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PECO.OQ - Q4 2024 Phillips Edison & Co Inc Earnings Call

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## PRESENTATION

### Operator

Good day, and welcome to Phillips Edison & Company's fourth-quarter and full year 2024 earnings call. Please note that this call is being recorded. I will now turn the call over to Kimberly Green, Head of Investor Relations. Kimberly, you may begin.

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**Kimberly Green** - *Phillips Edison & Co Inc - Senior Vice President, Head of Investor Relations*

Thank you, operator. I'm joined on this call 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 Once we conclude our prepared remarks, we will open the call to Q&A. After today's call, an archived version will be published on our Investor Relations website.

As a reminder, today's discussion may contain forward-looking statements about the company's view of future business and financial performance, including forward earnings guidance and future market conditions. These are based on management's current beliefs and expectations and are subject to various risks and uncertainties as described in our SEC filings, specifically in our most recent Form 10-K and 10-Q.

In our discussion today, we will reference 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 press release and supplemental information packet, which have been posted on our website.

Please note that we have also posted a presentation with additional information. Our caution on forward-looking statements also applies to these materials.

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

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

Thank you, Kim, and thank you, everyone, for joining us today. PECO delivered market-leading operating results in 2024. We believe we have the best team in the shopping center space. I'd like to thank our PECO associates for their dedication and hard work to maintain our unique competitive advantage and drive value at the property level.

The PECO team delivered solid core FFO per share growth of nearly 4% in 2024 despite significant interest expense headwinds. If we added back per share impact of increased interest rates, core FFO per share growth would have been 6% in 2024. Retailer demand across our portfolio remains strong. This is most evident in our high occupancy strong rent spreads and our leasing pipeline.

Retailers want to be located in our centers where top grocers drive consistent and recurring foot traffic. The transaction market also improved for us in 2024, allowing us to exceed the high end of our original guidance for acquisitions.

A unique PECO advantage is that we understand quality differently we believe we are able to identify quality in our markets with better initial yields and higher growth opportunities in the top 10 markets. We have built a high-quality portfolio acquisition by acquisition that is capable of delivering strong cash flow growth. The quality of PECO's cash flows is a product of PECO's cycle tested performance over more than 30 years.

When we look at our performance following both the 2008 global financial crisis and the 2020 COVID-induced downturn, it highlights the resiliency of our growth tanker portfolio. The quality of our cash flows is also reflected in PECO's focused and differentiated strategy of owning neighborhood shopping centers anchored by the number one or number two grocer by sales in the market.

We know the average American family business to grocery store 1.6 times per week. Our process draw consistent daily foot traffic to our centers, driving sales to our small store shop and increasing the strength of our cash flow. Approximately 70% of our ABR comes to necessity-based goods and services. 30% of our rents come from our grocers. This is the highest in the shopping server space and further strengthens our cash flow.

The quality of PECO's past flows is also reflected in our market-leading operating metrics, including strong lease spreads, high occupancy, the many advantages of suburban markets where we operate our centers and high neighbor retention.

Our average center is about 113,000 square feet, which enhances our pricing power. We believe our smaller centers allow for better long-term FFO and AFFO per share growth because our centers are in neighborhood where retailers want to be. We have a diversified neighbor mix and have limited exposure to big box bankruptcies. We believe that our unique format drives high-quality cash flows. The end of 2024 and early 2025 was met with several retailers filing bankruptcy.

As a reminder, Party City, Big Lots and [Joanna] represented 60 basis points of PECO's ABR when combined. PECO has low exposure to these retailers, which is intentional. Quality of PECO's cash flows are important to acknowledge as we continue to grow our portfolio accretively to 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. On acquisitions, we continue to believe that PECO offers the best opportunity for external growth within the shopping center space. These investments continue to be core to PECO's growth plan.

PECO is creating value through accretive investments at a point in the cycle where there is very little new development taking place. We have been able to acquire assets at meaningful discounts to replacement costs.

Given the strength of the market, the pipeline we are targeting and the team we have at PECO, we believe we can create \$350 million to \$450 million in gross acquisitions this year. We have the capacity to acquire more of attractive opportunities to materialize. We closed on nearly \$100

million of acquisitions in the fourth quarter. Our pipeline for the first quarter is strong. Recently, we closed on an additional asset in our joint venture with Cohen & Steers. We also acquired an asset in a separate joint venture with Lafayette Square and Northwestern Mutual.

We continue to target an unlevered IRR of 9% for our acquisitions. If we look at everything we have acquired over the past few years, we are currently exceeding our estimated underwritten returns by 100 basis points on average.

For example, in 2023, PECO acquired River Park Shopping Center, the HEB-anchored center is located in a fast-growing Houston, Texas suburb and was 79% leased at acquisition. The PECO team has so far improved our estimated underwritten return for the asset by 123 basis points, largely driven by the team's ability to quickly drive the center's lease percentage and 99% on while keeping capital costs down. We are disciplined buyers, and we will continue to be disciplined as we go forward.

In addition to external growth, the PECO team continues to identify ground-up development and repositioning opportunities with weighted average cash-on-cash yield between 9% and 12%. 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 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. These sources include additional debt issuance and dispositions and equity. In January, we sold an asset and provided sellout financing, which was a porous

Additionally, John will talk about funds raised on our ATM in the fourth quarter. We believe match funding our capital sources with our investments is important to a proper investment strategy as long-term owners and operators of real estate.

The combination of our ability to drive cash flow growth to our existing portfolio and to invest accretively a new acquisition 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.

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. 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 past flow reduces our beta and the strength of our growth increases our outflow, less data, more alpha.

I will now turn the call over to Bob to provide additional color on the operating environment. Bob?

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

Thank you, Jeff. Good afternoon, everyone, and thank you for joining us. We had another quarter of strong operating results and leasing momentum. We continue to see high retailer demand with no current signs of slowing down. PECO's leasing team continues to convert retailer demand into significantly higher rents at our centers.

As Jeff mentioned, the quality of PECO's cash flows is reflected in our market-leading operating metrics. You've heard us say it before, we believe SAAR provides important measures of quality spreads, occupancy, advantages of the market and retention. In terms of new lease activity, we continue to have success in driving higher rents. Comparable new rent spreads for the fourth quarter were 30.2%.

Our in-line new rent spreads remained strong at 26.5% in the quarter. We continue to capitalize on strong renewal demand. The PECO team remains focused on maximizing opportunities to improve lease language at renewal and drive rents higher.

In the fourth quarter, we achieved comparable renewal rent spreads of 20.8%. Our in-line renewal rent spreads remained high at 19.8% in the quarter. We also remain successful at driving higher contractual rent increases, our new and renewal in-line leases executed in the fourth quarter had average annual contractual rent bumps of 2% and 3%, respectively, another important contributor to our long-term growth.

These increases in spreads reflect continued strength of the leasing and retention environment. We expect new and renewal spreads to continue to be strong throughout the balance of this year and into the foreseeable future.

Portfolio occupancy remained high and ended the quarter at 98% leased. Anchor occupancy remained strong at 99% and in-line occupancy ended the quarter at 95%. And new neighbors added in the fourth quarter included quick-service restaurants, such as Jimmy John's, Chipotle and Wingstop. We also added new Medtail uses and other necessity-based retailers and services. As it relates to bad debt in the fourth quarter, we actively monitor the health of our neighbors. We are not concerned about bad debt in the near term, particularly given the strong retailer demand.

And as Jeff mentioned, we don't have any meaningful concentrations. A key advantage of PECO's suburban locations is that our centers are situated in markets where our top grocers are profitable. PECO's 3-mile trade area demographics include an average population of 67,000 people and an average median household income of 88,000, which is 12% higher than the US median.

These demographics are in line with the store demographics of Kroger and Publix, which are PECO's top two neighbors. Our markets also benefit from low unemployment rates, which are below the shopping center peer average. The necessity-based focus of our properties is important when demographics are considered.

If you are comparing a published to an Apple store or a high-end fashion store, the demographics that each retailer needs to be successful are very different. PECO's demographics are very strong and supporting our neighbors. We also enjoy a well-diversified neighbor base. Our top neighbor list is comprised of the best grocers in the country. Our largest non-grocer neighbor makes up only 1.4% of our rents, and that neighbor is T.J. Maxx. All other non-grocery neighbors are below 1% and of ABR.

When looking at our very limited exposure to distressed retailers, the top 10 neighbors currently on our watch list represent less than 2% of ABR. This is not by accident. It is a product of many years of being locally smart and intentionally cultivating our portfolio of grocery-anchored neighborhood centers located in strong suburban markets.

Our neighbor retention remained high at 88% in the fourth quarter while growing rents at attractive rates, retention rates result in better economics with less downtime and dramatically lower tenant improvement costs. Lower capital spend results in better returns. The IRR on a renewal lease has been meaningfully higher than the return on a new lease.

In the fourth quarter, we spent only \$0.87 per square foot on tenant improvements for renewals. 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 merchandising 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. We have looked at quality differently for over 30 years, and we continue to believe that SOR is the best metric for quality. The leasing spreads that we are achieving and the strength of our leasing pipeline reflect continued demand for space in our high-quality neighborhood shopping centers.

In addition to our strong rental growth trends, we continue to expand our pipeline of ground up outparcel development and repositioning projects. In 2024, we stabilized 15 projects and delivered over 300,000 square feet of space to our neighbors. These projects add incremental NOI of approximately \$5.3 million annually.

They are expected to provide superior risk-adjusted returns and have a meaningful impact on our long-term NOI growth. We expect to invest \$40 million to \$50 million annually in these types of investments long term.

The overall demand environment, the stability of our centers, the strength of our grocers, the health of our in-line neighbors, and the capabilities of our team give us confidence in our ability to deliver strong growth in 2025. This will be driven by both internal and external growth.

I will now turn the call over to John.

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

Thank you, Bob, and good morning, and good afternoon, everyone. I'll start by addressing fourth quarter results, then provide an update on the balance sheet and finally speak to our official 2025 guidance. Fourth quarter 2024 NAREIT FFO increased to \$83.8 million or \$0.61 per diluted share, which reflects year-over-year per share growth of 8.9%.

Fourth quarter core FFO increased to \$85.8 million or \$0.62 per diluted share, which reflects year-over-year per share growth of 6.9%, and our same-center NOI growth in the quarter was 6.5%.

Turning to the balance sheet. We have approximately \$948 million of liquidity to support our acquisition plans and no meaningful maturities until 2027. This is pro forma as of December 31, 2024, and reflects our amended revolver.

Our net debt to adjusted EBITDAR was at 5 times. Our debt had a weighted average interest rate of 4.3% and a weighted average maturity of 5.8 years when including all extension options. In January, we amended our revolving credit facility to extend its maturity to January 2029, and increase its size to \$1 billion. This gives us additional liquidity and flexibility as we continue to access the capital markets. We are grateful for the support of our strong bank group.

As of December 31, 2024, 93% of PECO's total debt was fixed rate, which is in line with our target range of 90%. PECO continues to have one of the best balance sheets in the sector, which has us well positioned for continued external growth.

During the fourth quarter, PECO generated net proceeds of \$72 million after commissions through the issuance of 1.9 million common shares at a gross weighted average price of \$39.23 per share through our ATM. Our official 2025 guidance is unchanged from the preliminary guidance provided at our December business update. Our guidance range for 2025 net income is \$0.54 to \$0.59 per share. This represents an increase of 10.8% over 2024 at the midpoint.

Our guidance range for 2025 NAREIT FFO is \$2.47 to \$2.54 per share, this reflects a 5.7% increase over 2024 at the midpoint. Our guidance range for 2025 core FFO is \$2.52 to \$2.59 per share. This represents a 5.1% increase over 2024 at the midpoint.

Our guidance range for 2025 same-center NOI growth is 3% to 3.5%. As we continue to enhance our neighbor mix, our actions in 2024 to improve merchandising and capture mark-to-market rent growth with new neighbors will be a slight headwind to 2025 growth. As we have said previously, the PECO team is focused on the long term, and these actions to replace neighbors are intentional.

Our gross acquisition guidance range for 2025 is \$350 million to \$450 million. We currently have several acquisitions in our pipeline, either under contract or in contract negotiation totaling over \$150 million that we expect to close in the first quarter and early second quarter.

Based on the equity rates in the fourth quarter and the disposition in the first quarter, our guidance does not assume additional equity issuance in 2025 as we believe we will be in our target leverage range of low to mid 5 times on a net debt-to-adjusted EBITDA basis.

We have provided ranges for the other guidance items used in your models in our earnings materials. We believe this portfolio and this team are well positioned to deliver mid- to high single-digit core FFO per share growth on an annual basis. This assumes stabilized interest rates which are expected to remain a near-term headwind. However, we're hopeful that we're near stabilization as we are projecting to deliver earnings growth over 5% in 2025.

We also believe that our long-term AFFO growth can be higher as more of our leasing mix is weighted towards renewal activity. We believe our targets for growth in core FFO and AFFO will allow PECO to outperform the growth of our shopping center peers on a long-term basis. We are excited about the opportunities before us and we believe that we have the ability and capacity to execute our accelerated growth plans.

With that, we will open the line for questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Jeffrey Spector, Bank of America.

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### Jeffrey Spector - BofA Securities - Analyst

First question, I wanted to ask, Jeff, I guess, how you feel today versus one year ago, let's say, in terms of whether it's tenant demand for space and then the external opportunities, I think John said a \$150 million pipeline. I'm not sure where that -- how that compares to let's say, one year ago? If you could discuss that.

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

Great. Thanks, Jeff. Yes, I think we feel a lot better coming into this year than we did last year in terms of backlog of projects we have under contract and controlled. So we have a much bigger pipeline coming into this year than we did last year. And I think that's reflective of -- and we had a really strong fourth quarter as we've talked about.

So we did almost \$100 million in acquisitions in the fourth quarter. So combined, that gives us some -- I think we're in a better position today than we were then. But we've got bigger goals too. I mean we've got higher goals and targets for what we want to do on the acquisition side.

So that part is always the part that's uncertain, Jeff. You know that. It's like we're going to buy based upon a very disciplined approach that we've taken for a long time and has worked really well for us. So but that does make -- there's always uncertainty in terms of how much is going to come to the market. What we're seeing right now is that there continues to be a pretty strong pipeline of product coming to the market, and there are more buyers, which is putting a little bit of pressure on pricing, but we still are optimistic of meeting our -- meeting our goals.

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### Jeffrey Spector - BofA Securities - Analyst

And then my follow-up question, I guess, just looking -- thinking about the high occupancy level, how are you balancing that with your retention? Is there any shifts or thoughts on reducing that retention? Or you're happy to keep that retention, of course, if the -- it's a quality tenant they're delivering. But how are you balancing that as you head into '25.

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

Yes. I think we are -- the point that I think we made this over the last couple of times have gotten together is that we are taking a more aggressive approach to merchandising and taking back weaker stores when their lease is up. That will put some downward pressure on -- temporarily on occupancy a little bit and on the retention.

But it will improve those on a longer-term basis. So and that will -- that -- the hardest part about our business is that it's center by center. And so when we talk when we put everything together and talk about our portfolio, it looks like it happens very -- it's a really very intentional process, but

it's done center-by-center, space-by-space. And that's how you get the right results. And we're really confident in that, that will create the long-term growth that we want and -- but it will -- there'll be quarters where it will go up and quarters will go down.

But overall, what we're doing is improving the merchandising mix getting good new leasing spreads, but also improving the value of the property. And that's what we do, and I hopefully do really well. So that's all we're looking at.

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

This is Bob. The only other thing I would add on that is, it really depends on the type of spreads we're driving. But when you see that we're renewing tenants at 20.8% in the fourth quarter and for 2024, I think the whole year, we were at like 19.4%, and you're only spending \$0.57 a foot for tenant improvements. That's a really good return on the investment.

And when you look at new leasing spreads at 30.2% for the fourth quarter and 35.7% for the entire year. As Jeff mentioned, it is a space-by-space, center-by-center decision as we improve merchandising. But as long as we're able to generate those types of spreads, we'll be very selective in terms of whether or not we want our retention rates to be 90%, 92% or 88%. At the end of the day, what we're trying to do is create value at the asset level.

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**Operator**

Haendel St. Juste, Mizuho.

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**Haendel St. Juste** - *Mizuho Securities USA LLC - Analyst*

So I wanted to talk a bit more about your plans to ramp acquisitions over the near term. I think you mentioned \$350 million to \$400 million. I guess I'm curious how much of a role that dispositions or perhaps some of your more mature, maybe slower growth, lower IR assets could play as a source of funding here.

I'm sure the IR is on some of what you're looking to buy probably exceeds some of the returns on these gross assets. So how do you balance the merits of that capital recycling strategy to improve the long-term growth profile of portfolio versus, say, perhaps sourcing it with new equity or disposed?

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

Yes. The -- Haendel thanks for the question. It's a great question, and it is a -- the market drives part of that, obviously, in terms of which source of capital, whether it's the debt issuing additional equity or the dispositions. And at this stage, the question for us is going to be at what level or can we execute our dispositions. And if that's the best source of capital to foster our growth, we'll do it. but we also have the other areas where we can use our capital to meet our acquisition targets.

And we did do and have announced the one disposition so far this year. We'll continue to look at those and use those selectively where we can get a better return on what we're buying than what we're selling. And if we can do that, we're going to be -- we'll be active in that market and use that as the source. But it is -- it's hard to say where that's going to be because we don't know where the pricing is going to be on our dispositions and what that cost of capital is relative to using equity or using our debt capital.

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**Haendel St. Juste** - *Mizuho Securities USA LLC - Analyst*

I certainly appreciate the color there. As a follow-up, maybe hoping you guys could add some more color on the reserve here, 75 to 100 basis points seems a little conservative from maybe in relation to the known tenant credit concern on your watch list. So I guess I'm curious on that as well as

what the credit loss was in 2024 and perhaps what you might be hearing on the ground from some of your more local tenants or neighbors on the potential act of tariffs and higher labor costs.

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

John, you want to take the that question?

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

I'll take the first part. Yes. So in 2024, our bad debt experience was around 75 basis points. As we look to guidance next year, that's around \$60 million to \$120 million. We intentionally set this as a wider range because we acknowledge that in 2024, this was kind of a bigger topic relative to the absolute size of the number in itself. So when we set the guidance range, we intentionally set it wider to plan for that. And that's accounted for in our same-center guide. And so ultimately, we feel very comfortable. I mean fourth quarter came in, in the 40s. It was around 45 basis points.

So I mean we're seeing good strength from our neighbors. But as Jeff was referencing, we are trying to be very proactive in making the best kind of cash flow, merchandising decisions at the property level. And so I would say there's that. With regards to a watch list, we actually feel very good. And we mentioned that to the known bankruptcies so far that are occupying headlines of Party City, Big Lots and [Joe and fabrics], I mean that's 60 basis points of rent for us.

And that's in there some because we have some remaining collections and things. Ultimately, we believe that our neighbors are very strong and doing well. Jeff, Bob, I don't know if you want to speak to the tariffs.

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**Operator**

Caitlin Burrows, Goldman Sachs.

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**Caitlin Burrows** - *Goldman Sachs Group, Inc. - Analyst*

Jeff, or somebody else. I don't know if you want to finish up on that last topic.

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

Yes. I wasn't sure whether -- (technical difficulty) wanted to give -- like I'm not sure what the second part was, Haendel.

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

I'll jump in here. The question is, what are we hearing from our neighbors with regards to tariffs and the impact of the businesses?

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

Yes. So what we're hearing from the grocers is that they're watching it. They're concerned about it. They feel pretty comfortable they're going to be able to pass it on to the consumer. But it is -- it's a top of thought issue for them right now. And we did get -- there was a month -- obviously, a month long in terms of implementation with Mexico and Canada. But they have impacts.

And they will have -- they will put pressure on the retailer across the board. Our grocers generally feel pretty comfortable with it so far, but we will see how well they can pass that on to the consumer and what the pushback from the consumer is.

Unfortunately, the consumer is going in, in a fairly strong position with employment or unemployment low and people feeling fairly confident in the economy. So I think generally, I think it's not going to be a major issue, but ask me tomorrow, we'll see -- right now.

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**Caitlin Burrows** - *Goldman Sachs Group, Inc. - Analyst*

I will say thank you on behalf of -- I think it was Haendel, but whoever just went. But this is Caitlin then. Maybe just looking at the signed but not occupied spread, it was 100 basis points at the end of the year, which is high for PECO. So wondering if you could just give a little discussion on that, what we should take away from it, what is driving it? And I mean, I feel like it would suggest higher occupancy, but you mentioned that economic occupancy could actually be a headwind this year. So how those items fit together?

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

John, if you want to take that -- and we can talk a little bit about some of the big box stuff that Bob, as well on that.

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

Sure. I'll take the impact on the financials and then Bob, you can give some context of what we're seeing in occupancy. And so Caitlin, what we -- really, when we look to last year and some of the anchor activity that we had, we had it was marginally higher than it is for us. As you know, our anchors, the grocers, and those are incredibly stable.

But we did on the edges have more movement, but it was a really great opportunity to deliver some great leasing spreads. But as we've talked about for years, in-line spaces are quick to lease and quick to move in and quick to pay but anchors take a little bit more time. And so part of the economic app for us is putting in higher paying neighbors into those box spaces, which do have a longer lead time from an economic basis on that standpoint throughout '25.

And there's a little bit in there as well from the in line that we're talking about. But again, on a same-store basis, we feel good about our 3% to 3.5% Bob, I don't know if there's anything else you would add about like the overall market with regards to kind of our boxes.

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

Yes. We've had really good demand and activity on the box space. And as you recall, I believe it was the third quarter last year, I highlighted probably eight anchor spaces where we were able to drive considerable leasing spreads. I believe it was over 100% at the time. So the spread in snow that you're seeing will hopefully come online in 2025 later this year, which is why you're referring to the 100 basis points. So we're excited about the box activity we've seen in the replacement of those opportunities. So that should come online later this year.

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

-- Just to add in there, we're we've always had substantially less snow than the others in our space. And I mean, we're not big proponent. We don't love having a lot of snow around. It's -- and it's driven by our big box activity. And as we had -- we still have low snow, I think, on a relative basis.

But part of our hesitation on getting into bigger box retail is that you end up with this longer-term ability to turn your space into cash flow. And that's what we really like about our business is that, we don't have that buildup in snow. I mean, again, it's 1%. It's not -- we're not 3% or 4%. And that's very intentional in terms of our strategy because our small stores move just much more quickly from lease to open and renting.

**Caitlin Burrows** - *Goldman Sachs Group, Inc. - Analyst*

Got it. Makes sense. And then maybe back to acquisitions. You mentioned before how you're a disciplined buyer. Maybe on the volume front, I'm wondering like how big is your universe of potential acquisitions? And if you look at the volume from '22 to from '23 to '24 to '25, it's gone up each year. So wondering if you think you could long term like continue at this level? Or how sustainable is it? Or do you think in not looking for like 2028 guidance. But yes, how sustainable is this pace or like an increased pace over time?

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

I would say we believe there's more upside to our target than downside as we move forward. I mean, we've been in a pretty difficult environment for a number of years. And the grocer anchor shopping center business is a big business, and it does tend to revert to the mean over time. And we think that, that is a volume at which we can be buying at a much larger than we have a large base stronger base than we have over the last three years. So we're optimistic about it.

We obviously -- as I think John said in his prepared remarks, we have under contract to close in the first quarter, early second quarter, over \$150 million of acquisitions, and we closed \$100 million in the fourth quarter. So we feel like there's a really good chance to be able to continue at that pace.

But as you know, it's going to be -- it's bumpy. It's not just a consistent, easy, like we're going to do this and it's going to depend on where the market is and what we can buy. But we have done this for a long time. We have a -- we've got a really good team that knows everything that's coming on the market and that is transacting. And so we'll -- well, if it can be done, we'll be the ones to do it.

And -- but again, we don't want to be buying for buying sake, we want to buy in to make money. And that's the discipline that we put into every acquisition we buy and that's what makes it lumpy.

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**Operator**

(Operator Instructions) -- Dori Kesten, Wells Fargo.

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**Dori Kesten** - *Wells Fargo Securities - Analyst*

I believe you said you provided some seller financing on a recent disposition. I might have missed this, but should we be thinking of that as a one-off or potentially part of a larger program?

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

Right now, Dori, I would think of it as a one-off. It was a specific program that worked really well for a specific asset, and we think got us significantly better proceeds than we would have without it. So we felt like it was a worthwhile deal, but I wouldn't count on that as an area that will grow significantly. It will be -- always be a one-off part of the disposition strategy in specific, in very specific cases.

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**Operator**

Ronald Kamdem, Morgan Stanley.

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**Ronald Kamdem** - *Morgan Stanley - Analyst*

Just two quick ones. Just starting on the sort of the acquisition, obviously, some activity on the consolidated as well as some of the JVs. Maybe if you could just provide a little bit more color on some of those -- the joint venture partnerships, how that's been going? And is that and do you see yourself sort of doing more of that in the future?

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

Yes. Why don't I take it, Bob then you can jump in as well. The -- on the JB I think it represents just about 10% of what we anticipate buying this year. And it's a we're really excited about it because we think it will expand on that and would allow us more buying opportunities to continue to grow the portfolio. So this is -- I mean we're excited about it. As we've said, I mean, this is our tenth JV that we've done in PECO. So this is something that we know really well, and we know how it can be additive to our growth. And so we're excited about that part of it. And we bought three properties so far in that into the two different JVs that we've got set up.

And I think that is a good pace at which we can continue to grow those on with select opportunities. I know, Bob, you have any additions to that?

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

Yes. The only other thing I would add is when you think about our target of [\$350 to \$450] in acquisitions, I would assume about 10% of that being our share of the ventures. And we have investment committee meetings with both sides weekly, we continue to present sites. We're seeing more activity. So yes, I mean, we're committed to it, and we're very active in this space. So I think that's what I would project for this year.

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**Ronald Kamdem** - *Morgan Stanley - Analyst*

Great. And then my second one is just digging into something that was brought up before on the call, which is the portfolio is full and you're trying to find opportunities for sort of more pricing power or to plus the organic growth. I just have an update on what the focus is going to be sort of this year. Is it on the rent bumps? Is it all the options? Is it on maybe tolerating a little bit more, a little bit lower retention etat push rents, just is there sort of thematically some things we should be thinking about at this full portfolio, how you're going to be pushing rents?

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

Yes. I would say the answer is yes to all of those. And it will not be just one piece of it. It's going to be all of those. And it's a hand-to-hand combat property by property, lease by lease. And we have a different strategy for every center that we've got, and they're nuanced in terms of each of the pieces that we have to take care of, whether it's a renewal or whether it's a new lease, whether it's a change where we're trying to remerchandise a specific center to market changes that are going on.

Those are happening at the 300 different centers that we've got in a different way. But the key point there is that we're looking at these investments on a long-term basis, creating long-term cash flow and long-term value. And that's how we think about these -- each of those pieces. And it's not really -- I mean, it's not a broad brush business in terms of being able to say, well, we're going to -- we're just going to remerchandise the portfolio. It's literally going center by center and making sure that some need to be remerchanded, some we can just cast on and vote on rents as much as we can.

And it's -- but it's all driven by the specific locations, the specific property. I know that probably wasn't in terms of your question, but I -- but that's how we are thinking about it. So it's hard to say specifically what part of our strategy is going to be strong this year because they all have a place in how we manage our properties.

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

And Jeff, the only other thing I would add to that is, look, I mean, we're very focused on continuing to grow occupancy. And if you look at our acquisition strategy in 2023, our average occupancy on what we acquired was 87%.

And a year later, with leases signed, executed, we were at 98% on those 14 assets -- and again, if you look at what we acquired in 2024, I believe our average occupancy on those assets were 93.1%. And even in just a few months, we've already increased that to 94.4% and with leases out.

So we're seeing activity. And to Jeff's point, there are a lot of things internally to drive growth with spreads, retention, et cetera, but we do want to run a parallel path by acquiring good solid assets that give us occupancy growth. So I do believe it will be a combination of that. And that's what we're seeing and that's what we've been successful in.

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**Operator**

Omotayo Okusanya, Deutsche Bank.

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**Omotayo Okusanya** - *Deutsche Bank AG - Analyst*

Okay. Sorry about that. Most of my questions have been answered, but I just had a question about the pavilion transaction. If you could talk a little bit about why they need to provide seller financing. You guys haven't really done that much in the past and also what we on those note receivable.

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

The second part I didn't get, but I'll just -- I'll chime in on why we provide seller financing. And the answer is pretty simple. We felt we were de-risking the portfolio, we were selling an asset that was not growing as quickly as the rest of what we could buy in, and we got a premium in value by providing the financing and we're providing financing at a level that we felt like we were going to be repaid. And if we didn't we were going to be -- we'd be very happy to own the center at that basis. So that was the reason for it. And it was something that facilitated part of our plan on disposition and that we felt worked really well for us.

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

And Tayo, I'll take the second part. So we didn't disclose what the rate was because it's actually not going to be overly meaningful, but it's a meaningful spread to our ongoing borrowing costs. And as Jeff said, it's not a tool we expect to use frequently, but -- or really, again, but it's a structural tool where we can get better pricing for the asset while mitigating risk and deploying that in a better return.

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**Omotayo Okusanya** - *Deutsche Bank AG - Analyst*

-- How soon do you get paid back? May I ask that on the note?

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

I believe that it's fully prepayable, but it's 12 to 24 months. If you include the option.

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**Operator**

Todd Thomas, KeyBanc Capital Markets.

**Todd Thomas** - KeyBanc Capital Markets Inc - Analyst

All right. I wanted to go back and ask about the joint venture with Northwestern Mutual, Specifically, you have an existing relationship there. Is this expected to be a new growth vehicle? And are there any differentiating factors in the investments being sourced now between this venture, the deals that you're looking at Cohen & Steers and also what you're looking at on balance sheet?

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

Todd, thanks for the question. And yes, this is a JV with Northwestern Mutual. We've been partners with them on our first fund for seven years. They were one of the original investors in couple of other funds that we had. So it's a really long-term relationship with them. We had trouble getting them into another JV, and we're really happy to have them as a partner in this new this newest fund. And it's -- so we're -- this fund is focused on really unique opportunities where we can step into situations that wouldn't meet our balance sheet, but that are opportunities for us.

And an example is moving into a center that's anchored by a Hispanic grocer that is not number one or two in the market, but is a really strong player. And being able to have capital that fits into that bucket, which doesn't fit clearly onto our balance sheet. And so that's how we're thinking about that opportunity. So we're really excited about it. We think it is not going to be a major growth vehicle for us, but it is certainly one that we are looking forward to kind of getting fully invested and then see where that takes us from there really based upon the performance of that fund.

And we want -- we think that there are unique opportunities in our space that don't fit squarely on the balance sheet, that this fund will be a great add to it. And so we're really excited about it. And I don't know, John if you have any add-on that, but we're -- it's something we're really excited about.

**Todd Thomas** - KeyBanc Capital Markets Inc - Analyst

Will all deals going forward with Northwestern Mutual in this fund be at similar economics or 31% stake for PECO's interest? Or is every deal sort of negotiated separately?

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

No, 31% is the right number for -- until this gets fully allocated.

**Todd Thomas** - KeyBanc Capital Markets Inc - Analyst

Okay. Got it. And then I just wanted to go back to the discussion on tenant retention and some of the proactive remerchandising initiatives that you discussed in 2024. I guess, what's the drag that activity creates or is created on 2025 growth. And are you targeting more of that in '25? And then John, I'm just curious, again, retention has been very elevated 88%. I think it was closer to 90% full year. What's embedded in the model and guidance with regard to tenant retention

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

John, do you want to take that?

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

Sure. So we have -- we talked about this a little bit of being intentional in doing this. And it is a bar. I mean I would say that if you were to normalize kind of the actions from '24 and what we're anticipating for '25, you would see growth in the lines of what we experienced last year. And so we feel

really good about our decisions. I would say that in terms of '25, we are assuming sort of similar retention levels to what we experienced in '24, but that's also very similar to '23.

And as Bob mentioned, the economics when you're getting 21% renewal spreads for \$0.50 in capital, you need a very high new leasing spread to kind of economically solve for that because we're very focused on cash flows.

But that's also where we say, I'm the numbers guy. And then we talk about there is a bigger benefit to the asset when you really focus on merchandising. And so there are times where we are putting in better operators because they can actually improve the entire center. So we're going to -- we are going to continue the actions we've taken because we've been very successful in this operating environment. We feel really good about the actions that we're taking. But we're also happy that we're able to manage in the 3% to 3.5% range for same store with over 5% growth for our FFO metrics and anticipate continuing that in '25.

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### Operator

Floris Van Dijkum, Compass Point Research and Trading.

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### Floris Gerbrand van Dijkum - Compass Point Research & Trading - Analyst

Just a follow-up here on the acquisition guidance. The \$400 million at midpoint did you say that 10% of that was -- or \$100 million is your share in the JVs? Or is what -- how much of that capital is going to be as part of JV acquisitions versus on-balance sheet acquisitions.

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

Yes. 10% of the \$400 million. So \$40 million is probably a good center point.

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### Floris Gerbrand van Dijkum - Compass Point Research & Trading - Analyst

Got it. Okay. And then is there a difference in return expectations? And maybe walk us through how do you allocate deals that you see between being on balance sheet or going to the Cohen & Steers or the Northwest or your other JV how do you manage that conflict or potential conflict?

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

Yes, great question, Floris. I mean the simple answer is if it's a larger center than we would normally buy on balance sheet, we're going to -- it's most likely to be a coined steers JV. As you know, we've been very disciplined in terms of the size of the centers that we buy and the impact with the number one or number two grocer in a center that's 175,000 or 200,000 square feet versus our traditional 115,000 square feet.

And so that gives -- that really widens our net on that side. And we think -- but has similar returns to what we would do on balance sheet. But -- so that's -- the second JV is really -- we're looking for unique opportunities that don't fit on the balance sheet, but could because they're not the number one or number two grocer in the market. They have some slight change that. But we still think that there are solid investments, and that's what we're using for the second JV.

And the thing I hope we leave with you is like we own three shopping centers today, one anchored by Publix one acre by Kroger, one anchored by Snook that we wouldn't own today if we didn't have our JV.

And that, to us, is additive because we did that while exceeding our -- the top end of our target for acquisitions last year, increasing our goals for this year by \$150 million. So this is really additive product to us. And we're excited about it. We think it's going to give us opportunities to just to broaden the net. And if we can do that, with partners like Northwestern Mutual, it's a great add to our growth profile. And we -- this is -- as I say,

this isn't our first rodeo. This is our tenth JV that we've done in PECO. And they -- so we know how they can be additive both to the operating side, but also to the financial returns.

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**Operator**

Michael Mueller, JP Morgan.

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**Michael Mueller** - *JPMorgan Chase & Co - Analyst*

Just a quick one. Can you remind us where the average portfolio blended escalators increase to today? And where you think that could go over, say, the next three to five years?

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

John, do you want to take that?

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

Certainly. Mike, so today, our portfolio is around 100 basis points on annual rent bumps. We think that will continue to march forward in '25 based on the success that Bob and his team is having on embedding those. And I mean, I believe we can -- we've said that we can do, I think, 120 to 130 basis points. I think that we're going to continue to move this ultimately, I believe we can get to somewhere between 120 and 150 basis points.

So -- but it takes time because we need the leases to roll. We have a better time with the 20% renewal rates also at putting in slightly higher bumps than on the new leases. But it is going to be a cruising speed that we can continue to drive.

So as we look to '25, I think you'll see that around [100 to 110 basis points], and then it's going to continue marching because I want to say three or four years ago, that number was closer to 60 basis points. So good traction, good environment in our favor and where you can you need to push them.

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

Mike, I'm not sure if the new leases we're signing -- our target is 3% or 3% growth in the new leases that we sign and when we're doing renewals. We get slightly higher than that in some and a little less than some. But that gets to John. John was talking about the overall impact and the timing that it takes but the leasing spreads we're getting and the CAGRs are in that 3% range.

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**Operator**

Juan Sanabria, BMO

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**Juan Sanabria** - *BMO Capital Markets - Analyst*

All right. Just trying to square a couple of things to an earlier comment or question you had a similar retention plan in '25 versus '24 versus '23. So I just wanted to make sure that is there going to be a drag from retention on same-store NOI growth to see? And as a part of that, how should we think about the snow, it's a bit elevated 100 basis points to end the year in '24 evolving over the course.

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

John, you want to talk to the snow and then we'll come back on the -- talk a little bit about the retention because I think the answer to the retention is it will be at the margin, but we do not anticipate significant change from what we've had over the last couple of years.

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

Sure. So as I look at it, in my note to say that in '23, it was actually 94% and '22 almost 91%. And this year, we finished at 89%. And so when I say it's all about I'm guess -- I'm rounding there. So it came down a little bit, and I would think that it's kind of in that. But I wouldn't say that we're moving to 60% and so when I say it's pretty consistent. That's really what I'm talking about. And then when we look to '25, you can -- I guess I would say you can see the impact there. We were we're guiding to 3% to 3.5%.

And I think in 2024 the activity was really the change from the past was really more on the anchor side with a few boxes that turned over that we took back and Bob said that got excellent spreads on relative to the capital we're putting in. So that's something that we'll continue to do.

And your question of where to expect it to go by the end of '25, I think you will see us return back to that historical level of our economic gap between economic and lease will be back to around 50 basis points based on what I'm seeing. But again, if we have the opportunity to drive rents and improve merchandising, we will do that. But I don't see the environment -- we just don't have that many of these boxes. I mean, I believe that outside the grocer, our anchor boxes are maybe 13% of our rent.

So it's not the non-grocery anchors are a small part of our business, which is specifically designed in what we do. So it is there, but it's not going to be a headwind that you might see in others because that's the design that we have, which is kind of steady, smooth, consistent growth, and we're kind of talking about small adjustments here.

**Operator**

Paulina Rojas, Green Street.

**Paulina Rojas** - *Green Street Advisors - Analyst*

The capital acquisitions increased in 4Q from six safe, I think, over the first nine-months to close to 7.5% in 4Q, if I'm doing the math right. Can you elaborate on the drivers behind that change, including both market trends that you're seeing and perhaps the asset mix asset mix that you acquired? And also related to that, if you could provide a cap rate for the property you sold subsequent to quarter end -- [Pavilion San Matteo] ?

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

The second question was cap rates on what we sold in the first quarter. Is that -- was that -- I didn't hear exactly.

**Paulina Rojas** - *Green Street Advisors - Analyst*

Yes. The second part is, I believe you sold something subsequent to quarter end, [Pavilion San Matteo]? and I was asking for the cap rate for that one.

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

Okay. So the Cap rates quarter-to-quarter are really like they are very asset specific and I can tell you that the unlevered IRRs that we have for the -- for our core grocery anchored shopping centers have stayed at 9, when they are shadow-anchored, they've moved to 9.5. And when -- and the unanchored stuff that we bought has been over 10%.

And so the -- these cap rates are going to reflect both the mix of that, that we bought but also the ability to grow the IRRs on the -- so they have different growth profiles. So the cap rates, they may average -- have averaged 7.5% for that second part, but that I don't think that's reflective of what is going on in the market because they have a very specific story to each one of them.

And the market is this would indicate the market is getting lighter and it's not. I mean the competition is as strong or stronger than it's been over the last 12 months. So if anything, cap rates are compressing, not expanding. The story behind each one of these will we needed to sit down and talk about property by property to understand exactly why they averaged out at 7.5% because -- and it's both the mix of growth and lower growth and the other. And I don't -- John, are we giving out cap rates on individual dispositions? I don't think we are, but if we are, can you -- .

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

It was between 7.5% and 8% on San Matteo. I mean it will come through when we disclosed that in Q1. So based on what we have. So that will be there.

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**Operator**

Caitlin Burrows, Goldman Sachs.

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**Caitlin Burrows** - *Goldman Sachs Group, Inc. - Analyst*

I know we're past the hour, but I was wondering if you could talk a little bit about the leasing pipeline and interest level. I feel like the topic hasn't really come up, so maybe that's because everyone just assumes it's strong. But like when you're not renewing a tenant today, how deep is the interested pool of new retailers? And how does that compare to a year ago? And anything else we should know?

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

Thanks, Caitlin. Bob, do you want to jump in on that one?

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

Yes, absolutely. Yes. Thanks for the question. There's just been a lot of consistency with the leasing pipeline. I'm still not seeing any signs of closing or slowing down coming out of the New York ICSC show the demand, again, retailers are looking for store openings in 2026, '27, the visibility that I have out not only on our renewals and the new deal side, is very positive, reinforcing the type of spreads that we've seen historically. I don't see that slowing down. And again, I'm encouraged that we'll continue to move occupancy in the right direction this year.

So, the demand is very solid, still fast casual, med tail, health and beauty. It's the normal cast that we partner with and again, we continue to see a lot of demand where retailers want to be associated with the number one, number two grocer in our market. So it's very positive.

**Caitlin Burrows** - Goldman Sachs Group, Inc. - Analyst

Great. And then just you quickly -- you mentioned some that visibility to leasing spreads is good. It sounds like '24 spreads were boosted by anchor boxes, which isn't so regular for you. So do you guys think it would be fair to think that '24 -- sorry, 2025 spreads will still be strong, but possibly below last year's reported levels?

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

Yes. I would tell you that I think our spreads will be on new deal side. I like that 25% to 33% range. That's a big range but if you look at what we did in 2024, we were -- I think we finished the year at 35%. And you're right, we did have a big push with Anchor. We won't have that same in 2025. So yes, you should assume it will be inside of that. But on the renewal side, I'm showing the visibility that we have that our spreads will be elevated.

**Operator**

That concludes our question-and-answer session. And I will now turn the conference back over to Jeff Edison for closing comments.

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

Well, thanks, everyone, for being on the call. I know we're over time, but we're really happy with how things turned out at the end of the year, and we're really optimistic going forward. We think there's really good fundamentals on the operating side as well as on the acquisition side, and we're looking forward to a really good 2025. So thanks again. We'll look forward to keeping up and answer any questions, obviously, holler if you have them. Thanks.

**Operator**

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

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