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EDITED TRANSCRIPT

PECO.OQ - Phillips Edison & Co Inc To Host PECO GROW Update

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PRESENTATION

Operator

Good day and welcome to Phillips Edison and Company's webcast 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. Kimberly, you may begin.

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

Thank you, operator. Thank you for joining us for our February 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 archive 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 these and reconciliation of these measures to our GAAP results are available for download on our website.

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

Jeffrey Edison - *Phillips Edison & Co., Inc. - Chairman, Chief Executive Officer*

Thank you, Kim. Good morning, everyone, and thank you for joining us. The PECO team delivered market-leading operating results in 2024. We believe we have one of the best teams in the shopping center space. The PECO team remains focused on maintaining our unique competitive advantages and driving value at the property level. The consistency of our solid results is a testament to our differentiated and focused strategy of owning high-quality, right-sized, grocery-anchored neighborhood shopping centers.

Retailer demand across our portfolio remains strong. This is most evident in our high occupancy, strong rent spreads, and leasing pipeline. Retailers want to be located in our centers where top grocers drive consistent and recurring foot traffic. PECO's leasing team continues to convert this demand into higher 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 Sun Belt, population shifts that favor suburban neighborhoods, and the importance of physical locations in last-mile delivery. The impact of these demand factors is further amplified due to limited new supply over the last 10 years and expected going forward. This is due to the fact that the cost of construction is too high compared to current market rents. Current economic returns do not justify new construction of shopping centers.

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We believe your investment in neighborhood grocery-anchored and necessity-based retail provides you with economic resilience and the opportunity to realize additional growth from here. We believe our neighbors are well-positioned in today's retail environment. We believe it's good to be invested in grocery-anchored retail and necessity-based goods and services.

Our largest shareholders include many 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 is untapped demand for PECO stock in both the retail and institutional markets.

Looking at total returns, PECO's three-year total return is 23.2% as of December 30, 2024. We currently expect to deliver approximately 5% core FFO per share growth at the midpoint of our 2025 guidance which were released on February 6. Combined with PECO's 3% dividend yield, this would equate to a total shareholder return of approximately 8% in 2025.

PECO has always been a growth company. The quality of PECO's cash flows is important to acknowledge as we continue to grow our portfolio accretably, stay true to our core strategy, and create long-term value for our shareholders. We have been strategic in our decision-making to best position PECO so that we can take advantage of opportunities for growth, both internal and external.

Given the strength of the market, we believe we can achieve $350 million to $450 million in gross acquisitions this year. We have the capacity to acquire more if attractive opportunities materialize. We closed on nearly $100 million of acquisitions in the fourth quarter. We currently have several acquisitions in our pipeline, either under contract or in negotiation. These total over $150 million which we expect to close in the first quarter and early second quarter. We continue to target an unlevered IRR of 9% for our acquisitions. We are disciplined buyers, and we will continue to be disciplined as we go forward.

In addition to our acquisition growth, we continue to invest in value creating ground-up outparcel development and repositioning projects. This activity has been a great use of free cash flow and is expected to produce attractive returns with less risk. We continue to grow this pipeline as the returns have been accretive to our high-quality portfolio.

Our low leverage at approximately 30% loan-to-value gives us the financial capacity to meet our growth targets. We also have diverse sources of capital that we can use to grow and match fund our investment activity. The combination of our ability to drive cash flow growth from our existing portfolio and to invest accretively in new acquisitions gives us confidence that we can deliver mid to high single-digit core FFO and AFFO per share growth on a long term basis. We believe PECO's high-quality portfolio allows for better long term core FFO and AFFO growth than our shopping center peers.

In addition to this earnings growth, we believe PECO offers a solid dividend yield with room to grow. We have raised our dividend each year since our IPO. We remain committed to continue to grow our dividend as we grow our cash flows. Given our demonstrated track record through various cycles, we believe an investment in PECO provides shareholders with a favorable balance of quality cash flows, mitigation of downside risk, and strong internal and external growth.

In summary, the quality of our cash flows reduces our beta, and the strength of our growth increases our alpha. Less beta, more alpha.

I will now turn the call over to Bob. Bob?

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

Thank you, Jeff. Well, good morning and good afternoon, everyone, and thank you for joining us. We are excited about the future growth opportunities at PECO. We hope you will continue to remain invested alongside us for many years to come. Here's why we are excited about the future of PECO.

We own and operate high-quality grocery-anchored neighborhood shopping centers anchored by the number one or number two grocer by sales in a market. Our differentiated strategy and strong operating results allow us to provide regular income and strong total returns to our investors. We are an omnichannel landlord. Our neighborhood centers are complementary to e-commerce and have thrived in this emerging omnichannel

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environment. We're well-aligned and experienced. Management is one of PECO's largest stockholders. It is hard to find better alignment than having meaningful skin in the game.

For over 30 years, we've 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. The average median household income of $88,000 is 12% higher than the U.S. median. The 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. Approximately 70% of PECO's total rent comes from necessity-based goods and services. This focus drives 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 locally smart to ensure the right mix of neighbors for the communities they are in. 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 resolve of our grocery-anchorage strategy and focus on necessity-based goods and services. All of 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. We are confident in the stability of our distribution rate which allows us to invest meaningfully in our portfolio and drive additional cash flow growth.

PECO offers 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 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. PECO is well-positioned to continue to drive strong shareholder returns.

We are an omnichannel landlord which allows us to capitalize on the future of retail real estate. Our brick-and-mortar centers are critical component to both last-mile delivery, and buy online and pick up in store or BOPIS. Through BOPIS, customers order their products online and then pick them up in 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 neighborhoods they serve. This makes them ideal for BOPIS customers. Because they are located close to the end consumer, our centers can also act as local distribution points serving the surrounding neighborhoods. We believe 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 shareholder 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. The PECO team thinks like owners, and we believe it shows in our portfolio. When we think like owners, we understand the importance of every one of our neighbors and creating the right merchandizing mix and shopping experience at every center.

When we think like owners, everyone benefits. Our approach makes us a preferred landlord validated by our 96% satisfaction score from our most recent neighbor survey.

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

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Jeffrey Edison - *Phillips Edison & Co., Inc. - Chairman, 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 individual shareholder, 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 in the near future. We appreciate your confidence in our team and your many years of support. We could not be more excited about the growth opportunities ahead for PECO. We sincerely thank you for your investment.

We will now answer your questions.

QUESTIONS AND ANSWERS

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

Thank you, Jeff. We will now begin our question and answer session. (Event Instructions)

Our first question comes from an investor. It's a question more focused on growth. PECO delivered strong earnings growth of 3.8% in 2024 and you're expecting 5.1% growth at the midpoint for 2025. What is driving this and where do you expect earnings growth to be long term?

Jeffrey Edison - *Phillips Edison & Co., Inc. - Chairman, Chief Executive Officer*

Why don't I take that? This is Jeff. We are pleased with our targeted earnings growth rates for 2025 which are near the top of the shopping center peer group. PECO's earning growth in 2025 will be driven by both internal and external growth. The combination of our ability to drive cash flow growth from our existing portfolio and to invest accretively in new acquisitions gives us the confidence that we can deliver mid to high single-digit core FFO and AFFO per share growth on a long term basis. When you combine that with our dividend, that's over a 10% return. We believe PECO's high-quality portfolio allows for better long term core FFO and AFFO growth than our shopping center peers.

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

Thank you, Jeff. A couple of questions on the health of the consumer in the overall retail environment. So Bob, probably a question for you. Can you speak to PECO's current view on the consumer? And what is PECO's current outlook for the retail environment?

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

Thanks, Kim. Appreciate the question. Well, we continue to see a resilient consumer and steady foot traffic to the properties. And really, the strength of consumer is through the lens of the demand that we're seeing from not only our neighbors, but the neighbor demand continues to be strong with no signs of slowing. I'll give you an example. I was at the New York ICSC show in December and I was meeting with several retailers. And the retailers, they want to be next to the number one, number two grocers. They want to be close to Kroger and Publix. And we're seeing that they're trying to find locations in our portfolio for not only 2025, but 2026 and 2027. And what we continue to see is this migration from urban to suburban. And with our footprint of around 115,000 square feet, it's one of the best operating environments I continue to see, and the retailer demand is not slowing down. And certainly, with the visibility that we see with leasing spreads, renewal spreads, and demand from the retailers, it's very, very positive. So I'm encouraged with where we're at and where we're headed.

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

Thank you, Bob. Another question, maybe Jeff, this is probably a good one for you. How does PECO's outlook change if the U.S. would move into a recession? Wouldn't PECO's demographics be hit the hardest?

Jeffrey Edison - *Phillips Edison & Co., Inc. - Chairman, Chief Executive Officer*

It's a great question. We are not seeing a recession as a likely impact. But we've proven through the last two major recessions, both the pandemic and the great financial crisis, that our operate very well. I mean, we lost, I think 1.7% of occupancy in the great financial crisis and less than a point in occupancy during the pandemic. These are signs that are really an outcome of what we do which is we deliver necessity goods to consumers close to their home. And we do that in an environment that is convenient, safe, and easy for them. And when you have the number one or number two grocer drawing that traffic, and then you have necessity-based goods, we are more recession-resilient than anyone else in the retail business.

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

Thank you, Jeff. Next question, are PECO's retailers worried about the impact of tariffs? And are PECO's retailers worried about potential higher inflation?

Jeffrey Edison - *Phillips Edison & Co., Inc. - Chairman, Chief Executive Officer*

The tariffs question I think is one we get a lot and I think our retailers are concerned about it, but I also think that they are taking a wait-and-see-what-happens approach to it. I think with regard to inflation, they've proven through the high inflation we've had over the last three or four years, most of that they can pass on to the consumer at this point. And I think what they're looking at is how strong is the consumer and will the consumer continue to spend depending upon what the impact of those things are. And today, I think they're proving that being in the necessity-based part of the business is the best place to be in most economic environments.

So I think we feel like yes, tariffs could happen. They're probably going to be transitory as opposed to permanent. And our retailers believe that they will be able to pass that on to the consumers. And as we said a number of times with you guys, our retailers do well when there's low, medium inflation. They don't like 9% inflation. I don't think anyone does. But when it's 3%, that's a pretty sweet spot for them particularly because they can pass it on the consumer and they can take more profit out of their stores that way. So they generally are taking a wait-and-see approach to what if any tariffs happen and then what that kind of impact is.

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

Thank you, Jeff. Our next question is focused on acquisitions. Last year, PECO acquired a little over $300 million in assets, and we increased our acquisitions guidance range for 2025 compared to last year. Could we buy more? And how is PECO sourcing its acquisitions?

Jeffrey Edison - *Phillips Edison & Co., Inc. - Chairman, Chief Executive Officer*

We did bought $300 million of properties last year, closed $100 million in the fourth quarter. And as we said at the last meeting, we anticipate about $150 million of acquisitions first quarter of this year, maybe a little bit into the second quarter. So we have a really strong backlog of acquisitions going into this year and anticipate that continuing to be a solid market.

There is. competition. Grocery-anchored shopping centers are the preferred real estate type right now, so there is increased competition. But we're also seeing good supply. So we think that there is opportunity, that's why we raised our guidance. And the beauty of having a really strong balance sheet is if we find better opportunities, we can take advantage of them. So we're very positive about where we are right now and where the market is. And we hope that it will provide for outsized external growth this year for the company.

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And as we've said a hundred times, PECO is a growth company, it's in our DNA and it's part of what we do. And in this kind of environment, I think we're poised to take advantage of that opportunity as it arises. But as always, we're very disciplined in our approach. We have a very disciplined underwriting of everything we buy. We're targeting a 9% unlevered IRR with our acquisitions which increases the growth and our ability to invest in a very accretive manner.

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

Thank you, Jeff. Another question related to acquisitions. This one probably for you, John. How does PECO plan to fund its acquisition activity in 2025?

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

Thanks, Kim. Thankfully, good morning and afternoon everyone, PECO continues to have one of the best balance sheets in the sector and especially with these expanded plans, we're well-positioned to fund that. I had an old CEO that I used to work for once told me the number one way CFOs lose their job is they run out of money. So definitely staying out in front. So our leverage is about 5 times, 5.0 times on a net debt-to-adjusted EBITDA basis or about 30% of loan-to-value. And that actually gives us a lot of advantages including the financial capacity to grow as we grow. But we were upgraded to a BBB flat Baa2 in 2024. But we actually have access to a variety of different sources of capital that we can use to grow and match fund our investment activity.

In January, we increased our revolving credit facility to $1 billion and extended its maturity to 2029. Additionally, we have access to the unsecured bond market, dispositions. And then we do generate over $100 million of cash flow after we pay distributions to reinvest in our portfolio. And we truly believe that our free cash flow is best used after the distribution to fund our ground-up development, make these acquisitions, all things that are going to add to our forward earnings growth. We do believe that match funding these capital sources with our investments is an important part of what we do in our investment strategy. And so between the cash flow generated, the capacity on a revolver and access to the debt and equity capital markets, we feel really good about our ability to successfully fund both this year's plans and our growth plans going forward.

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

Thank you, John. (Event Instructions) Our next question, Jeff this is probably a good one for you to answer. How does Blackstone's acquisition of ROIC impact PECO or the overall shopping center sector?

Jeffrey Edison - *Phillips Edison & Co., Inc. - Chairman, Chief Executive Officer*

We think it's a very positive sign for our space. Blackstone has been out of the grocery-anchored shopping center business and reentered with a $4 billion acquisition. We looked at the portfolio of ROIC and when we shied away from where the pricing got, it was because we felt like the quality of our centers were better than the quality of the ROIC centers. Just as a point of reference, if PECO were to sell the same way to Blackstone, it would have been just about $45 a share at the same cap rate, and we believe our quality is better, so there's even upside from there. So we think it's a very positive sign on the value of our portfolio and we think and are hopeful that that will show in the stock price over time as you get one of the best investors in the world making a major investment in our space. So we're very optimistic about that.

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

Thank you, Jeff. Our next question more on the retailers. So we've seen a handful of retailers file for Chapter 11, including Big Lots, Joann, and Party City. What is PECO's exposure to bankrupt and at-risk retailers? And what are your plans to replace those locations should they close? Bob, do you want to take that one?

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

Yeah. Thanks, Kim. Appreciate the question. So Big Lots, Joann Fabrics, Party City, they represent just 60 basis points of PECO's ABR when combined. And when we have the opportunity to replace a distressed retailer, it allows them to replace them at a much higher rent. So we do see a lot of upside of rent. I want to give you an example. In the third quarter of 2024, we had the opportunity to backfill about eight anchor spaces. And I'll define anchor spaces of over 10,000 square feet. And as we did that, we were able to achieve over a 105% new leasing spread. So we're looking for those opportunities.

And I think, Big Lots, Joann, Party City, to name a few, this gives us the opportunity to go back in the portfolio and really grow those rents from what typically would be single-digit rents of $8 to $10, to more like $16 to $20 a foot. And again, I touched on this earlier, but with the lack of supply, retailer demand is, again, it's one of the strongest environments we've seen. So the visibility and the replacement lineup that we have on these sites, we're encouraged by.

Just as a note, our largest non-grocer neighbor makes up only 1.4% of our rents, and that's TJ Maxx, who we really, really like. And all our other non-grocer neighbors are below 1% of ABR. So we're in a very good spot with the portfolio. 70% of our ABR is coming from necessity-based goods and services. Retailer demand continues to be very strong from fast casual, health and beauty services, medtail. So again, we're just in a really good opportunity here to continue to grow and align in each of our properties.

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

Thank you, Bob. So maybe as a follow-up question for you, Bob. Is PECO currently concerned with any retail categories? Anything that you're hearing from retailers? Any certain categories that are concerning?

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

Well, right now, we're in a good spot. Given the lack of supply retailer demand, 70% of our rent roll being necessity-based, we're in a good spot. We really don't have exposure to luxury retail or office, so we're in a good spot from that standpoint. We continue to see a resilient consumer. Our neighbors are healthy. Health ratios are around 9.5% to 10%. They're profitable. You see that we have market-leading spreads. New leasing spreads of 35%, renewal spreads of 20%. We have a very, very strong portfolio that's allowing us to leverage pricing, power, and demand. So we're in the right niche. So I'm not concerned about any particular retail categories. You'll continue to see our focus be on necessity-based goods and services as part of our marketing strategy.

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

Great. Thank you, Bob. Our next question we get a lot, it's about the dividend. So Jeff, this is probably a good one for you to answer. A lot of REITs have quarterly dividends. 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 dividends?

Jeffrey Edison - *Phillips Edison & Co., Inc. - Chairman, Chief Executive Officer*

Well, that is a Board decision, but we plan to continue the monthly dividend distribution. It's important to our shareholders. And we believe it's the right thing for us to do and plan to continue to do that. Since our IPO, we've increased the dividend 21%, which we feel is part of our objective. As we grow the cash for the company, we want to increase the dividend and plan to do that. And our goal is grow the stock price and grow the dividend. And keep it on a monthly basis.

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

Thank you, Jeff. All right. We're not seeing any additional questions, so we will conclude our question-and-answer session. Please don't hesitate to reach out to us with additional questions or information requests. We have provided the e-mail address for our Investor Relations team in today's presentation which has been posted to our investor relations website.

With that, I'll turn the webcast back over to Jeff for some closing comments.

Jeffrey Edison - *Phillips Edison & Co., Inc. - Chairman, Chief Executive Officer*

Well, thank you, Kim. In closing, the PECO team continued our strong performance in 2024. PECO is a growth company. We're excited for the growth opportunities ahead, both internal and external. Our differentiating focus strategy and our talented and innovative team combined to create market leader in the shopping center business. We're confident that the PECO team will continue to deliver market-leading results in 2025.

As I mentioned earlier, we expect to deliver 5% core FFO per share growth at the midpoint of our 2025 guidance. Combined with PECO's 3% dividend yield, this will equate to a total shareholder return of 8% in 2025. Given our demonstrated track record through various cycles, we believe an investment in PECO provides shareholders with a favorable balance of quality cash flows, mitigation of downside risk, and strong internal and external growth. The quality of our cash flows reduces our beta. The strength of our growth increases our alpha. Less beta, more alpha.

On behalf of the entire management team, I'd like to express our appreciation for your continued support. Thank you again for joining us today. Please do not hesitate to reach out to any of us with additional questions.

Enjoy the rest of your day and thanks again for being on the call.

Operator

Ladies and gentlemen, that does conclude today's conference call. Thank you for your participation, and you may now disconnect.

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