Q4 2024 Earnings Call *(Corrected version)*

Event Details

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Company: Sonida Senior Living, Inc.
Ticker: SNDA-US

Company Participants

Jason Finkelstein - IGNITION Investor Relations, Founder
Brandon M. Ribar - Sonida Senior Living, Inc., President, Chief Executive Officer & Director
Kevin Detz - Sonida Senior Living, Inc., Chief Financial Officer

Other Participants

Ronald Kamdem - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

00:00:13 Hello and welcome to Sonida Senior Living Fourth Quarter and Full Year 2024 Earnings Call. Please note that this call is being recorded. After the speakers' prepared remarks, there will be a question-and-answer session. Thank you.

00:00:28 I'd now like to hand the call over to Jason Finkelstein, Investor Relations. You may now begin.

Jason Finkelstein

00:00:37 Thank you, operator. All statements made today, March 17, 2025, which are not historical facts may be deemed to be forward-looking statements within the meaning of federal securities laws. The company expressly disclaims any obligation to update these statements in the future. Actual results or performance may differ materially from forward-looking statements. Certain factors that can cause actual results to differ are detailed in the earnings release that the company issued earlier today as well as in the reports that the company files with the SEC from time to time, including the risk factors contained in the Annual Report on Form 10-K and Quarterly Report on Form 10-Q.

00:01:16 Please see today's press release for the full Safe Harbor statement, which may be found in the 8-K filing from this morning at the company's Investor Relations page found at sonidaseniorliving.com. Also, please note that during this call, the company will present non-GAAP financial measures. For reconciliations of these non-GAAP measures to the most comparable GAAP measure, please see today's earnings release.

00:01:40 At this time, I'd like to turn the call over to Sonida Senior Living's President and CEO, Brandon Ribar for opening remarks.

Brandon M. Ribar

00:01:48 Thanks, Jason. Hello and welcome to our 2024 fourth quarter and full year earnings call. I'm joined today by Kevin Detz, our Chief Financial Officer. Earlier today we released our Q4 and full year 2024 earnings and investor presentation, which will be referenced throughout this call as we discuss our strategic priorities and operating results in addition to our view on the year ahead in 2025. You can find our latest presentation at sonidaseniorliving.com in the Investor Relations section if you would like to follow along. In addition, we've included supplemental earnings information within our investor presentation, consistent with the prior quarter release.

00:02:25 We ended 2024 with a number of significant achievements, all positioning the company for accelerated growth in 2025 and beyond. Highlights for the year include 19% and 27% year-over-year growth from 2023 in same-store adjusted community NOI and adjusted EBITDA respectively. 2024 saw same-store improvement of 180 basis points in occupancy and nearly 6% growth in RevPOR year-over-year. I'm extremely grateful to our team who maintained focus on achieving top and bottom line expansion in our same-store portfolio while balancing the complex integration of 20 owned and 3 managed communities, representing a near 30% increase in total units to the portfolio. These results continue the value creation trajectory we committed to two and a half years ago as we launched the next chapter of the company's evolution.

00:03:20 Slide 7 in our investor deck provides an overview of this repositioning journey with the next phase aimed squarely at further value creation in what we believe is an extended period of growth for both the industry and the company. From a capital allocation perspective, we executed on 6 distinct transactions totaling more than $250 million in gross asset value and continue to prudently invest capital across our existing portfolio. Importantly, we closed 3 transactions in the fourth quarter totaling 11 communities and 817 units, which drove 11% sequential total NOI at share growth quarter-over-quarter. Lastly, over the course of the year, we established foundational tools and processes to support the company's acquisition capabilities and operational integrations.

00:04:10 Looking ahead, early Q1 trends point to continued year-over-year growth in occupancy and strong rate improvement. Our goal in 2025 is to achieve same store NOI growth in the high end of our peer group as we did in 2024, benefiting from higher incremental flow through associated with more communities reaching stabilized operating levels. The value add nature of the 2024 acquisition communities and our early progress stabilizing their operations should result in NOI growth that outpaces the more stable same-store portfolio.

00:04:44 We believe that the Sonida story is both simple and attractive to investors, seeking a true differentiated operating platform to benefit from the demographic tailwinds and increasing supply demand imbalance projected for senior living. We are 100% senior housing exposure, owning the vast majority of our real estate and with no leases. Investors benefit from continued performance improvement of our same-store portfolio, combined with elevated growth from our 2024 acquisition communities that as of Q4 had a weighted average occupancy of 76% and NOI margin of 21.7%.

00:05:21 Lastly, our unique position as an integrated owner-operator allows us to confidently invest in high returning value add opportunities benefiting from the full value creation of the real estate while also creating further operating company value. In terms of the investment landscape, market dynamics remain favorable for Sonida's continued acquisition growth. More deals are hitting the market early in 2025 and the combination of motivated sellers and special situation opportunities with lenders and asset owners as debt maturities increase are yielding a significant pipeline similar to the acquisitions closed in 2024.

00:05:59 With an increasing recognition of our operational capabilities and growing track record as a counterparty, we will continue to aggressively pursue high quality underperforming or mispriced assets that can generate accretive returns. Achievement of these growth expectations depends on focused execution around our key operating pillars in 2025. Employee turnover continues to decline with the increased investment in the employee experience from success based wages and benefits to a more robust employee recognition and development program. Overall, company turnover decreased nearly 10% in 2024 for the second year in a row. Our goals in 2025 also include realizing further benefit from density in our key markets. Our regional operating strength allows for more efficient use of marketing dollars, rate optimization across product types and shared resources on the expense front to deliver stronger clinical and financial results.

00:06:58 The combination of strong, stable leadership, thoughtful and committed service and care providers and technology to enhance resident programming and safety will continue to drive strong year-over-year rate growth as we deliver the value our residents and families expect. We have consistently delivered strong operating results when communities deliver highly valued services, including our signature activity programming, personalized care plans and elevated meal and dining services.

00:07:27 The final pillar driving 2025 operating success remains our approach to operational excellence. The consistent application of our business intelligence tools and third-party technology platforms allows our leadership at the community and regional level to quickly identify and address outlier performance trends. Rate optimization, tailored sales and marketing plans and the impact of our clinical programming highlight key points of differentiation consistent across the needed communities.

00:07:56 Related to sales and marketing, continued emphasis on development, incubation and implementation of technology to drive down resident acquisition costs and improved conversion metrics has led to a higher percentage of organically generated leads and move-ins. Lead volume in Q4 2024 increased 15% year-over-year with (00:15:15) volume up 11% in our same-store owned portfolio, leading to positive net move-ins during the traditionally slower months of January and February in 2025.

00:08:27 We are especially pleased that move-ins driven by digital marketing enhancements, including website architecture changes, updated paid search strategy and greater scrutiny over third-party listings have significantly outpaced the change in paid move-ins from third-party aggregators, leading to a reduction in referral fees year-over-year.

00:08:48 I will now turn the call over to Kevin for a deeper dive into operating performance and the balance sheet before closing with our outlook on the acquisition pipeline and growth expectations.

Kevin Detz

00:08:58 Thanks, Brandon. My comments today will aim to provide a summary of the key financial accomplishments from the quarter and full year 2024 as well as to provide some visibility into the company's focus for 2025. One year ago, the tenor of our comments surrounded the significant restructuring of the company's debt, swift pace of our occupancy and NOI recovery and transition from defense to offense. With this foundational pivot behind us, today marks the beginning of a new chapter in the company's story of ascension. 2024 saw the company raise $200 million of equity to increase its senior living real estate units by 30% while steadily pushing up the performance of its same-store portfolio and investing in upgraded talent to unlock the value on its recent and future acquisitions.

00:09:47 Before we discuss our operating results, I want to highlight two significant debt transactions that were executed in the fourth quarter. First, in connection with the third quarter loan modification with one of its lenders on two cross communities in Texas, the company made a discounted payoff of $18.3 million on a $28.4 million loan balance. The DPO represented a 36% discount on the loan principal balance. Second, as part of its collaborative relationship with Fannie Mae, the company extended the maturities of 18 of its individually mortgaged communities with a total debt balance of $220 million by 2 years. The result of this loan amendment provides for a January 2029 maturity date for all 37 communities under Fannie Mae financing.

00:10:36 In exchange for the extended loan term, the company was required to make a series of principal paydowns totaling $10 million over the revised term of the loan with the first payment having been made in December 2024. Following these two transactions, Sonida has just one near term debt maturity for $30 million occurring in September of this year for which the company expects to be able to finance. The company's next significant debt maturity is March 2027, when our $113 million term loan with Ally Bank becomes due.

00:11:11 Starting on slide 11, with the comparison of year-over-year quarters, the company was able to increase its annualized same-store revenues by over $14 million, primarily attributable to an all in rate increase of 5.1% over the same period as well as 70 basis points of occupancy growth. As referenced in last year's earnings call, Q4 2023 NOI included non-recurring credits of $1.7 million for one-time real estate tax settlements and workers comp true ups. Excluding these Q4 2023 non-recurring credits, Q4 2024 pro forma NOI grew 9.6% and pro forma NOI margin grew 90 basis points on Q4 2023's pro forma margin of 24.6%.

00:11:59 At this point, the company does not anticipate significant one-time real estate tax credits and has largely canvassed and addressed its reassessment population. Furthermore, changes in workers comp accruals are generally now more refined and captured over the course of the year and the applicable quarter.

00:12:16 Moving on to slide 12, where we will review the company's annual same-store performance. The company was able to increase its revenues by 7.5% from the combination of an occupancy gain of 180 basis points and a nearly 6% RevPOR increase. Removing the one-time real estate tax credits of $1 million from 2023, our pro forma annual year-over-year adjusted community NOI, which excludes non-recurring state grants of $2.9 million received in 2023, increased 21% or $11.4 million. This increase represents nearly a 70% NOI flow through on the increased revenues. Later in the presentation, we will expand on the components of NOI margin improvement. As occupancy continues to increase in 2025, we believe this improving NOI flow through profile will continue to benefit the company's same-store portfolio and ultimately its recent acquisitions once stabilized.

00:13:13 I head to slide 13. Q4 2024 was the first quarter since the pandemic that the company did not realize occupancy growth from the previous quarter with a weighted average occupancy of 86.6% falling 40 basis points from its Q3 average of 87%. We believe this is largely a function of our portfolio experienced more normalized seasonality patterns as our occupancy has reached the high 80s. Based on current lead and tour volumes and overall increasing occupancies across the industry, we are optimistic that our occupancy will continue to grow in 2025.

00:13:50 As seen on slide 14, the company successfully migrated to a resident wide March 1st rate renewal anniversary in 2024, recognizing annual rate increase of 6.3% or 7.3% without contemplation of Medicaid and ancillary revenue streams that are less price dynamic in nature. Ahead of its March 1, 2025 annual rate renewal, which we are anticipating to be directionally consistent with 2024's increase, the company experienced an overall stabilization of its same-store rate during the last two quarters of the year, attributable to a shift in occupancy towards its independent living units.

00:14:29 The company continues to expand its capture of level of care revenues with a year-over-year increase of $1.1 million or 8.3% on its same-store portfolio. This capture was driven by strong and wide adoption of our recently introduced software system that helps us track resident usage of clinical staff resources to better price our services. Additionally, in 2024 the company modified its memory care pricing structure to introduce a level of care surcharge to more accurately charge residents for the degree of care being provided by our staff. And finally, discounts and concessions as an absolute dollar and percentage of revenue basis continue to decline year-over year, a testament to our success in providing value to our residents.

00:15:15 Diving into more of the margin drivers, we will move ahead to slide 15 to discuss year-over-year same-store labor trends. For the fourth quarter and full year 2024, we continue to see further stabilization of our workforce. Increases in average wages have now been generally limited to CPI-based inflationary increases and our average annual total employee count for the same-store portfolio increased only 2.1%, which includes the conversion of premium labor to a more stable direct labor workforce. With contract labor being limited to a handful of communities where market specific labor constraints arise periodically, the company is focused on further optimizing labor mix by reducing its premium labor. Areas such shift bonuses and overtime are gradually being phased out as a more stable core of full time employees emerges.

00:16:08 Moving ahead to all other expenses on slide 16. As a percentage of revenue, our non-labor expenses, including 2023's one-time real estate tax credits and workers comp true ups have decreased 60 basis points from 27.5% in 2023 to 26.9% in 2024. This margin accretion comes despite a temporary deterioration of Medicaid related aging, which accounts for approximately $700,000 of the increase to bad debt expense versus 2023. Specifically, Medicaid eligible communities in Indiana are working through structural changes in state plans, resulting in residents needing to reapply for Medicaid coverage and pushing out the rent collection cycle or in some cases losing coverage altogether. To address this, the team will be working with case managers to regain resident eligibility and more importantly proactively prevent lapses going forward. They will also be meeting with key state and plan leaders to pursue one-time exemptions for reimbursements that may have been lost due to (00:24:12).

00:17:15 And finally, we will be revising our Medicaid resident policies and procedures to better align with the evolving shift in payer dynamics in Indiana. For the remaining non-labor expenses, we believe that the quarterly expense profile will continue to track at or around inflationary rates based on the company's thorough and strategic review of its larger programs such as food, utilities and real estate taxes. Additionally, as the company continues to evolve the sophistication of its sales approach and leverage of wider digital marketing funnels, our reliance on third-party sales referral partners should continue to wane.

00:17:54 Jumping ahead to slide 24, where we will revisit some of our case studies on capital deployment. As a result of the company's 2023 and 2024 debt and equity transactions, we were able to earmark capital to communities where we believe targeted and scoped investments were needed to elevate community performance. Our Levis Commons and Plymouth communities are two instances where the 2024 completed projects have pushed NOI margins to nearly 30% with expectations to drive even higher in 2025 and beyond. Our capital investment into our existing North Bend Crossing community was equally successful, driving occupancy up to 98% and generating a 400-basis point increase in margin in 2024. Moreover, the success of this asset repositioning situated the company to acquire the neighboring newly developed community, creating a large two building campus.

00:18:52 Moving to the balance sheet on slide 17. Inclusive of the 2024 acquisitions and related debt transactions, our total debt at share is comprised of 61% fixed rate debt. Without inclusion of the company's recently secured credit facility, the weighted average rate is 4.7% with the variable rate debt nearly fully hedged. With the inclusion of the credit facility, the weighted average interest rate is 5.4% for the portfolio. Currently, the company has $90 million of capacity remaining under its facility with approximately $35 million immediately available as of the end of the year. The company anticipates an increase in availability as the underlying borrowing base assets securing the facility continue to expand their NOI profile.

00:19:43 The company continues to execute on its long-term strategy of de-levering the balance sheet with a target of 7 times based on acquisition NOI stabilization, continued same-store growth and responsible debt management. As of today, the company is in compliance with all financial covenants required under its mortgages and credit facility. And finally, last quarter, we introduced a bridge to approximately $100 million of NOI based on stabilization of our same-store portfolio and recent acquisitions. The timing of our capital deployment combined with the profile of what we acquired resulted in the majority of the 2024 NOI contribution being limited to the fourth quarter.

00:20:25 As you can see on slide 19, annualizing the fourth quarter acquired NOI contribution yields an additional $9 million of NOI or 13% growth beyond our total 2024 NOI. Following the same illustrative exercise used last quarter that is moving occupancy to 90% and NOI margins to 30% at current rent levels creates an additional $22 million of NOI. This exercise does not include any assumptions on future rate growth. As we continue to find that we have pricing power to pass through renewal and market rate increases, we believe that this $100 million of NOI is an achievable near-term target with meaningful upside thereafter. Back to you, Brandon.

Brandon M. Ribar

00:21:09 Thanks, Kevin. As I mentioned earlier, the path to achieving accelerated growth in our existing portfolio is built on execution of our individual community business plans by talented local and regional leadership with the support of our Sonida centralized support teams and systems. We are poised to deliver further NOI growth and margin expansion as we push the ongoing improvement in our same-store portfolio and accelerated revenue and margin stabilization in our recently acquired communities. We see an opportunity to compound our growth by capitalizing on our robust pipeline of additional acquisition opportunities, leveraging our operating capabilities and capital availability.

00:21:52 Through a combination of occupancy expansion, ongoing rate improvement and effective expense management, our 2024 investments are targeted to stabilize at double-digit cap rates delivering significant earnings accretion. We've included a summary of our Q4 2024 investments in the investor deck on slides 26 through 31 and have been pleased with the financial uplift across each of these investments in the early stages of integration and repositioning. The application of our staffing technology, purchasing capabilities and focused expense management processes continue to drive early improvement in operating results in the acquired communities.

00:22:32 Substantially limited new supply remains a significant tailwind for our portfolio and we do not see any near-term changes to this dynamic. Even as banks look to deploy more capital in 2025, equity capital for new construction is difficult to obtain as most developments don't pencil (00:29:48). Given the long lead time for new construction, this supply dynamic looks poised to support the industry for some time. In the meantime, with approximately 2,000 unit starts per quarter, the industry is not building sufficient capacity to house the 4 million net additional 80 plus population projected through 2030.

00:23:11 In summary, Sonida's focus on results driven operational strategies, operational excellence and capital allocation yielded another quarter of strong performance and portfolio expansion. Our team is highly energized by the transformation of the company in 2024 and committed to continued excellence and value creation in 2025 and beyond.

00:23:35 This concludes our prepared remarks. Operator, please open the line for any questions.

Operator

00:23:42 We're now opening the floor for question-and-answer session. Your first question comes from the line of Ronald Kamdem from Morgan Stanley. Your line is now open.

Ronald Kamdem

Analyst: Ronald Kamdem

00:23:59 **Question – Ronald Kamdem:** Hey, just two quick ones for me. Just number one, just starting a little bit on the fundamentals. I know you have the $100 million target out there and so forth. Just where sort of pricing going out today? How does that compare to sort of what it was last year? And I know you mentioned about sort of the labor cost were getting better, just a little bit more color there as well. What you're anticipating as immigration sort of (00:31:27)? Thanks.

Brandon M. Ribar

00:24:34 **Answer – Brandon M. Ribar:** Thank you, Ron. Good morning and good to catch up with you. So, couple of things just on the overall landscape and the trajectory of the recovery. I'd say that from a first off pricing perspective, we do feel like 2025 is going to be another strong year in line with the types of gains that we saw in 2024. So, we feel like with the occupancy levels where they're at, especially in the same-store that we can continue to push forward on pricing. So, again, I think good story there.

00:25:03 And then, on the communities that we've acquired, we've seen really good kind of initial performance, especially on the expense management side. Our focus for 2025 is accelerating the recovery really top line on those new communities that we brought on board because they do have occupancy opportunity with a Q4 average at 76%. So, we think there's good room to grow there. And then the revenue profile of those new communities just from a rate perspective is higher than our same-store as well. So, we feel like with that good occupancy opportunity, there's also the chance for margin expansion going into 2025.

00:25:46 So, I think really focused on strong acceleration of occupancy recovery for newly acquired communities, good continued growth in the same-store profile in line with the top end of our peers. And then, on the labor front, just really diligently managing those labor expenses for 2025, haven't seen any major shifts in the market related to any impacts around any changes in immigration. I think we have some comfort in that the majority of our employees are certified and that we have not seen any immediate or material impact on the labor front. So, really kind of controlling those right around the same levels we have in the past year or so should allow us the opportunity to really grow the business from a margin perspective and get those dollars closer to as you mentioned that kind of $100 million run rate as quickly as we can.

Operator

00:26:59 Thank you so much. This now concludes our question-and-answer session. I'd now like to hand back over to Mr. Brandon Ribar.

Brandon M. Ribar

00:27:13 Thank you all for participating. And this concludes today's conference call.

Operator

00:27:21 Thank you for attending today's call. You may now disconnect.