

LSEG STREETEVENTS

EDITED TRANSCRIPT

PECO.OQ - Q2 2026 Phillips Edison & Co Inc Earnings Call

EVENT DATE/TIME: JULY 24, 2026 / 4:00PM GMT

CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Andrew Reale *BofA Merrill Lynch Asset Holdings Inc - Analyst*

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

Caitlin Burrows *Goldman Sachs Group Inc. - Analyst*

Floris Van Dijkum *Ladenburg Thalmann - Analyst*

Michael Griffin *Evercore Inc - Analyst*

Jamie Feldman *Wells Fargo - Analyst*

Todd Thomas *Keybanc Capital Markets Inc - Analyst*

Michael Goldsmith *UBS AG - Analyst*

Richard Hightower *Barclays Services Corp - Equity Analyst*

Ronald Kamdem *Morgan Stanley & Co Ltd - Analyst*

Michael Mueller *JPMorgan Chase & Co - Analyst*

PRESENTATION

Operator

Good day, and welcome to the Phillips Edison & Company's Second Quarter 2026 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. 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 refer 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 package, both of which have been posted to our website. Please note that we have also posted a presentation and are cautioned on forward-looking statements also applies to these materials.

Following our prepared remarks, we will open the call to Q&A. (Operator Instructions) With that, I'll 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. During the second quarter, the PECO team delivered Nareit FFO per share growth of 8.1%, core FFO per share growth of 7.8% and same-center NOI growth of 3.8%.

Our strong performance is due to a combination of high demand for spaces in our grocery-anchored shopping centers and our team's ability to capture that demand with occupancy gains, great rent spreads and superior operations. We're continuing to expand our ability to drive growth and create value while maintaining a strong balance sheet and a thoughtful approach to investing in long-term growth.

These disciplines have always been core to PECO. As we look for the second half of 2026 and into 2027, we believe PECO is well positioned to deliver what we view as compelling combination for our investors, more alpha with less beta. While macroeconomic headlines continue to evolve, the fundamentals supporting PECO's portfolio remain consistent.

We're seeing continued traffic resiliency across our portfolio. Our centers generated 2% year-over-year traffic growth in June and 2% traffic growth year-to-date. While consumers are increasingly seeking value, they're continuing to make frequent trips to necessity-based destinations, which reinforces the strength of our grocery-anchored strategy.

We also continue to see leading grocers invest in their businesses. Kroger's announced acquisition of Giant Eagle underscores the value large grocers place on growing market share and expanding their brick-and-mortar footprint in attractive markets. As Kroger's largest landlord and a long-time partner to both companies, we view this as another positive indicator for the long-term strength of the grocery-anchored shopping center sector.

The healthy operating fundamentals are only part of the story. The larger opportunity is how PECO converts these fundamentals into long-term earnings growth. We have a number of ways we can create value, including strong internal growth from leasing, occupancy, rent spreads, retention, and development and redevelopment activity.

We are also growing through acquisitions, joint ventures and portfolio recycling. We think like owners, every capital decision begins with a simple question where can today's dollar create the highest return opportunities. During June and July, we continued to strengthen our capital position by raising \$92 million of equity to invest accretively in long-term earnings growth.

Given the strength of first half performance and the opportunities we continue to see, we're pleased to increase our full year guidance for gross acquisitions to a range of \$500 million to \$600 million. Importantly, we're accomplishing this without changing our disciplined investment approach. We continue to target un-levered IRRs of 9% for our Grocery-Anchored centers and 10% for everyday retail centers.

We believe patience and discipline matter more than volume. Our objective isn't simply to grow the portfolio, it's to strengthen quality while refreshing and enhancing our growth profile. As we look ahead, we see attractive investment opportunities that allow us to create incremental shareholder value while preserving our balance sheet strength.

Portfolio recycling remains another important competitive advantage. As assets mature, or no longer meet our long-term return objectives, we recycle that capital into opportunities with stronger growth prospects. A strong acquisition market also means the strong disposition market and we're taking advantage of both.

A meaningful part of the active transaction market is institutional investor participation. The strength of retail real estate delivering necessity-based goods and services continues to attract direct investment. Our joint venture partners have recognized this for years, and we're very pleased with the returns that we have generated for them.

We continue to explore the expansion of our current joint ventures as well as investments in new opportunities. At the same time, we remain equally focused on reducing risk. Growth is most valuable when it is funded responsibly, which we are doing through our recent equity issuance, portfolio recycling, joint ventures and the strength of our balance sheet.

Our growth plans are not dependent on a single source of capital and that flexibility allows us to remain disciplined through volatile markets while still pursuing opportunities that meet our return thresholds. That is what differentiates PECO. We are the cycle-tested leader in rightsized grocery-anchored neighborhood centers located where America's top grocers are most profitable.

PECO's portfolio is built around the daily needs of the consumer supported by grocery stability, necessity-based demand and a national operating platform that has delivered consistent growth through multiple economic cycles. That starts with the stability of our grocers as the backbone of our earnings.

Our centers are anchored by leading grocers and complemented by retailers that provide necessity-based goods and services creating consistent traffic and durable cash flow. Consumers continue to shop close to home and our Neighbors want space at our centers in the neighborhood.

The result is high occupancy, strong retention and the ability to push rents while maintaining a high-quality cash flow profile. PECO also has a differentiated ability to execute tactically across markets. We are not limited to one geography or one capital channel.

Our national footprint, Locally Smart market knowledge and vertically integrated platform allow us to identify opportunities across the country. Whether that is core grocery-anchored acquisitions, under managed or under-occupied everyday retail centers, development, joint ventures or portfolio recycling.

That flexibility helps us allocate capital where the long-term risk-adjusted returns are most attractive. Everyday retail enhances that growth profile was up changing who we are. Grocery-Anchored Neighborhood centers remain our core business, but everyday retail gives us another way to use the PECO operating machine.

Our leasing relationships, national accounts team, data and merchandising expertise to re-lease, re-merchandise and improve smaller centers in strong freight areas. We continue to see everyday retail as complementary growth opportunity that can generate attractive returns while reinforcing our focus on necessity-based close to home retail.

Our balance sheet further distinguishes PECO. We have an investment-grade profile, significant liquidity and proven access to both debt and equity capital markets, along with joint ventures and portfolio recycling. That gives us the capacity to match fund growth responsibly. Our growth plans are not dependent on a single source of capital.

Instead, we continue to allocate capital towards the highest return opportunities available to us. Taken together, PECO offers a combination that's hard to replicate, a resilient, grocery-anchored base, strong internal growth from occupancy, rent spreads and development and redevelopment activity.

Our complementary everyday retail opportunity, a disciplined national acquisition platform and one of the strongest balance sheets in the sector. We believe that combination positions PECO to deliver durable same-center NOI growth and mid- to high single-digit core FFO per share growth over the long term. More alpha, less beta.

Looking ahead, we continue to believe the building block for 2027 are becoming increasingly visible. The investments we're making today are anticipated to support long-term earnings growth not simply near-term volume. With that, I'll turn the call over to Bob. Bob?

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

Thank you, Jeff, and thank you for joining us, everyone. PECO's operating team remains focused on generating more alpha. And I'll let John speak to the beta. Our second quarter results were marked by a record high number of leases and success in growing cash flows. We continue to see high retailer demand with no current signs of slowing.

Necessity-based categories, including quick service and fast casual restaurants, health and wellness, beauty, fitness, services and med tail continue to be excellent drivers of demand. 74% of PECO's rents come from necessity-based goods and services. Second quarter leased portfolio occupancy remained high at 97.3%.

Leased anchor occupancy remained strong at 98.4% and leased in-line occupancy was a record high 95.5%. In addition, economic in-line occupancy was a record high, 94.8%. During the second quarter, PECO's national leasing activity continued to be outstanding. New deals included 7 Brew, Cold Stone, Firehouse Subs, Wingstop, Jersey Mike's and Urgent Vet.

Retailers growing with PECO during the quarter included new deals with Crisp & Green, Happy Limon, The Peach Cobbler, SweetFrog, Club Studio, FitStop, CLEO MedSpa and Escapology. Our rent spreads continue to reflect an extremely positive retailer environment.

During the second quarter, PECO delivered comparable renewal rent spreads of 21.2%. Solid retention during the quarter means less downtime and lower tenant improvement costs, which translates to better economics for PECO. Looking at comparable new rent spreads, they remain strong at 33.7% during the quarter. In-line leasing deals executed during the second quarter were very strong.

On renewal activity, PECO averaged record high annual rent bumps at 3.1%. This is another important contributor to our long-term growth. We are also pleased with record high portfolio ABR per square foot during the second quarter, which was driven by respective highs for both anchors and in-line retailers.

As it relates to bad debt, we are actively monitoring the health of our Neighbors. Bad debt was lower than expected in the second quarter at approximately 70 basis points of revenue. Given the strength we've seen in the first half of 2026, we have lowered our guidance range. We expect bad debt for the year to be in line or slightly better than 2025.

Turning to development, redevelopment. PECO has 21 projects under active construction. Our total investment in this activity is estimated to be approximately \$82 million, with average estimated yields between 9% and 12%. Year-to-date, 11 projects have stabilized with over 212,000 square feet of space delivered to our Neighbors. This reflects incremental NOI of approximately \$3.4 million annually.

We are focused on continuing to grow PECO's development and redevelopment pipeline, which is 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 acquisition activity through this week reflects \$278 million at PECO share.

This includes eight grocery-anchored shopping centers, three everyday retail centers, and out-parcel and land for future development. Currently in our pipeline, we have over \$225 million in assets that we've been awarded or are under contract that we expect to close in the second half. Our pipeline reflects a combination of grocery-anchored neighborhood shopping centers, everyday retail centers and opportunities for our joint ventures.

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. Second quarter 2026 NAREIT FFO increased to \$93.7 million or \$0.67 per diluted share. Second quarter core FFO increased to \$95.5 million or \$0.69 per diluted share, and same-center NOI increased 3.8% in the quarter, primarily due to higher revenue, which was driven by increases in average rents and economic occupancy. PECO continues to focus on growth while maintaining lower beta.

The acquisitions activity Bob mentioned was funded by dispositions, new equity raise and our revolver. As Jeff mentioned, we remain disciplined about accessing the most efficient capital and match funding our opportunities. PECO continues to have one of the best balance sheets in the sector.

This strength was recently recognized by Moody's, which revised PECO's outlook to positive, reflecting our consistent operating performance, disciplined balance sheet management and strong liquidity position. We believe Moody's positive outlook validates the strength of PECO's operating platform and credit profile.

With \$857 million in liquidity at the end of the second quarter, we remain well positioned to execute our accelerated growth plans. Our net debt to trailing 12-month annualized adjusted EBITDA was 5.1 times at quarter end and was 5.0 times on a last quarter annualized basis.

At the end of the second quarter, PECO's outstanding debt had a weighted average interest rate of 4.4% and a weighted average maturity of 5.6 years when including all extension options, and 95.9% of our total debt was fixed rate debt, which includes PECO's share of debt for our JVs.

Turning to guidance. We are pleased to increase our full year 2026 guidance for NAREIT FFO per share which reflects a 6.3% increase over 2025 at the midpoint. We also increased guidance for 2026 core FFO per share, which represents a 6.2% increase over 2025 at the midpoint.

We also updated our guidance for same-center NOI growth, which reflects 3.7% growth at the midpoint. These are very strong growth rates and consistent with our long-term targets for growth. As Jeff mentioned, we also increased our full year 2026 guidance for gross acquisitions to a range of \$500 million to \$600 million.

As it relates to dispositions in 2026, we continue to target a range of \$100 million to \$200 million in asset sales. We've provided ranges for the other guidance items used in your models in our earnings materials. In summary, PECO delivered solid results this quarter, which allowed us to raise our earnings guidance and gross acquisitions guidance.

We continue to see a resilient consumer, and we believe our portfolio will outperform as necessity-based retailer demand remains strong. As Jeff said, the investments we're making today position us exceptionally well for 2027 and beyond. In an environment where investors continue to see dependable growth and stability, we believe PECO is uniquely positioned to deliver both.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Andrew Reale, Bank of America.

Andrew Reale - BofA Merrill Lynch Asset Holdings Inc - Analyst

Good afternoon. Thanks for taking my question. Just on the guidance, you raised the gross acquisition outlook by \$100 million. You also improved the same-store NOI, noncash and collectability assumptions. I guess first, John, you just mentioned this, I think, can you just confirm that the net acquisition outlook is also increasing by that \$100 million?

And second, John, maybe if you could just bridge the moving pieces of the revised FFO guidance and maybe help us understand why the increase was a little bit modest at just \$0.01 given there were a number of positive updates in the quarter?

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

Great. John, do you want to take that?

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

Sure. Andrew, first question was, yes, it is a net acquisition increase of \$100 million. And as we think about the funding for that, we were able -- pleased to raise a little over \$90 million at the end of the quarter. And the leverage that we sit at now is at 5 times on an LQA basis on a debt to EBITDA.

When we look at guidance, I think it's important that we're very pleased with our first half performance and our ability to raise that full year guidance really for all of our metrics. The operating fundamentals remain strong, as you said, and tenant credit trends are healthy. When I think about the guide for same center, which I would note is now in the upper range of our long-term target of 3 times to 4 times.

This gives us room to move out Neighbors where we can drive more rent growth and improve merchandising. So when we look at that, it's better strength, it's economic occupancy growth and really pushing that that's going to allowed us to raise that guide. At the FFO level, the midpoint of our guidance range is now above 6% for both NAREIT and Core.

Our dispositions are ahead of pace, but we view that as a positive given the strength of our acquisition pipeline that Bob talked about, and the opportunity to reinvest that capital at higher spreads. So when we look at the timing, there is a short-term cash flow gap, but this activity positions us really well for 2027. So overall, we're very confident in our increased guidance and remain focused on delivering results at or above that level.

Operator

Haendel St. Juste, Mizuho.

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

Hey, guys. Good morning -- I guess afternoon to you. My question is on the acquisitions guide, the uptick here. I'm curious if the new guide is a run rate to think of beyond 2026 or more a reflection of your ability to opportunistically sell assets, some non-core assets in the strong bid in the market today. And generally speaking, how do you think about using equity to fund incremental acquisitions?

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

Great. Well, thanks, Haendel but the -- we are -- we had a very good first half of the year on the acquisition side. We feel really good about what we were able to buy and we look -- looking forward, we think there's good opportunity there. We have a variety of sources of capital we're going to use to buy that.

John, I don't know if you want to go -- why don't you go through sort of the different pieces that we're looking at to fund our -- in addition to the equity that you already mentioned.

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

Yeah. So Haendel we would look at it and say we've got debt capacity, we raised equity. I will note that, and I should have said this earlier, the remain -- our guidance for the year does not assume any additional equity issuance from here.

And so when we think about what we've been able to buy as well as we have in front of us, I would say that this is a great market that we can look to even exceed that acquisition guidance we gave. When we think about the years ahead, we still believe that we can buy about \$300 million on a net basis every year and remain leverage neutral.

And so what we've actually got is that capacity, which is about \$250 million. So when you consider what we have to buy this year as well as the future, I think we would like to see that we are able to pursue a higher acquisition guidance as we look forward. But we're really going to look at it on that net basis because we want to preserve that balance sheet capacity and protect the business.

Operator

Caitlin Burrows, Goldman Sachs.

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

Hi everyone. Congrats on a great quarter. Maybe as we look at the acquisitions that you did in the quarter, you mentioned earlier how they are great for '26, but they set the stage for continued growth in '27. So maybe not going through all of them in the interest of time.

But maybe if you guys could talk about like the largest two or three deals or maybe most interesting two or three deals from the quarter? And what you see as the real upside potential for them?

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

Well, thanks, Caitlin. Bob, do you want to walk through a couple of the assets that we're on.

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

Yeah. Thank you, Jeff, and thank you for the question, Caitlin. I think in April, we purchased an asset in Renton, Washington that's anchored by a Safeway that really had a lot of -- I would say, misleading opportunities, had some pretty good vacancy. The current occupancy is 82.8%. We feel like we can make an immediate impact to that.

So we're excited on that one. That particular asset as we underwrote it, would certainly solve for well above a 10% un-levered return. There's another asset this -- I like a lot of the mark-to-market opportunities that we're seeing with what we're buying with -- it doesn't matter if it's Sprouts or Kroger, Cub Foods, a lot of the assets that we're acquiring really have some nice 20%, 30%, 40% mark-to-market opportunities.

And we've been very focused on buying acquisitions that are still solving. They're between a 9%, 9.5%, 10% or better. We're seeing that certainly in our everyday retail category as well where we're generating over 5% CAGR. Even in the 12 assets that we've acquired in everyday retail, we've already moved occupancy 450 basis points.

So you'll continue to see us lean in to where we stay disciplined on our un-levered returns. But it's an assortment. We're going to stay focused on the core grocery-anchored anchored centers and complement it -- and I think we've always said this, less than 10% of our overall portfolio in everyday retail to give us that extra squeeze.

Operator

Floris Van Dijkum, Ladenburg Thalmann.

Floris Gerbrand Van Dijkum - *Ladenburg Thalmann - Analyst*

I guess is more of a follow-up question to Catlin. I think she was on the same train of thought as I was. But obviously, to get to 10% of the portfolio on everyday retail requires you to buy more of that product today, how do you think about deploying capital particularly as the returns are more attractive and then maybe as a side note I noticed you bought a Lunds asset in Eden Prairie a 100% leased, I think I know the asset actually, but I think there's a bunch of unanchored retail right near, but as you think about acquisitions of grocery anchored centers.

Are you also looking at the same time, thinking about acquiring some of the everyday retail centers adjacent to those properties?

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

Floris, thanks for the question. And Bob, you want to walk through a little bit of the sort of the breakup of the -- of what we bought and then also what we've got looking forward? And then with regard to Floris to the last question about will we buy -- are we looking at additional retail that might fit with our acquisitions?

It's one of the things that is -- we look at it very closely. And where we can find those opportunities, they are the things that we would really like to do because there are already markets that we understand that we do. And we do those around our existing centers, but also on the acquisition side, looking for those specific everyday retail opportunities where we can grow the portfolio in markets that we're very familiar with. Bob, do you want to go through?

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

Yeah. Thanks, Jeff. And Floris, thanks for the question. We're really excited about the everyday retail category. I'm going to kind of dissect your question here a little bit. The first question was Prairieview Center in Minneapolis, the Lunds & Byerlys, that asset happens to be a great asset in a market that we've done really well with in terms of our overall results.

We like Lunds & Byerlys. They're a little bit more of a specialty grocer. It's well occupied, but we really feel like there's an opportunity to push rents from the low 20s into the high 30s, maybe even low 40s. To answer your question specifically on everyday retail around some of those core markets where we have the incomes and the demos and the education, we're leaning into that.

We've identified over 50,000 of these opportunities across the countries that are close to the number one, number two grocers, which is obviously our strategy where we can generate over 10% un-levered returns. If you look at the 12, that we've already acquired, I mean, we're spending about \$325 a foot on these. We're generating un-levered returns of about 10.5%.

They have great incomes, great education, great demos we're going to continue to lean into that. The last part of the question is when I look at the pipeline of what we have in the queue, we have over \$230 million that we've already been awarded in addition to what we've closed on.

So we're already well on our path in the low 500s, which is why we raised part of our guidance. We're seeing 30% more opportunities than we did last year. There are just a lot of momentum and a lot of opportunities in this everyday retail space. And I mentioned this answer earlier. We've already moved occupancy 450 basis points.

This is an area that we can do exceptionally well. And we're just taking opportunities of situations where the assets might be a little bit older. They might have been under advantaged, but there's a real opportunity to use our leasing and operations platform and our national platform to really enhance merchandising. So we're doing it the way we want to do it.

We're going to be patient and stay very disciplined. The pipeline right now, Floris, is -- if you look at what we have under contract or been awarded, I would say it's 40% everyday retail, 60% grocery. And we're being very selective about what we're buying.

Operator

Michael Griffin, Evercore ISI.

Michael Griffin - Evercore Inc - Analyst

Jeff, I think you started off in your prepared remarks. Maybe making some commentary around sort of grocer sentiment. Obviously, we saw, I think, a large tenant of yours reported earnings earlier this week took down their outlook kind of made some comments around the cautious consumer.

So I mean I understand that it's asset and center specific, but is there any read through that whether folks are trading down at a grocery store, whether it's going to people are getting kind of squeezed at the sticker shock when they're out there buying food? Like is it just a canary in the coal mine of what could be a worry in terms of ultimately translating the leasing demand for PECO as it relates to the grocers?

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

That's a great question, one that we have spent a lot of time sort of internally talking about. The Albertsons announcement, I don't think it should be a surprise to anybody. I mean, for three years -- the last three years have been operating under really contracted to sell to Kroger. They're going to take some time to work through that -- the emergence of that.

And during that time frame, the story is that they had to actually operate under three different business plans because they weren't sure what was going to happen. Well, now they're refocused. They are reinvesting in price, which is a very important part of their thing. But -- we got to keep in mind.

They're the fourth largest grocer in the country, and they have some very, very strong banners and some very strong locations. We have a great relationship with them and have worked with them for a long time. It does highlight one of the important things that we do, which is curate our portfolio so that we don't really have like a portfolio of Albertsons.

We have a very specific portfolio that is trying to set up to make sure that we don't run into problems if any one of our grocers were to run into problems. And Bob can give you a little detail on our Albertsons portfolio? But Albertsons is just one of the indicators. I mean, you hear what Walmart is doing here, what Kroger is doing.

They're reinvesting in price and they're doing that specifically because they are sensing some consumer weakness on the -- and they know it like in real time because they're looking at them trading to private label from a branded, more expensive product. And so they're watching this happen.

And when you see them start to talk about investing in price, that's what they're focused on. Fortunately, if you look at our performance, we had -- if you look at foot traffic, we had 2% increase in foot traffic in June. We had -- the same thing year-to-date is up about 2%. So there we're not seeing it on the ground, but it's certainly something that we're going to want to keep a look at. And we'll be watching as that moves forward.

Operator

Jamie Feldman, Wells Fargo.

Jamie Feldman - Wells Fargo - Analyst

Great. Thank you for taking the question. So new and renewal spreads remained strong. Can you talk about the composition of the spreads between the embedded mark-to-market versus just strong incremental demand? And as you think about those two levers, how should we think about your expectations heading into the back half of the year and even into 2027?

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

Bob, maybe you can talk about the strength of how we've been able to get it? And John, maybe you can give us a little breakdown on how that breaks out?

Robert F. Myers - Phillips Edison & Co Inc - President

Yeah, absolutely, Jeff. So I guess I would start by just simply saying if you look at our overall results, you think about occupancy being 97.3%, an anchor occupancy at 98.4%, and our in-line occupancy is an all-time high of 95.5%. We continue just to see very strong retailer demand.

We're also retaining 90% of all of our Neighbors, and we're spending less than \$1 a foot to keep those. I always look at our pipeline report, lease is out for signature, renewals out for signature. And I would certainly say that there is a tremendous amount of demand. We have a great pipeline and the spreads are consistent. You have new leasing spreads at 34%, 35%.

You have renewal spreads at 21%, 22%. And we just don't see anything slowing down. Our main focus is still on necessity-based goods and services. 74% of our rent rolls would reflect necessity-based goods and services, fast casual restaurants, health and wellness, beauty, fitness, services, med tail, all those uses make up the more -- I mean, the majority of our deals that we've executed and the pipeline going forward.

We attended all these ICSC events and other retailers continue to look for growth opportunities in our portfolio. And we're trying to create some of those. So there will be some mark-to-market opportunities. We're going to try to keep health ratios around 10%, 10.5%. We believe that we can continue to move occupancy in line another 100 basis points.

I do think we'll move anchor occupancy up another 50 basis points to 60 basis points by year-end. We're in a very good spot, and I don't see anything slowing down. Jeff already spoke to the 2% traffic and the foot traffic that we're seeing. We're -- we have momentum. We feel very good about where we're at.

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

John, do you want to give a little breakdown on the growth?

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

I think the pieces of the answer is, it's both because the mark-to-market is also being driven by the demand because if I think about the renewal spreads that have been over 20% now for many quarters, that's really because we have demand from other Neighbors looking for that space. So we are indeed able to drive that.

And we do have leasing agents that are locally smart that only focus on our centers but actually watch the market comps in the space. It's because of our presence with the best asset in our area that is able to drive that.

So when we think about it, we -- Bob talks about what we see going ahead, and it's very consistent with what we've been delivering. So I could say that that is the mark-to-market, but it's hand in hand with the demand.

Operator

(Operator Instructions)

Todd Thomas, KeyBanc.

Todd Thomas - *Keybanc Capital Markets Inc - Analyst*

I wanted to follow up on the core FFO guidance and the results in the quarter as we're kind of working through some of the updated assumptions and moving pieces. It also looked like there was a positive variance in other non-property income in that line.

That was about \$0.02, comprised of some investment income and some other income. Can you just speak to that, whether that was contemplated in the guidance and if any of that income is expected to be recurring?

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

Sure. John, do you want to walk through that?

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

Thanks. So I would say, the first piece, yes, there was income related to an even on a nonoperating piece of land, and that was about a little less than \$1 million in the quarter, and that I do not anticipate as recurring. The other piece that you're referring to is we do have investment income. So we have an insurance captive that is continuing to grow, and it does have marketable securities.

So the growth there, which we've actually seen, is the participation in the market. And so that was contemplated, and we do include that in our numbers and anticipate that, that is going to continue to grow with time as the assets in that business increase.

But it's a core component of our business and growth. But overall, in the FFO, really, it's delivering the same-store growth. It's -- we're -- I got to go back to Haendel. Haendel, I have one swap left, 96% fixed. So I appreciate that I hope you're chuckling at that.

But from a fixed standpoint, really when we look at the remainder of the year, the pieces that remain in our guide is really going to be around the acquisitions that we closed and that's just going to lead into better growth in '27.

Todd Thomas - *Keybanc Capital Markets Inc - Analyst*

Okay. Is the investment income? Is that piece good to consider as sort of a run rate at that \$1.1 million? Is that how we should think about that? Or is there a way to quantify what that might look like?

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

It's an insurance captive securities portfolio. So it's participating in a balanced strategy between equity and fixed income. So some of it's going to be cash and coming to some of its equity. For the most part, do you think that we look at that as sort of durable income and if you needed a run rate that's probably the best I've got.

Operator

Michael Goldsmith, UBS.

Michael Goldsmith - UBS AG - Analyst

Jeff, you mentioned that the building blocks for 2027 are becoming increasingly visible. Would you be willing to share some of those building blocks, and how you're thinking about the growth beyond this year? But if it's still too early to provide that level of detail, do you believe same-store NOI and FFO growth could accelerate from the current levels, just given where occupancy stands today and the potential for transaction cap rate compression?

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

We would love to tell you right now, but we do have a get together at the -- in December where we will give our sort of guidance for next year. But I think the point that I'm trying to emphasize is that we continue to make long-term decisions, and those decisions are what you buy today and how that can influence growth not only over the next quarter, but over the next three to five years.

And that's sort of the mentality we have in our acquisition growth model as well as our development model and really our disposition model, all of them are based upon being able to create long-term value, and it doesn't happen tomorrow, it happens over time, and that's sort of what we were trying to emphasize there.

Operator

Rich Hightower, Barclays.

Richard Hightower - Barclays Services Corp - Equity Analyst

hey. Good afternoon, guys. I wanted to get your perspective on the Kroger Giant Eagle merger, which I think you referenced in the prepared comments. And specifically, I know Kroger is increasingly using the storefront as a fulfillment center for online shopping, which keeps growing.

How do you sort of think about that as a landlord, how do you position the portfolio for that sort of dynamic in the grocery industry? What should we be looking out sitting in our seats out here?

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

Yes. I mean, we're very excited about the announcement. Kroger when they come into a new market like this, they invest in the store, they invest in price, and they push sales, all of which are very beneficial to the 10 Giant Eagle stores that we have today.

They will keep the -- if history repeats itself, they will keep the -- both the management team as well as the label of Giant Eagle. And we -- our exposure there is 10 centers. They're in very great locations with very strong sales. So we feel really positive about that. So for us, it's kind of a win-win situation.

The other piece here that I think is a message to the market, which I think is really important is that Kroger has a lot of places they can put their money. They're putting them into bricks-and-mortar retail where they can -- where they believe is the best way for them to invest their capital, which is an indicator of the strength of the grocers and of their long-term view of the store will be the center, which, to us, is obviously critical.

And if we can generate more sales, it's going to generate more rents, all of which is a very positive thing for us. And then you've got an improved credit, all very positive pieces for us. So we're looking forward to that. And I think we'll see even better results from a very strong portfolio of Giant Eagle stores going forward. So that's great news for us.

And I think you'll continue to see that kind of activity. And I think the Albertsons-Kroger deal sort of changed the dynamic of monster deals. But I don't think it will change the impact of regional opportunities like this.

Operator

Ronald Kamdem, Morgan Stanley.

Ronald Kamdem - *Morgan Stanley & Co Ltd - Analyst*

Great. Thanks so much. Just wanted to follow up on the comments on the in-line occupancy. Obviously, hitting a record high year and you talked about maybe another 100 basis points to go, which would be like 96.5%, 97%. I guess I'd love to hear what's different this time around versus history?

What categories are really active this cycle? And maybe what were you sort of staying away from?

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

Sure. Bob, do you want to take that?

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

Yeah, absolutely. Thanks, Ron. Appreciate the question. We were really excited. We saw a very nice increase in occupancy this last month in this last quarter. It's interesting when I look at our overall leasing results and the demand that we've seen, we've had like a 25% increase in overall leases completed second quarter over first quarter, which shows momentum.

I've hit the categories, but it's still consistent with fast casual, health and wellness, beauty, fitness, services and medtail. One of the biggest strategies that we've incorporated in the company is when you're 97.3% and 95.5%.

And I do think there's another 100 basis points of occupancy lift, may take us 24 months to get there selectively because we are recycling and being very specific about our merchandising approach and our everyday retail approach. We want there to be longevity -- and truly, we are partners with all of our Neighbors.

So we want them to be highly successful. But one of the incentives I put in place for our leasing team was this targeted approach where we went out and identified 100 different spaces that were the largest NOI generators and ABR generators that we had left to lease.

And we put bounties on it. We put additional incentives on them. And we're getting it done. We're seeing that the retailer demand in those categories are supporting our lease-up scenarios. And I believe as of about a week ago, out of those 100 spaces, we've leased about 65 of them already.

And I think as I look at setting incentives in place for next year, we'll do the same thing. We'll go through the portfolio. We'll see what vacant spaces that we have, what do we want to lease. And the success in all this is leasing the vacancies that, quite frankly, have been vacant for a few years.

So we're investing capital. We're cleaning them up, the demand is there, and that's why we're seeing all the success not only in spreads, but demand and some of the incentives that we have in place, it's really all about focus and accountability, Ron.

Operator

Mike Mueller, JPMorgan.

Michael Mueller - *JPMorgan Chase & Co - Analyst*

(inaudible)

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

Mike, you were breaking up on me. John, did you hear that?

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

Yes. It was very soft, Mike.

Michael Mueller - *JPMorgan Chase & Co - Analyst*

Yes. Sorry about that. Yes. Okay. I was just saying, have you seen any notable fluctuations with cap rates this year, just given how the 10-year has bounced around and we bounced back up to close to 4.7%?

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

Yeah. The market remains pretty aggressive, pretty competitive. And we're seeing more product in the market, but we are not seeing any like reduction in cap rates because of the higher interest rates. If anything, it's become more competitive. So, yes.

I think it's not exactly tying into an interest rate environment. But because of the -- I think it's the demand for retail real estate is very strong right now, among a lot of different parts of the market.

Operator

Caitlin Burrows, Goldman Sachs.

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

I feel like a topic across the industry is a lot of peers want to be acquisitive, but it's very competitive. And I don't think we've talked about that yet today. So I was wondering, as you guys think about the deals you've done year-to-date or in 2Q. I imagine it was quite competitive.

So wondering, is it just that you guys are looking in maybe markets or submarkets that others aren't prior relationship or something else? Like what do you think has given you these edge because, again, I'm imagining that it was a competitive market.

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

Yeah. I think Caitlin and Bob jump in as well. The market has been competitive. And what for us, it just means we got to be more disciplined. We've got -- we got to see more product and then we've got -- we got to make sure that we're working on projects that we can actually transact in and get that -- so we can get the volume at the returns that we're focused on.

And the team has been able to put the scores on the board at I think it was a 6.7% for the six months. The first six months of the year. And we -- but we got to shop harder and we got harder with to find opportunities that -- where we can get growth out of the portfolio and not just immediate growth, but long-term growth out of these properties.

So it is -- we do have benefit of being in 30 states. That does allow us to look broader in terms of where we can find product. But most importantly, it's getting out in pond in the street to find those opportunities, and that's what we've been able to do in the first half and what we've got tied up for the second half.

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

So maybe it's like opening up the top of your own [funnel] some?

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

Yeah, a little bit. And but not necessarily changing where the focus of what we do, but more on seeing more market, more properties in a broader market so that we can make sure that we're keeping the funnel full and us coming out at the bottom to keep us moving forward. And we feel pretty good about that. Bob, any additions there?

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

Yeah. The only thing I would add is we're seeing a lot of product. As I mentioned earlier, I mean, I think when I look at our stats, we've seen a 33% increase in the amount of deals coming through the pipeline. And even what we presented to our investment committee, we've seen an increase of about 25%. The other thing that we did, Caitlin, was we added we added resources in our acquisitions department.

We ended up hiring an acquisition officer out West by the name of Dan Sutherland, that comes with a tremendous amount of experience. So we have four highly qualified acquisition officers really focused on each of their markets, and that's opening up opportunities.

It's also giving us opportunities to find off-market situation. So a handful of the deals that we were able to acquire this year have been off market. We continue to look at those opportunities as well. So as Jeff mentioned, between everyday retail and our core grocery strategy. I think we're well positioned.

We have the right resources, we're staffed appropriately to really win in this space. And we do want to take advantages of what I would say are inefficiencies in the market. We've stayed disciplined buying between 6.4% and 7.5% cap rates. So Jeff mentioned it at 6.7%. Our pipeline is still real close to 6.5% for the second half. And we're still solving for the returns that we wanted between 9% and 11% un-levered.

Operator

I will now turn the conference over to Mr. Jeff Edison for closing comments.

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

Thank you, everybody, for being on the call. I just want to highlight a few things that I -- that are takeaways we hope you see because we did beat and raise, we did meet our mid- to high FFO per share growth for the quarter and for the first half of the year. We're at 95.5% small store occupancy.

Our retention is at 90%, our new rent spreads are at 33.7%, and renewal spreads are at 21.2% with really strong annual rent bumps contractual. So leasing is really strong. Our FFO performance is strong. Our acquisitions, we increased our guidance by \$100 million, and I think this is really important.

We got an updated outlook from Moody's on our debt. We also reduced our debt to EBITDA to 5 times on an LQA basis. We disposed of almost \$100 million worth of projects that were at a 6.3% cap, and we're an IRR below 7.5%. So we're going to be able to use that capital very accretively. Our development and redevelopment activity is at \$84 million versus almost versus \$50 million last year.

We got two AI awards, which we're proud of in terms of the Digie Realcom Award and the ICSC Tech Innovation Award. And those are just a couple of some of the things that got us to the kind of performance that we did for the first half, and I think they lead to really exciting opportunities for the second half and into next year.

So we believe that as we've told you enough times probably, this is what we do. We deliver alpha by a variety of different -- from a variety of different areas in the company, but we have that strong low beta that gives us the security. And so as we think about it, with a great first half, and we're looking forward to next half, I want to make a special shout out to the PECO associates.

Their hard work is what gets these things done. This doesn't happen on its own. And I also want to thank our shareholders and our Neighbors for their continued support. So thanks, everybody, for being on the call today, and I hope you have a great weekend. And hopefully, we look forward to a strong second half of the year.

Operator

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

DISCLAIMER

LSEG reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES LSEG OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2026, LSEG. All Rights Reserved.