your day.

Operator

Thank you. And this concludes today's teleconference. Thank you for attending today's presentation, and you may now disconnect your lines.
