# Phillips Edison & Company | BOFA 2026 Global Real Estate Conference | September 15, 2026

Speaker 1:

All right, everybody. Welcome to the Phillips Edison Round Table. Happy to have Jeff Edison, CEO of the company with us here today and maybe introduce your team and then opening remarks please.

Jeff Edison:

John, our CFO, and Kim, our head of IR. And in terms of opening remarks, it's great to live in interesting times. We don't need things to be this interesting because it's really trying to figure out what's going on. I mean, we're in one of the best operating environments we've been in. We saw a little run up over the last 45 days ago, and then all of a sudden it starts going back and the operating market is as good as it's ever been in terms of leasing, leasing margins, leasing occupancy, all just very, very strong, record kind of strong, not just good, but really as good as they've been. The acquisition market, our volume is going to be as high as it's been, quite a bit higher actually than it's been any time since we've been public. And at numbers that we think are very consistent with what we've been targeting. 9% unlevered IRRs on what we're buying. We're buying in at about a 6.7 initial yield. So very strong dynamics there.

So you got great operating environment, you've got a great acquisition market where we're selling stuff at basically a 5.9 yield. So we're buying at a 6.7 and we're selling at a 5.9. We have a really strong ask and buy on that side. Again, we've increased our disposition numbers as well at those kind of rates. So yeah, if I woke up and I said, "This is as good of environment as you can get, but the market's not trading great." And there are obviously a lot of explanations for that. What we're focused on is continuing to do the things that we influence, which is put great numbers on the board, which I think we have and will continue to do throughout the year. And then the market will do what the market does.

Over time, what we're committed to is growing our FFO per share mid to high single digits, paying a 3.5% plus dividend and getting a 10% return for investors year in, year out in a hard asset, low-leverage business. We think that's a good return. And our management team owns more of PECO than any other of our peers in terms of percentage of it that's owned by the team. So we're not talking... I mean, we have skin in the game and we're going to keep skin in the game because we believe in this business and we think that it is, particularly in environments where there's uncertainty, we have a lot less beta in what we do, but we're convinced that we got a really good alpha and we're putting scores on the board that would say we got good alpha.

So that's our opening remarks, what we're feeling. But as we said, we're going to keep taking advantage of what is a very strong market and growing the business.

Speaker 1:

Maybe on the flip side of that, you look at recent news, grosser earnings, right? They've talked about softer consumers spending, some pressure there on the lower income consumer. I guess what are you seeing across your portfolio today?

Jeff Edison:

The consumer is actually doing really well. Two months ago we were talking about the K and everything's going to be... The lower end of the market's not going to do well. Well, that's sort of gone

because the lower end's growing faster. Our market is the top of the K anyway because if you look at our median household income of our centers, it's whatever, 17%, 18% higher than the median. So that's what we service and that's what we're in density and incomes that are above what Kroger is and Publix are, which are our two largest tenants. So we're doing well in that. So this concept that the consumer is having trouble is one that... I mean, the credit card debt and all that, those are actually pretty healthy right now. You're hearing stories like, "Oh, the consumer's in trouble and having..." But you're not seeing it. We're not seeing it.

And one of the things that we look at really closely is our local neighbors. Those are what would be called mom and pops, but they're really the true entrepreneurs, the people who are counting on that business as what they're going to pay their rent with and what they're going to pay for their house. That's what they live on. Every time when they renew a lease, they come back to us and they have to make a decision, what are they going to do? And they can walk from the deal if it's not profitable or if they see the future is not profitable. They can extend for a year or two and just kind of see what happens or they can extend their leases for long term. They come at us negotiating and we keep very close look at that.

Today, that retailer is looking for longer term and they're renewing at 90% of their spaces. So you think about that, that means the person who knows the consumer the best, which you can have all the talking heads, you can have all the research you want. There's nobody who knows the consumer better than the entrepreneurial, local retailer because they actually know when somebody's husband or wife got laid off. They know why they're buying something and what's too expensive, what's not. That is their job. They're making the bet on a long-term basis. They want to be there. They're trying to tie up the space for as long as they can. That to me is probably, it's certainly one of the things we watch really closely and encourages us that we're in a much better position than what you're kind of hearing about from.

Speaker 1:

Maybe taking that, expanding that a little bit, as you think about the shopping center space overall, what are the biggest risks facing the industry or the sector over the next 12 to 24 months, you think?

Jeff Edison:

Our stuff is grocery anchor shopping centers, right-size grocery anchor shopping centers with small stores that provide necessity based goods to the group. So my answer to you is based on that because there are a lot of people in the open air space who are doing more discretionary spending and that stuff. That's not where we spend our time. In that particular market, the necessity based side, it's very strong. The consumer is not... We're not seeing the consumer react in any sort of dramatic way. As a matter of fact, they're actually spending more. And so that would be, we think, a positive.

Speaker 3:

I think that when we look at, it's a negative sided question why we want to try to be positive, but I think if you look at it from a risk perspective, that is kind of how we conservatively approach the business. When you're focused on necessity goods and services, you're focused on the best retailers of the grocer. Ultimately, that's why we often talk about we have less beta. And so when you look at the different things going on, and your first question was talking about retailer earnings, there's an adjustment, but the large nationals, Jeff highlighted the locals, but nonetheless, they're incredibly adaptable. So Kroger's same store sales were a little softer, but they reaffirm their profit guide.

And so ultimately, as you look at that, they're continuing to grow. They're going to continue to operate. We actually think that. I think some of the things from the headlines that we're hearing is perhaps it's interest rates or inflation. Well, actually these retailers, they actually like some inflation that allows them to pass along price increases more easily. And when we look at interest rates, we actually think that's an advantage to us because when we talk about the acquisition market, that has just made it that much more expensive for the levered buyer. And so in our space, maintaining the balance sheet that we have and being lowly levered like we are, then those moves give us an opportunity to play a bit more offense in that market.

But ultimately, I think when we've back tested and we look at the GFC and we look at the pandemic and things, our real estate has performed exceptionally well because of the resilience of the local retailer of that grocer and the consumer spending for necessity-based goods and services.

Speaker 4:

Maybe just on the grocer specifically, any concerns about grocer health or M&A potentially leading to closures? I mean, we had Kroger-Giant Eagle announced earlier this year, any updates on divestitures there or closures?

Jeff Edison:

So you're going to see any M&A activity is not going to include closures. They can't get it through the government if that is part of the plan. Now long-term, could that happen? Yes. It's not going to happen in any kind of short-term merger conversations. That being said, I don't know as many people know as there is. Kroger's built on mergers. I think they have close to 19 different brands that they keep. They're going to keep the Giant Eagle brand when that transaction closes because they actually use the brand and the brands are really important to the local customer that they don't change it. They bring in their product, they bring in a lot of things to change the way the business is run, but they don't change the name.

I think the Giant Eagle thing is a good example. I think you will continue to see, particularly the family owned, the Schnucks of the world, maybe the Cub Foods, you'll see potentially some of the Albertsons brands potentially getting sold. You will see some of that. There'll be some M&A transactions, but that's actually more normal for the grocery business than not having it, which really has been blocked by the government with the Albertsons thing, just basically put a stop on any kind of M&A activity until that was real. That took two and a half years, three years to get resolved and not happening. I think that is probably a pretty good go with it.

Speaker 3:

I think the other piece is that when we look at the PECO portfolio specifically, this really goes to the importance of having the number one and number two grocer in the market, which over 80% of our shopping centers have the number one or number two grocer in the market. Because when these pieces come up and there are those questions, we look at it and we're able to say this is a great grocery anchor location and ultimately gives us confidence in that someone will be there. And you go and you say, okay, Albertsons didn't have the sale. Well, maybe they'll separate certain brands. We know the markets that they're actually very successful in and then in other places and that sort of grocery knowledge allows us to curate our portfolio to be quite strong.

Jeff Edison:

And it's a critical part of understanding the business. It's not whether you have Albertsons or Kroger, it's what market you have Kroger. If you have Kroger in Denver, you have the dominant player in Denver. King Sooper just kills it compared to everyone else. But if you have the Albertsons there, the Safeways are okay, but they're not great. You're going to pay. There'll be 50 to 100 basis points difference in cap rate between a Kroger center in Denver and a Safeway center. And it's that way in literally every market across the country, which is why you need to... It's not whether you have Kroger or Albertsons, but what market you have them in.

Speaker 1:

I just want to stop there to see if there's any questions for the audience. Okay. Really good, John. On non-monetary clauses, as we think about on renewals, the renegotiation of that, whether it's restrictions, can you quantify the incremental NOI that can be there to get unlocked?

Jeff Edison:

It's very complicated to get you a hard number on that, because it is things like being able to develop an outlot that you couldn't get before. The controls are almost all at the grocer level. Our small stores have very little control of what we do, and we don't give them control. We never have given them control of how we operate the shopping center. Some of the anchors will have visibility things, so the negotiations with them are more about sight lines and the ability to put outlots into spaces. And then probably the most important, and this is particularly important when you're buying a property, is what restrictions they have on what merchandising mix you can put in the center, because that can definitely constrain what you can do in terms of turning around a shopping center and getting the right merchandising mix for that shopping center. And that's really changed a lot in the last three to five years as they still ask for stuff.

The grocer always asks for stuff and any of the anchors who have some of the exclusives, they ask for stuff in exchange for that, but it used to be no. The answer was no for a long time. Now you're getting the ability to trade certain pieces for that, and it does unlock outlots, it unlocks leasing opportunities. Importantly, it allows you to merchandise your center to the right kind of retailers, which allow you to grow rents more. Those are the pieces that we're seeing in-

Speaker 1:

More of today.

Jeff Edison:

... today than we have for a long, long time.

Speaker 1:

Got it. And then maybe switching to external growth acquisitions, which is a big part of your strategy, maybe talk about what you're seeing in the transaction market out there. Clearly, you're seeing from all the meetings we've been in, cap rates continue to compress. Talk about the competition that you're facing today in the market.

Jeff Edison:

Yeah. So we started the year targeting 400 to 500 million of acquisitions this year. We increased that at mid-year to 500 to 600. Currently, what we bought and have under control is at the very high end of that range. So we've had a very strong acquisition activity so far in the year, and it's been in a wide variety of markets, but nothing that we would. It wasn't sort of where you would think Florida and Texas being the biggest, California being large, Washington. We bought some stuff in South Carolina, we bought some stuff in Minnesota. So it is, as you'd expect, the PECO, it's spread across the country, which is what our platform is.

There are more buyers in the market. Grocer anchor shopping centers are in favor. They're in favor among institutional buyers. They're in favor in family offices. So there are more buyers in the market and each segment probably has a little bit more demand than it has historically. Most people were underweight grocery anchor shopping centers, and I'm going to keep focused on grocery anchor shopping centers, not on power centers and malls and other parts of retail because that's the market we know and we're not in those other markets.

The institutional demand has been high. When there is strong institutional demand, pricing usually gets way beyond something we're willing to get involved in. We've looked at a lot of portfolios this year and the private equity buyers have been the buyers of that. These are multi-billion dollar portfolios, so they're sizable, but private equity has had the highest bid on literally every single major real estate or retail real estate portfolio that it's predominantly grocery anchored. We've been participants. We have not been winners of any of that because the pricing's gotten to levels that we're not going to go to.

Speaker 1:

How far off do you think you were percentage-wise?

Jeff Edison:

Yeah, we were probably 20%, 15% to 20%, so sizable. I mean, not a little. It wasn't 0.5%. But in most cases, it's been a private equity firm that was sort of buying on a thesis as opposed to... They were going to buy it. They decided they were going to buy it and whatever they had to pay for it, they were going to buy it. And that included Blackstone, including Ares as the two buying the biggest portfolios. There are a couple of others, the Slate portfolio and one other where it's going to be sort of private equity, but it's going to be high return private equity, more opportunistic kind of stuff. That's what was playing out in the market.

So we continued to do what we do really well, which is buy asset by asset, market by market, and our markets are a three-mile radius around where the center is the number one or two grocer. And in that market, we've had tremendous success in performance and performance better even than what we underwrite too. So that's been what we will continue to keep focused on.

Speaker 3:

And if I can, I'd like to tie this question into the first bit of the questions because I actually think there's a real opportunity here because we review several hundred million dollars worth of properties every week in investment committee. So we have a great pulse on the private market values and where shopping centers are pricing. And if we look over the last 45 days, two months, I think the retail stocks in PECO, our stock has retreated on headline concerns about the consumer. And I think the continued strength is a real buying opportunity in the public space because institutions are buying, we are buying, we know where this is valued. And I think ultimately as that consumer remains strong, the hope will be that there will be improvement there.

Jeff Edison:

If you think about the stuff we sold this year, I think we've announced it's about 150 million, but we're going to be somewhere between 100 and 200 in terms of guidance. That product sold at a 5.9 yield, initial yield. We bought at a 6.6 yield. You can make a lot of money doing that. And then when you add onto that, that what we're selling is stuff that... And these are transactions, so it's not like where we think the market is, it's where the market is. And our ability to sell at that kind of a spread, I think gives us confidence that we're not only going to get spread, but we also... The stuff we're selling is probably in our mind a 7% yield or 7% unlevered IRR that the buyer is going to get, and we're buying at a 9. So we're not only spread investing at the beginning, we're also adding a really strong growth opportunity to the company on a long-term basis.

And that's a seven-year underwriting for the stuff we're buying. So that gives you... As well as what we're selling, I think it's a great trade and I think it will provide outsized growth for the company over a long period of time.

Speaker 1:

And with rates that you look at where 10-year treasury is above 5%, does that hinder your ability to continue to acquire?

Jeff Edison:

Well, we'll see. I mean, it's kind of early on the rate changes. We haven't seen any sort of major changes yet, but we would anticipate there being some. I think we got to wait and see if it does have any kind of major impact on volume and what our competitors are [inaudible 00:23:50].

Speaker 3:

I do think that it brings in a point that we talk about internally a lot, which is match funding. And so ultimately the ability of where we've been able to sell assets to buy assets, as Jeff was talking about, that difference in IRR, we have been the largest individual asset buyer of grocery anchor shopping centers, the largest one in the country for the past 15 years. I mean, we have bought throughout all cycles over 35 years that Jeff's been running this business. And so there will be opportunities. Interest rates definitely will have an impact, but it takes a little bit longer, but that match funding is really important.

We raised equity in the second quarter and we're able to deploy that accretively and then add to our growth, and that's kind of what we're looking at. And so the first piece with interest rates going up, it's actually helpful because now the levered buyer, it just got a lot more expensive for them. So ultimately all cash buyers, and when you're 30% levered, those moves have a lesser impact on us. That said, it should have an impact on cap rates. That actually should improve the yield and the returns, and that will come about. But that's where I think, well, we're kind of doing both sides. I should say, we have the ability internally to acquire $300 million of assets every year with leverage neutral.

Our leverage target is loading at five times because we retain over $120 million of cash flow to the dividends, which we just raised 6%. And so between the retained cash flow, the growth and the EBITDA of the overall business, it gives us that capital to deploy. And depending on the environment, it could be more development and redevelopment where we're building out parcels. We have not done it yet, but certainly stock repurchases would be something to consider. But at the same time, we're not going to go back and forth where I just issued it last month and buy it back this month. The disconnect is we're focused on long-term growth, Jeff mentioned being owners and operators. Today's acquisitions are driving NOI growth in '27, '28, '29, and beyond, and we're really focused on that long-term growth of the company.

Speaker 1:

Maybe on the platform, with investors that look at your company, your stock, what would you want investors to better understand about your strategy, the differentiation, your strategy versus other shopping center REITs?

Jeff Edison:

Yeah. One, product differentiation. I mean, we are grocery anchor shopping center buyers. We buy centers at the corner of Maine in Maine that deliver necessity-based goods to the consumer. That is what we do. You'll see in terms of who our leading neighbors are. We're Kroger's largest landlord. We're Publix's second-largest landlord. We're one of Sprout's top five landlords. We are in the grocery anchor shopping center business. Our top list is not power center tenants, it's grocers. And that I think is unique in the business and part of what we think that combined with our necessity-based focus on the small store space provides a really good foundation, which fundamentally has less beta than other retail.

If you just think of in your own life experience, there's stuff you do discretionary-wise and there's stuff you do in necessity-based. Food's probably your number one necessity-based thing. Now, you may buy at a restaurant instead of buying it at the grocery store, but food is not one of the things you say, "Yeah, maybe I'll eat next week." But the shirt you might buy next week or buy later. That's the beauty of our product. So there is less beta naturally in buying necessity-based things. What we've combined that with is the ability to have two really strong channels of growth. One is internally being able to grow this cash flow on a property by property basis. And then the second is to use our expansion both on the redevelopment side, but also on the acquisition side to give us more alpha. And that is what we love about the business. And as a large shareholder, that's what I love about business.

And we've been doing it for a long time and we went back actually and looked at, okay, what returns have we gotten for our investors over 35 years? And if you look at it, and there are different sort of segments, the first segment did extremely well, like 40% IRRs over 35 years. We don't have a lot of those investments in our lives, but that one was great. As you move out, it ends up kind of circling around 12% to 13% unlevered IRRs, or that's a levered IRR. So these are numbers that we've proven we can sustain over extended periods of time, not just in... And so, if you think about 35 years, we think everything's happening now. We've had a lot of these experiences over time that these necessity-based retail has actually survived through and not only survived, but delivered really strong returns to the investors.

Speaker 1:

Okay. We've got a couple minutes here. Time for rapid fire questions. Yeah.

Jeff Edison:

Oh, no.

Speaker 1:

All right. Number one, if long-term rates stay higher for longer, which has the biggest impact on your sector? Is it higher refinancing costs, is it lower transaction activity, or less new supply?

Jeff Edison:

Must be supply.

Speaker 1:

Okay. Over the next three years, will third-party capital become a more important source of growth for public REITs than balance sheet capital? Yes or no?

Jeff Edison:

Yes.

Speaker 1:

And finally, for your sector, will next year's same store NOI growth be higher, the same, or lower versus this year?

Jeff Edison:

For what?

Speaker 1:

For your sector, same store NOI growth next year, is it higher, same, or lower?

Jeff Edison:

I think it'll be similar.

Speaker 1:

Yeah. Okay. All right. Thank you everybody.

Jeff Edison:

Yeah. [inaudible 00:30:40].