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PECO.OQ - Q4 2025 Phillips Edison & Co Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to Phillips Edison & Company's fourth quarter 2025 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.

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

Thank you. I'm joined today by our Chairman and CEO, Jeff Edison; President, Bob Myers; and CFO, John Caulfield. Following our prepared remarks, we will open the call to Q&A. After today's call, an archived version will be published on our Investor Relations website.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.

And our discussion today 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 earnings press release and supplemental information packet, both of 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. 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. We are pleased to report strong 2025 results which reflect NAREIT FFO per share growth of 7.2%, core FFO per share growth of 7% and same-center NOI growth of 3.8%.

In addition, our strong 2026 guidance growth rates for NAREIT FFO and core FFO per share are in the mid-single digits. While the market may continue to be nervous about the health of the consumer and the impact of tariffs on retailers, our outlook remains unchanged. As it relates to PECO's neighbors and grocers, we continue to feel very good about our portfolio.

We are seeing a resilient consumer, and our top grocers and necessity-based retailers continue to drive solid foot traffic to our centers. As it relates to the transactions market, it's no surprise that the strong fundamentals of grocery-anchored shopping centers continue to attract increased attention to the market. We remain confident in our ability to deliver on our gross acquisitions guidance of \$400 million to \$500 million in 2026 at PECO share.

We acquired approximately \$400 million in acquisitions at PECO share in 2025. We have demonstrated consistent success in finding core grocer-anchored opportunities, as well as undermanaged and underoccupied Everyday Retail centers.

Additionally, we have the joint venture expertise and partnerships to continue to acquire across the investment spectrum of grocery-anchored retail. We continue to be disciplined buyers, investing in acquisitions above our cost of capital. We continue to target an unlevered IRR of 9% for our grocery-anchored acquisitions and above 10% for our Everyday Retail centers.

In summary, we are pleased with our results for 2025 and our outlook for 2026. PECO's core business is our grocery anchored shopping center business. We are the leader in owning rightsized neighboring shopping centers focused on necessity-based retail. Our Locally Smart operating platform is driving strong rent and NOI growth. We remain confident in our ability to execute our plans and deliver solid growth in 2026 and beyond.

We believe the quality of our portfolio and the strength of our operating platform give PECO the best opportunity in our space to produce sector-leading FFO per share growth and AFFO growth. We believe an investment in PECO provides significant upside opportunity backed by high-quality cash flows, strong fundamentals and sustained long-term growth.

With our shares trading at a discount to our long-term growth profile, we believe PECO represents an attractive opportunity to invest in a leading operator that can deliver mid- to high single-digit annual earnings growth. We will continue to drive more alpha with less beta.

With that, I'll now turn it over to Bob. Bob?

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

Thank you, Jeff, and thank you for joining us, everyone. We continue to see high demand for necessity-based retail with no current signs of slowing. PECO's leasing team remains focused on capturing this demand, driving our in-line occupancy to tie for a record high while pushing very impressive comparable rent spreads. Retailers want to be located at our centers, where top grocers drive consistent and reoccurring foot traffic. PECO continues to deliver strong internal growth.

Our leasing activity and occupancy remain at very high levels. The PECO team executed 1,026 leases totaling approximately 6 million square feet in 2025. We believe this activity represents a substantial increase in value at the property level.

Portfolio occupancy remained high and ended the year at 97.3% leased. Anchor occupancy remained strong at 98.7%, and in-line leased occupancy ended the year at a record high 95.1%, a sequential increase of 30 basis points. Our portfolio retention rate remained high at

93% at year-end. High retention means less downtime and lower tenant improvement costs, which translates to better economics for PECO. We expect to see consistent retention in the future.

PECO delivered comparable renewal rent spreads of 20% in the fourth quarter. Comparable new leasing rent spreads for the quarter remained strong at 34.3%. Our leasing spreads reflect a retail environment, which continues to be extremely positive.

We are leveraging PECO's pricing power resulting from the demand of our high-quality portfolio, strong leasing spreads and embedded rent escalators. Leasing deals we executed during 2025, both new and renewal, achieved average annual in-line rent bumps of 2.7%. This is another important contributor to our long-term growth.

As it relates to bad debt, we actively monitor the health of our neighbors. We expect bad debt in 2026 to be in line with 2025, which came in at approximately 78 basis points of revenue for the year. Given our current pipeline and visibility, along with strong retailer demand and the lack of new supply, we are comfortable with our guidance range for bad debt. We have a highly diversified neighbor mix with no meaningful rent concentration outside of our grocers.

Turning to development and redevelopment. PECO has 20 projects under active construction. Our total investment in these projects is estimated to be approximately \$70 million, with average estimated yields between 9% and 12%. 23 projects were stabilized in 2025. This represents over 400,000 square feet of space delivered to our neighbors and incremental NOI of approximately \$6.8 million annually.

We are focused on growing our pipeline of development and redevelopment projects. This activity remains an important driver of growth. In addition, the PECO team continues to find accretive acquisitions that add long-term value to our portfolio.

Our year-to-date activity reflects \$77 million, including two core grocery-anchored shopping centers. Currently in our pipeline, we have visibility into approximately \$150 million in assets that we've been awarded or under contract that we expect to close either by the end of the first quarter or early in the second quarter.

Given the strength of the market, the pipeline we are targeting and the team we have at PECO, we believe we can achieve our targets for gross acquisitions in 2026, our current pipeline reflects a combination of core, grocery-anchored neighborhood shopping centers, Everyday Retail centers and joint venture opportunities.

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

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

Thank you, Bob, and good morning, and good afternoon, everyone. Our fourth quarter results demonstrate what we've built at PECO: A high-performing grocery-anchored and necessity-based portfolio that generates reliable, high-quality cash flows. The PECO team continues to operate from a position of strength and stability. Fourth quarter NAREIT FFO increased to \$88.8 million or \$0.64 per diluted share. Fourth quarter core FFO increased to \$91.1 million or \$0.66 per diluted share.

Turning to our balance sheet. We have a strong liquidity position. Combined with our proven access to the equity and debt markets, we have the ability to execute our growth plans. As a reminder, PECO can acquire \$300 million of acquisitions annually and remain within our target leverage range. As of December 31, 2025, we have approximately \$925 million of liquidity to support our acquisition plans.

Our net debt to trailing 12-month annualized adjusted EBITDAre was 5.2 times at year-end and was 5.1 times on a last quarter annualized basis. As a reminder, our fixed rate debt target is approximately 90%, and we finished the year at 85%. We anticipate addressing our floating rate debt through financing activity in 2026, where we will look to access the debt market opportunistically. We believe fixed income investors appreciate the high-quality cash flows and stability of grocery-anchored, necessity-based retail, and we continue to believe we are an underrated credit relative to our higher rated shopping center peers.

Moving on to guidance. We provided strong guidance for 2026 in December. Our outlook reflects continued solid earnings growth. Net income guidance for 2026 is in the range of \$0.74 to \$0.77 per share. Our same-center NOI growth for 2026 is projected to be in a range of 3% to 4%.

Our guidance for NAREIT FFO per share for 2026 reflects a 5.5% increase over 2025 at the midpoint, and our guidance for core FFO per share for 2026 represents 5.4% year-over-year growth at the midpoint. Our guidance for 2026 does not assume any equity issuance. Our growth and investment plans are not dependent on access to the equity capital markets.

The PECO team continues to have significant financial capacity to support our long-term growth plans. We have diverse sources of capital that we can use to grow and match fund our investment activity. These sources include additional debt issuance, dispositions, joint ventures and equity issuance when the markets are more favorable. We sold approximately \$145 million of assets in 2025 at PECO share, and we plan to sell between \$100 million and \$200 million in 2026.

Similar to our acquisitions, we evaluate our portfolio on an IRR basis and are reinvesting proceeds from these dispositions into assets with higher long-term IRRs. We are focused on maintaining our high-quality portfolio while improving PECO's long-term growth profile. This activity provides PECO the opportunity to realize the gains we've achieved while investing in future growth. We believe this approach helps drive solid NOI growth long term.

In summary, PECO delivered outstanding results in 2025, and we are positioned very well to continue that growth for 2026. Looking beyond 2026, we continue to believe that PECO can consistently deliver 3% to 4% same-center NOI growth and achieve mid- to high single-digit core FFO per share growth on a long-term basis.

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 core FFO per share and AFFO growth will allow PECO to outperform the growth of our shopping center peers on a long-term basis.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Andrew Reale, Bank of America.

Andrew Reale - BofA Merrill Lynch - Analyst

Good afternoon. Thanks for taking my questions. You're expecting to do even more volume externally this year. So as we think about this level of competition for high-quality grocery-anchored assets and how that's sort of intensified over the last year, could you speak to the diversity of opportunities within your pipeline and what looks most attractive to you externally right now?

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

Sure. Thanks for the question, Andrew. So on the acquisition side, what we're seeing is, as you point out, there's more competition there. But we're also seeing a lot of product on the market. And we think that, that is probably going to balance itself out in a way that creates

enough opportunities. And I think that's why we have a high level of confidence that we can reach our targets that we've laid out for the acquisition pace. Bob, any -- your thoughts on that?

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

Yeah, Jeff, I'll just add that as a comparison to 2025, we saw really over 200% of new potential opportunities. We underwrote about 50% more than the year previous and double the amount of deals we presented to Investment Committee. So that was in 2025 compared to '24 and '26, and I know it's early time in the year. But we've already seen about a 70% increase in the opportunities that we're looking at and about a 67% increase in the deals that we've underwritten and 10%, what we presented to Investment Committee.

You will continue to see us stay disciplined on our unlevered return targets of 9% and 10%. We're going to be very focused on continuing our core strategy of grocery-anchored shopping centers. We will complement it at a very small percentage with our Everyday Retail category. So both areas are going to be very active for us this year. We feel real good about our acquisitions that we completed year-to-date and our pipeline going forward.

Andrew Reale - *BofA Merrill Lynch - Analyst*

Okay. That's very helpful. Thanks. And then just any update on the [Ocala] development parcel, especially as it relates to the timing of that project? And are there any other large-scale strategic land acquisitions currently in your pipeline?

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

Bob, do you want to take that?

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

Yeah. Another great question. We're excited about the [Ocala] market and the growth that we're seeing, given it's one of the nation's fastest-growing communities and areas, 10,000 new homes being built within a five mile radius. Again, we acquired the land for a grocer that we expect to spin off midyear, and then we'll be left with seven outparcels that we're currently marketing for ground lease opportunities. So we're in a good spot.

And I believe as of a couple of weeks ago, our -- we're looking at hitting targets of unlevered returns above 9.5%, 10% on that project. So we feel real good about leaning into that market. Obviously, that's a reflection of our grocery relationships that we've established over 30 years.

In terms of any new larger grocery scale development projects, we have a pipeline, and we're discussing that with our grocers. We have a couple of deals under contract that we're working on, but nothing real close that I would say would strike this year as I thought.

Andrew Reale - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Michael Griffin, Evercore. (Operator Instructions)

Michael Griffin - *Evercore Inc - Equity Analyst*

Sorry about that. I was on mute. Apologies. I was -- I wanted to start off and ask just about occupancy in the portfolio. Both leased and economic is pretty meaningfully above the peer set. I guess, number one, do you feel like we're reaching almost a terminal occupancy level, probably more so on the anchors than the in-line neighbors?

But number two, just given where your occupancy is you think that gives you more leverage when it comes for these renewal negotiations, maybe being able to push more on rent escalators or with an anchor lease potentially shortening options or building in some kind of internal growth into those?

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

Yeah. Before Bob, before I turn it over to you, Grif, thanks for the question. Our belief is that the reason our occupancy is higher is because more retailers want to be in our grocery-anchored locations. And the necessity-based retailers see us as where they want to be, which is giving us a higher level of stabilized occupancy than anyone else in the space. And we think that will continue, and we believe that there is upside from where we are today.

Obviously, not a ton on the anchor side as we are in the -- in the very high 90s on that. But we still think there's 1 or 2 points that we can get of additional growth in the in-line stores. So we're excited about that. We believe very strongly that the retailers are voting with their leases, and they're leasing a lot of our space. And that's why we are at the highest level of the of our peers. Bob, do you want to talk a little more about the tenant demand and what we're seeing there in the tenant side?

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

Yeah. I'll continue to give a little bit more color in terms of occupancy. We're currently at 97.3%. And as I look at our anchor occupancy, we're at 98.7%. I do believe that there's anchor demand. We're seeing it with our spaces that are over 10,000 feet and the amount of leases that we have out for signature and letters of intent. I believe that we still have room to move that number to 99.1% to 99.3% this year. I would also tell you that our in-line leased occupancy is a record high 95.1%. I don't see it slowing down. And given the visibility I have in the pipeline, it's very active.

There's no new supply. Retailer demand and our necessity-based focus has been very positive. I would say that we believe that we have 100 basis points to 150 basis points of continued in-line upside as well. Feel real good about that.

In terms of leverage, that was a great question. 93% is our current retention of our occupancy. That's strong. And if you look at our fourth quarter numbers, at 93%, we only spent \$0.24 a foot in terms of TIs to renew that with over 20% renewal spreads with over a 3% CAGR. So we are driving the CAGR. We're getting exceptional first year increases.

And the pipeline I have on that, I probably have 150 renewals out for signature currently, and the numbers are even more accelerated than what I just shared with you. So again, I think -- we're in a very good spot given the retailer demand. Our focus on having the number 1, number 2 grocer. We just don't see anything slowing down.

The other thing that we're working on as part of the renewal process is renegotiating some of the non-monetary clauses as you think about caps and restrictions in no build area. We do have the leverage to negotiate that to give us more flexibility in our pipeline and our existing portfolio continue to create NOI growth.

Michael Griffin - *Evercore Inc - Equity Analyst*

Got it. Thank you so much for that color. And then maybe just circling back on the Everyday Retail portion of the acquisition pipeline. It seems like in addition to the core grocery anchor, you could get some real kind of kicker on earnings accretion and external growth of these properties.

But I'm curious, maybe Jeff or Bob, if you could comment how you kind of weigh the potential differences in credit and sort of maybe some tenant health? Not concerns, but just a different tenant makeup of these kind of unanchored strips that you might be targeting for Everyday Retail relative to your core grocery-anchored tenant base?

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

It's a great question. I'll take a little bit, and then, Bob, why don't you jump in, too. As we look at Everyday Retail, we see it as, hopefully, over the next three years, we get that to be \$1 billion of assets. So it's always going to be a piece of our company, not our main focus on the -- which is going to be on the grocery-anchored side.

But there is a -- we believe, a unique opportunity to take advantage of certain places where we can find properties that we can use the PECO machine that knows that where every neighbor wants to be in that market, and we can bring them to locations that they can't -- when they can't get into one of our existing centers.

And that's a very powerful tool that we think will be able to drive outsized results in that particular niche of the market. And we're excited about it. And we think it's going to create some great opportunities for us to get outsized growth where -- from what we're getting in our traditional grocery-anchored centers.

Michael Griffin - *Evercore Inc - Equity Analyst*

Thanks so much. Got it.

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

Okay. Great. Thanks, Griff.

Operator

Haendel St. Juste, Mizuho.

Haendel St. Juste - *Mizuho Securities Asia Ltd - Analyst*

Hey, guys. Thanks for the question. First question on capital deployment. I appreciate your comments on the acquisition strategy. I guess I'm curious also on the other capital allocation alternatives that you're considering.

So maybe some comments on how you're thinking about either ramping up redev, ground-up development? And also potentially buying back the stock here, which looks like it's trading somewhere in the low to [mid-60s] on implied cap rate, which isn't that much different. A little higher than acquisition cap rates, but it's an immediate return. So just curious on how you're thinking about capital deployment beyond acquisitions? Thanks.

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

Great question, Haendel. And one that we obviously think about a lot. And all of the pieces that you're talking about are part of our regular conversation -- on our allocation of capital. The ground-up development is a very strong part of where we think there is opportunity. Small. It's not going to be a major piece. It's going to be -- we hope we can get it to the size that we're talking about with Everyday Retail. That because we think we can get outsized returns there.

So that will continue to be a part of our property. We'll put up, we think, \$70 million of sort of redev and capital that we will put into the ground up this year. We kind of burn that \$50 million to \$70 million range, \$70 million last year, \$70 million this year. Probably more like \$50 million going forward, but we hope we can get that to \$70 million. So we love that part of our business.

Obviously, the allocation to the acquisition side between our traditional grocery anchored stuff and our Everyday Retail, again, a piece where we think there's opportunity to -- if we can find it and get to the unlevered IRRs that we are targeting, we think there's opportunity to allocate capital there as well.

And as we -- I think we've said a few times, we can purchase \$300 million of property and do redev in -- \$300 million property without going back to the market and keeping our leverage where it is today. So we have opportunities for that growth, and we want to continue to where we find the opportunity to be able to take advantage of that. So all of those are part of it.

We are always looking at share buyback since we started. We've looked at that. Right now, we're in sort of that tweener zone where it's really not a great time to be issuing equity. But also, it's not -- we don't -- we think we can get better returns for our investors with buying properties than we can and doing our readout than we can buying our stock back. So we're in that sort of between range.

And that's why we've laid out the vision for this year that we have, and we're excited by it. I think we can do some really exciting things. The one piece that is an addition here is the dispositions. And the dispositions give us more opportunity to buy at a larger scale. And that is something that we'll be looking at this year as well.

Haendel St. Juste - *Mizuho Securities Asia Ltd - Analyst*

That's great color. I wanted to ask a question about Amazon. Some headlines out there that they're closing some stores, some Amazon Go Fresh locations. I guess I'm curious, one, if you have much, if any, exposure there and if that's impacting your conversations or impacting grocery demand for space? Thanks.

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

Yeah. So Amazon Fresh is closing their stores. It's not a surprise to us that they are. They really have had a tough time with bricks and mortar retail, and they're trying to figure that out. I think that Whole Foods is their avenue, and you're hearing things about them expanding that banner.

That's sort of the next step in their bricks-and-mortar campaign, which I think they're going to keep trying different things until they find something that works. And to date, they have not found anything that can work. They have made some announcements about more delivery on the grocery side, which we're watching pretty closely. And our feeling is that the -- if you look at it today, over 80% of grocery delivery, just the delivery part of grocery is done from the store.

And so how do they make it work from -- when you don't have the store footprint that a Kroger has, that a Walmart has and the rest of the traditional grocers have? It's going to be tough. And so we'll continue to watch it. You never underestimate them. They're a great company. So we'll keep watching them and seeing what they do. To date, they've been under impressive on the bricks-and-mortar side.

Haendel St. Juste - *Mizuho Securities Asia Ltd - Analyst*

Okay. Thank you. Appreciate the color.

Operator

Caitlin Burrows, Goldman Sachs.

Caitlin Burrows - *Goldman Sachs Group Inc - Analyst*

Hi, everyone. Maybe as a follow-up to some of the other questions, John, you talked about it a little bit, but how does cost of capital influence PECO's acquisition pace? Do you feel constrained at all? Would a higher share price make you interested in the higher acquisition target for the year?

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

Great question, Caitlin. Thank you. The answer is yes, a higher stock price would encourage us to be more active on the acquisition side. We have the capital to -- and the ability to meet the targets that we've set for this year without issuing additional equity. So we're prepared for that.

We also are going to be active on the disposition side so that we can use that additional capital to perhaps be able to grow even faster than what we have talked about in our guidance. So we think that if there are opportunities, we will find the capital to be able to do it.

And hopefully, that's in a share price that is commensurate with where we think it should be. If not, we will -- we've got multiple other channels that we can use to get that growth. And there's a lot of interest from outside parties to JV with us and other things like that where we could add to the growth that we have projected now.

Caitlin Burrows - *Goldman Sachs Group Inc - Analyst*

Got it. Okay. And then maybe just on the bad debt side, it did pick up a little in 4Q. Can you discuss what led to that? How much visibility you had to it? And then to what extent your expectations for 2026 might have evolved since the business update in December? Or is it kind of all in line with the past couple of months' expectations? Thanks.

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. They always leave the fun ones for me. Thanks for the question, Caitlin. Look, ultimately, if you're comparing towards the fourth quarter of '24, I would say that was the lower run rate. Overall this year, our bad debt has really actually been pretty consistent.

We finished this year around 78 basis points. And as we look forward, that is pretty consistent with where we believe it will be. So when we set the guidance in December, the information and the data points we have from January and February so far are very consistent with that.

We're really encouraged by the continued leasing demand that we have and are encouraging our teams to find the best operators, the best merchandising mix for our properties that are going to allow us to drive rent and make our neighbors successful. So we don't see anything

on the bad debt side that is concerning the fourth quarter. It was a little elevated but ultimately still very consistent with what we've seen this year and what we expect in '26.

Caitlin Burrows - *Goldman Sachs Group Inc - Analyst*

Thanks.

Operator

Omotayo Okusanya, Deutsche Bank.

Omotayo Okusanya - *Deutsche Bank AG - Analyst*

Hi, yes. Hi, everyone. John, this one's for you. You had made a comment earlier on about just your overall credit rating and kind of your in-house view that you probably should be at a higher kind of credit rating. Just curious, when you talk to the rating agencies at this point, what's kind of preventing that from happening? And then kind of if and when it does, how do you expect that to kind of impact your cost of debt?

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

Thanks for the question, Tayo, and thank you for the opportunity to use this as a platform. So we do believe we are an underrated credit when we compare our leverage level compared to our peers. We have the same leverage metrics or better in some cases than they do. The rating agencies at this point are more focused on scale. If you look to those that have achieved A ratings in our space, they are quite a bit larger than us.

So as we look at it, we think our continued scale and acquisition activity are going to give us opportunities to increase our debt issuance in the unsecured bond market. It will hopefully give us opportunity to access the equity markets to increase our institutional holdings and our float.

Ultimately, we think the one is usually have been told 25 basis points per credit notch. But I will say that the fixed income investors are definitely paying attention. And I do think they have compressed that range for us. So while I do believe there is benefit to a ratings increase, the fixed income investors do recognize the strength of our grocery-anchored portfolio, our performance, our track record.

So ultimately, I think right now, if we issue 10-year debt, it'd probably be around 5.25% I think that, that could be better if we were in a higher rated position. It is a conversation that I continue to impress upon the rating agencies. At this point, I think it's going to be around scale. But we're going to continue to fight the fight.

Omotayo Okusanya - *Deutsche Bank AG - Analyst*

Got you. That's helpful. Then if I may just follow-up still on the balance sheet. Again, your variable rate debt, the percent of the variable rate debt is a little higher than probably most of your peers. Just thinking -- how are you guys thinking about that in light of whatever facing have about where interest rates are going on a going-forward basis? The viewpoint of maybe putting swaps on some of that stuff to kind of reduce it, or how do you kind of think through that?

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

We finished the year at 85%. We have a long-term target of 90% fixed rate. We believe in this environment, the key piece that we watch is really our maturity calendar, and that's the piece that I'm focused on. So we have some maturities that are coming up in January of 2027 that we are going to work on this year. And when we access longer-dated capital, that will be fixed in that component and naturally move us in that way.

We believe that the market currently is a position where there's questions around what will happen with short-term rates. But I do think that stability is there. And I think the curve being more positively sloped now there isn't a penalty per se for this.

We are focused on making sure that it's available and opportunistic and not in a position where we must move our preferred method of this is the same way that we've done in the last few years, which is going to be continuing to acquire and match funding those acquisitions will -- as well as working on our refinancing activity is going to allow us to add duration and fixed rate coupons to our debt stack.

Omotayo Okusanya - *Deutsche Bank AG - Analyst*

Good. Thank you.

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

Thank you.

Operator

Ronald Kamdem, Morgan Stanley.

Unidentified Participant

Hi, this is Caroline on for Ron. You've mentioned being active on the disposition side. I was just wondering if you could share a little bit more about what you're seeing or anticipating? And overall, just a little more color on what you're seeing in terms of cap rates and unlevered IRRs for those dispositions?

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

Sure. Caroline, thanks for the question. Bob, do you want to talk a little bit about the disposition side?

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

Yeah. Great question. We ended up selling about \$140 million worth in 2025. And that was something that we wanted to be more intentional about in terms of property recycling. And really, our core strategy on the disposition side is trading out assets that we've stabilized where we have unlevered return targets that might be, say, 7% and replacing it with our strategies and the opportunities we're seeing today with unlevered returns between 9% and 10%, 10.5%. In terms of expectations for 2026, we'll continue to do the same thing. We put a budget in place between \$100 million and \$150 million to execute the same strategy.

Unidentified Participant

Very helpful. Thank you.

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

Yeah, thanks, Jeff.

Operator

Floris Van Dijkum, Ladenburg.

Floris Van Dijkum - Ladenburg Thalmann & Co Inc - Equity Analyst

Hey, guys. Thanks for taking my questions. Going back to capital allocation. Maybe just -- if you can talk a little bit about why your everyday or unanchored strategy isn't bigger if you're getting higher IRRs? And -- is there not enough an opportunity set there? Or I would have thought it would be bigger actually. If you can maybe talk about that? And then also, on the dispositions, do you think of -- where do you think you can sell assets at? Is it a 5.5, sub-5 cap on some of your assets?

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

So Floris, thanks. The -- on the capital allocation side, with regard to Everyday Retail, we've set targets of getting to \$1 billion over the next three years. We hope we can do it quicker than that. And if the opportunities arise, we will do that. As you know, we're really disciplined about this business.

We want to make sure that it is the kind of product where when we put the PECO machine to work on it, that we can get accelerated and outsized returns. That means we have to be disciplined. We won't -- we might not go as fast as if we were just buying straight triple-net deals that are more homogenous.

But we think that's where the opportunity is in this space, and we think that we can find that product and -- and if we find more of that product, we'll buy more of that product. And that is -- that will be the -- the governor will be on whether we can find that level of opportunities. So that's our key sort of allocation question there.

And in terms of dispositions, there are really two buckets, Floris, that we look at in -- when we're selling properties. One is projects where there is not a ton of upside where we have put the machine to work on it, we stabilize the product, and we think we can get good pricing on it that will price it in -- where the -- in our mind, the unlevered IRR would be in that 7%, 7.5% kind of range. That's a bucket that we did. And we sold a project in California last year at a [5.7%, 5.8%] cap rate that fit into that bucket.

The other bucket is just more of a derisking bucket where we see that we can get good pricing, but where we think that the IRR will still be in that 7% -- [6.5%], 7% range. But we -- but it's more because we think we can take some risk out of the portfolio and selling it. So those are the two buckets we tend to take to market more than what we actually anticipate executing on because we want to make sure that we're getting the pricing and we have the variety of product that allows us to make sure that if we get the pricing, we sell it.

If we don't get the price, then we don't sell it, because these are all solid assets that we will hold long term otherwise. But that is how we approach the disposition market. And then obviously, that ties into how it helps to manage the balance sheet as well. Does that answer your question, Floris?

Floris Van Dijkum - Ladenburg Thalmann & Co Inc - Equity Analyst

It helps. Thanks, Jeff. No, again, the spread between the unanchored and the noncore sales is pretty wide. So --

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

Yeah.

Floris Van Dijkum - *Ladenburg Thalmann & Co Inc - Equity Analyst*

My follow-up --

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

We're excited about that, Floris. We think there is an opportunity there. And that is why we're in it. That's why we think we're getting paid to take what is -- I think the risk that people believe is there is a lot less than what we think. And that's why we're excited about it.

Floris Van Dijkum - *Ladenburg Thalmann & Co Inc - Equity Analyst*

Maybe my follow-up -- I think I might have asked this on a previous call, but the -- your renewal spreads were really strong, but your option sort of impacts your overall -- your average spreads still including options were still 13%-plus, so very solid. But what are you doing on the options in going forward leases? Because obviously, are you signing new leases with no options so that, again, some of that break on spread is removed going forward?

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

Yeah. The answer is yes. Bob, do you want to talk a little bit about sort of option strategy on the leasing side?

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

Yeah. Floris, it's a great question. This is something that we're very focused on. Certainly, with 93% retention and the leverage we have on the renewal side, we're getting a lot of that in the negotiation with your 20% increases and 3.25% CAGRs as an example. On the new deal side, our new leasing spread was around 34%, and we're seeing CAGRs anywhere between 2% and 3% on new deals. So that's in terms of the existing portfolio.

I think as part of our negotiation strategy on new deals, we simply say no. If a tenant wants to have an option, we always start with saying no. I know the options don't benefit the landlords. However, when you have a nice portfolio that has the integrity of a lot of national and regional tenants in it, they're investing a lot of capital alongside us in the space. So they do want some protection above and beyond either their 5 or 10 year primary terms. So it makes sense.

On those, what we've really been pushing for -- and it's hard to get -- is 20% increases during each option period plus a 3% CAGR on top of that. I incentivized my leasing team to drive that behavior. We're moving in that direction. But it is a difficult one, but you're spot on in terms of continuing to figure out ways to have less options and higher CAGRs.

Operator

Todd Thomas, KeyBanc Capital Markets.

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

Yeah, hi. Thanks. I wanted to ask a couple of questions around acquisitions and JV activity, in particular, where you've seen a measured pace of activity. Bob, you mentioned that you're seeing a pickup in offerings. And I guess, two questions here. Should we expect to see JV activity ramp up a little bit more meaningfully in 2026?

And then second, Jeff, I think you commented that you're having discussions with some other potential sources of capital. Are there other potential JV partners that you are having discussions with for another vehicle, perhaps?

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

So I'll answer the second one, and Bob, do you want to jump in on the JV activity for this year? Todd, we're always talking to potential JV partners who have specific needs that might fit into our overall necessity-based grocery-anchored shopping center focus. And that -- this is no different than that. And we will continue to have those conversations.

And in the right case, that will be an opportunity like it was with the two JVs that we have. And when your stock is not trading where you want it to, the JV opportunity is one that you've got to keep looking at more closely. Bob, do you want to talk about activity this year a little bit?

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

Yes. We continue to see increased opportunity. We have a weekly meeting for Investment Committee with our partners. And we're typically presenting anywhere between two and four new sites weekly to the team. So I do think that we'll see more activity this year than we have in the past.

I think we're going to see more product. And things are heading in the right direction behind the opportunity set, the pricing opportunities that we're seeing. I think we'll close out our one fund. We need one or two more deals that we currently have under contract.

So that will close out one. And then our Cohen & Steers joint venture has not only been very successful early days, but is well equipped with capital to continue to take advantage of market opportunities which we're seeing. So I'm encouraged by the activity in the joint ventures.

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

Okay. And then with regards to -- you continue to talk about sort of IRRs north of 9% for core acquisitions for grocery-anchored acquisitions. And then I think you said north of 10% for Everyday Retail. Can you just walk through sort of the basic framework and underwriting assumptions that you're looking at or targeting for those sort of IRR hurdles?

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

Sure. Why don't Bob, do you want to walk through sort of just how we're -- the -- just so, Todd, I mean the simple answer is that we do very standard underwriting, and it's consistent across everything we look at. And it's something we've refined over 30 years that we've been in this business.

And it's been very -- we've refined it to the point where we are very accurate in it. And if you -- we do once a year as we go back, we look at everything that we underwrote and we compare it to what we performed on. And we're -- we performed about 1% above where -- what our underwriting is across a portfolio over a decade. So it shows that we have the -- we believe we have the right system in place to actually get to what we're going to -- what we believe will happen in the portfolio, and it's proven itself out.

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

And Jeff, I will add. When you specifically look at our Everyday Retail, the nine centers that we have, roughly \$180 million. One upside opportunity that helps us get above the 10% unlevered return is the current occupancy and vacancy and mark-to-market opportunities. So we've done a very good job given the lack of new supply coming on the market and the leverage to be able to push rents.

As an example, on that nine property portfolio, we've generated over 45% new leasing spreads and over 27% renewal spreads with CAGRs. And we're very focused on a solid strategy that's in our core markets, where we can take our national accounts team, we can remerchandise. We're very focused on transitioning our merchandising focus towards necessity-based goods and services.

If you think about fast casual, health and beauty, Medtail services. Those are the areas where we're seeing demand and we're seeing validity and our overall merchandising. Right now, you'll typically see in this strategy that we'll acquire between -- it's been between 6.7 and 7. Maybe we'll go down to 6.5 if there's more vacancy for growth. But as Jeff pointed out, yes, in our underwriting -- and we do not compress cap rates on the back end of this. So we are taking advantage of pure growth. These will have NOI CAGRs between 4.3% and 6%.

We'll be able to move the occupancy, which even in the last year on the nine properties, we've already moved occupancy from 91.6% to 94.7%, 310 basis points. And we're seeing unlevered returns increase above our underwriting, to Jeff's point, 100 basis points. We're above 11. So that's the benefit of the strategy as we continue to use our operational expertise to remerchandise and create value long term. That's why we're also excited about over the next three or four years, growing this part of our business to \$700 million to \$1 billion over time, the Phillips Edison way.

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

Okay. That's really helpful color. I appreciate that. One last one, John, a quick one on the guidance. It includes gross acquisitions, \$400 million to \$500 million. But it seems like there's this \$100 million to \$200 million of dispositions that's also contemplated for the year. Is that embedded in the range? Or is the disposition activity not currently factored into the guidance specifically?

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

It is in our guidance. The dispositions are considered in the guidance that we provided. Yes.

Operator

Cooper Clark, Wells Fargo.

Cooper Clark - *Wells Fargo Securities LLC - Equity Analyst*

Great. Thanks for taking the questions. I guess, just to stay on the disposition pipeline, curious as you think about marketing deals today, what the depth of the bidder pools looks like and the buyer profiles you're seeing?

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

Cooper, thanks for the question. The buyer profile is pretty dispersed. I mean, there's a breadth to it that is pretty solid. And certainly, more solid. It was pretty solid last year. So it's very comparable to what we saw last year in terms of the level and the variety of buyers.

We don't see that changing this year, and we certainly haven't seen it so far this year. Obviously, we're still finding enough product to meet our goals, but it's a more -- it's a broader market, and it's a broader level of interest.

And each property has its own little character. And as -- and each character has its own set that different buyers, whether it's a family office or whether it's an institutional buyer looking at it, how are they going to evaluate and see value in it. And that's what we're -- that's what we do. And we find those specific opportunities where we can find that the right buyer for our product.

Operator

Hong Zhang, JPMorgan.

Hong Zhang - *J P Morgan (UK) Ltd - Equity Analyst*

Yeah, hey. I guess my first question, you've talked in the past about the potential to proactively take back space in order to push rents higher in the long term. Where you sit today, do you see any opportunities this year that could potentially be a little bit of a headwind to occupancy, but ultimately push rents higher in the longer term?

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

Bob, do you want to talk about that?

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

Yeah, I appreciate the question. I don't believe we're going to see any headwinds in terms of occupancy. What I'm encouraged by -- we will be very selective from a merchandising standpoint or recapturing spaces where either a neighbor doesn't choose to step up to current market rent or we're not seeing the renewal increases or viability and the profitability of the neighbors.

So that will be a case-by-case decision, asset by asset. Given the 93% retention and what we saw in the fourth quarter is a trend only spending \$0.24 a foot, it's just a lot better economic decision than replacing a new neighbor and pushing the rents.

The rents have to be extremely high on that first year renewal spread when you're investing somewhere, say, between \$22 and \$28 a foot and tenant improvements. So the good news is we'll continue to have flexibility to remerchandise the way we can be just given the lack of supply and the leverage we have in our existing portfolio. I don't see any signs of occupancy weakening. Again, it will just be case by case and mark-to-market opportunities so we can maximize the value of the portfolio.

Operator

Michael Goldsmith, UBS.

Michael Goldsmith - *UBS Russia Ltd - Analyst*

Good afternoon. Thanks for taking my questions. Earlier, you talked about maybe having 100 basis points of upside for the shop occupancy. It seems like the demand is there. So what needs to change in order for you to realize that upside? Thanks.

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

Bob, do you want to talk about the upside?

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

Great question. So that is a topic that we continue to discuss on what we can do. One initiative that we put in place is getting ahead of the curve, whether we discuss supply chain or making improvements to the space where we can turn them faster.

In every portfolio, you'll have some spaces that are located in unique spots or spaces that are tired. And I think that will be a new strategy as we see where our portfolio is today, not only identifying spaces where we should invest capital earlier.

But the other thing that I've done with our leasing team is I put incentives in place on our top 100 vacant opportunities that generate the highest NOI for the center. And I'm compensating it like a bounty program if we can get those leased.

One thing we've seen a lot of success at Phillips Edison is when you have incentive pay and commissions to drive a behavior, it works. That's part of the reason why you're seeing new leasing spreads, renewal spreads and the integrity of our portfolio. This is something I'm excited about. This is going to help move the needle another 100, 150 basis points with a targeted space leasing approach.=

Operator

Sidney Rome, Barclays.

Unidentified Participant

Hi, thanks for taking the question. With regards to the \$400 million to \$500 million acquisition guide alongside higher interest expense, I know you commented on \$100 million to \$150 million of disposition budget. But I was hoping you could help us bridge how much of the remaining funding comes from incremental debt versus free cash flow generation?

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

Sidney, thank you for the question. John, do you want to talk about the allocation there between the two?

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

Thanks for the question. We generate over \$100 million. Actually, this year, we think it will be closer to over \$120 million of cash flow available to us after distributions. As we said earlier, about \$70 million of that will likely go towards our development and redevelopment activity. And then you consider the proceeds from the disposition activity. So as we look to the debt market share, we will utilize incremental debt capital but also to refinance it.

So the math there, I think I kind of pointed to the pieces that could do it. But ultimately, we would be looking at one to two bond offerings this year or other debt offerings that we would look at, depending upon pricing at the time.

So we're going to, again, work too on those January maturities, but I would say we have over \$900 million of liquidity available to us between our revolver. And at the end of the year, we had some dollars available in 1031 proceeds that have been invested in the acquisitions we've already closed. So we feel really good about the availability of debt capital in the markets across types in addition to the free cash flow generation that we have.

Operator

Paulina Rojas, Green Street.

Paulina Rojas - Green Street - Analyst

Good afternoon. Can you please share some rough [marca] guidelines on how CapEx has deferred between your Everyday Retail and typical grocery-anchored centers?

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

Paulina, thank you for the question. I want to make sure I get it. You're saying what capital are we spending on the our core grocery stuff versus capital on Everyday Retail. Is that -- and is that the comparison you're looking at?

Paulina Rojas - Green Street - Analyst

Yes, correct. Ideally, as a percent of NOI or something like that.

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

John, do you want to walk through that?

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

Absolutely. As we look at it, we are targeting over 10% on levered IRRs. And to Bob's point earlier, actually, even 100 basis points or higher above that. For us at this point in the strategy, I would say that the capital as a percentage of NOI actually looks a lot like our grocery anchored centers because of the growth that we're generating.

As we stabilize these assets, we do believe they will be very efficient from a CapEx perspective as you get to renewing neighbors and just pushing rents, that because of the character of how we are evaluating these everyday centers and opportunities to push rents that are in place, but more so change the merchandising mix, upgrade the merchandising rates.

We talk about it because we also have similarly that there's market data that suggests the capital for these centers should be more efficient. I think that is a data point to look at. I'm looking at it as an opportunity to get above a 10% unlevered when you include the impact of this capital.

So when we look at the Everyday Retail in its current state, it actually looks a lot like the 12% to 13% of AFFO CapEx that we're spending at these centers generally because they're smaller, not as many opportunities to build out parcels given the footprint. But we think that it has the capability. But right now, we're focused on remerchandising, releasing, pushing rents, and that will ultimately get to that capital efficiency.

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

Yeah. And Paulina, we're programming that in our underwriting. So we oftentimes, when we're buying some of the Everyday Retail, we have significant capital that we're putting in upfront to redo the centers to bring in the merchandising that we want to have at that center. And then you get to what John is talking about, which is on a stabilized basis, we think it will be less of a cost. But if you truly want to turn around the capital we think is necessary.

Operator

This concludes our question-and-answer session. I will now turn the conference back to Jeff Edison for some closing remarks. Jeff?

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

Yeah. Thank you, operator. In closing, I want to reiterate that PECO performed very well in 2025. Our grocery anchored, necessity-based portfolio provided both growth and stability. We're carrying that momentum into 2026.

Our high-quality, reliable cash flows continue to grow as a result of our solid operational metrics and disciplined investment strategy. We remain confident in our ability to execute on our acquisition plans and are focused on generating attractive long-term IRRs.

With our shares trading at a discount to our long-term growth profile, we believe PECO represents an attractive opportunity to invest in a leading operator that can deliver mid- to high single-digit annual earnings growth. We will continue to drive more alpha with less beta.

In conclusion, I want to thank our PECO associates for their continued hard work, and I'd like to thank our shareholders and our neighbors for their continued support. With that, we'll end our conversation. And thank you, and have a great day, everyone.

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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