Sonida Senior Living, Inc.

NYSE:SNDA

Earnings Call

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Call Participants

EXECUTIVES

Brandon M. Ribar
President, CEO & Director

Jason Finkelstein

Kevin J. Detz
Executive VP & CFO

ANALYSTS

Ronald Kamdem
Morgan Stanley, Research Division

Presentation

Operator

Thank you for standing by. My name is Carla, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sonida Senior Living Q1 2025 Earnings Call. [Operator Instructions]

I would now like to turn the call over to Jason Finkelstein, Investor Relations. Please go ahead.

Jason Finkelstein

Thank you, operator. All statements made today, May 12, 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 could 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. 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 investors.sonidaseniorliving.com.

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. If you would like to follow along during today's call, you can find Sonida's first quarter 2025 earnings presentation at sonidaseniorliving.com in the Investor Relations section.

In addition, we have included supplemental earnings information within our presentation, consistent with the prior quarter release. On today's call, I am joined by President and CEO, Brandon Ribar, and Chief Financial Officer, Kevin Detz.

At this time, I'd like to turn the call over to Brandon for opening remarks.

Brandon M. Ribar
President, CEO & Director

Thank you, Jason. Good morning, and thank you all for joining us on our first quarter earnings call. 2025 is off to a strong start with encouraging momentum across each of our strategic objectives. Our top priority remains driving community performance through tailored operating plans and detailed execution. Growth in our same-store portfolio continued along a strong trajectory, fueled by operational discipline that drove improvements in occupancy resident rates and margin.

Additionally, accelerated operating performance in the acquisition portfolio further demonstrates the benefit of our owner operator investor platform. Finally, our strategic inorganic growth plan remains on track, and we are excited to announce 2 new acquisitions expected to close in the second quarter, both reflecting our focus on deploying capital accretively and strategically. Entering the year, we outlined a plan to deliver year-over-year net operating income growth in line with the high end of our peers.

Slide 5 in the investor presentation summarizes our first quarter performance highlights. Our same-store portfolio NOI grew by 19.3% year-over-year, and the acquisition portfolio NOI increased 31.3% sequentially from Q4 2024. We Together, this generated a total portfolio NOI growth of 37.6% year-over-year. Our Q1 annualized NOI for the acquisition portfolio implies a 9.1% yield on cost excluding the 1 unopened asset acquired at year-end.

Additionally, we achieved a portfolio-wide 6.6% average renewal rate increase on March 1, impacting nearly 70% of our resident base and directly supported by our excellent resident satisfaction and our team's ability to offer a high-value experience to our residents. These rate increases are consistent with the levels we achieved in 2024 and position the business for further NOI growth during the course of the year. Occupancy improved 100 basis points year-over-year in our same-store portfolio and 70 basis points sequentially from Q4 in our acquisition portfolio, including the communities purchased in 2024, many of which required significant operational turnarounds.

Our total company occupancy of 84.7% provides substantial margin and revenue upside as we continue to stabilize the portfolio. Lead volume increased across our same-store portfolio by 7% in the first quarter and we remain highly focused on conversion tactics to support higher move-in volume. These efforts are supported by our highly engaged resident base, programming and access to health and wellness services across each of our product types. Our average length of stay, a key metric for understanding velocity of resident turnover has remained stable over the last year, allowing leadership to plan labor needs more effectively and tailor sales and marketing strategies to backfill vacancies.

Investments in our clinical health information system, resident fall detection, nurse call and employee scheduling will be fully implemented by Q3 this year, further enhancing our clinical and operating infrastructure benefiting both Resident Services and our business intelligence and reporting capabilities.

Lastly, over the past 2 years, we have invested in our employees and introduced leadership incentive plans focused on aggressively reducing employee turnover. These investments resulted in our lowest total company turnover percentage for a quarter since we began tracking this metric and we are seeing further reduction in the second quarter.

I'll now turn the call over to Kevin for a detailed discussion of our Q1 financial performance.

Kevin J. Detz
Executive VP & CFO

Thanks, Brandon. Before I discuss our first quarter operating results, I wanted to identify a change in the composition of our portfolio categories as seen on Slide 11. Beyond the same-store and acquisition portfolios that we previously reported on we will now add a repositioning portfolio for assets that are undergoing significant renovations and/or business model changes.

As more fully described later in the presentation, we have identified 5 such assets for strategic repositioning to capture a higher rate, private pay customer base. This repositioning will require tailored operating platform changes and medium-range capital reinvestment plans. These communities will be excluded from our same-store until these strategic plans have been fully executed.

Starting on Slide 12 with the same-store comparison of year-over-year quarters the company drove up occupancy 100 basis points to 86.8%. Coupled with a 5.5% RevPAR increase over the same period, annualized same-store revenues increased $16 million or 7.4%. With 65% of the increased revenues flowing through to NOI, the company grew same-store NOI by 19.3% and realized a 27.6% margin, a 280 basis point increase over the 24.8% posted in the first quarter of last year. Moving on to Slide 13. Our 2024 acquisition communities continued to deliver strong sequential growth. Note that these figures contemplate the at share results of our 2 joint venture investments and exclude the December 31 acquisition of our Airy Hills community, which is scheduled to open later this year.

Comparing to the fourth quarter of 2024, and occupancy gained 70 basis points and RevPAR increased by 2.3%. The full impact of the rate profile is temporarily muted by the disparate timing of when the previous operators pushed through their last resident rate increases. We expect the rate increase profile to align more with our same-store rate trajectory once all communities are in a full annual renewal cycle. Again, using sequential quarters to the acquisition communities that share, Resident revenue grew $5.2 million on an annualized basis, with nearly 80% of this growth flowing through to NOI.

This resulted in 31.3% NOI growth and a 26.3% NOI margin, a 450 basis point increase from the fourth quarter when the company was onboarding 10 communities from the October and November acquisitions. As we move through the year, the operating team will be focused on continued integration of Sonida's operating platform to unlock additional value from these acquisitions. On Slide 14, we've laid out similar metrics on the total portfolio, which rolls up the same-store portfolio, the acquisition portfolio and the repositioning portfolio that Brandon will touch on in; more depth shortly.

Note that the overall decrease in year-over-year occupancy is simply attributed to the addition of acquisition communities at lower average occupancy and that were not included in the first quarter 2024 results. With another successful annual rate renewal completed in March, the total portfolio's NOI margin of 25.7% would expand further with a full quarter's impact from these elevated rental rates.

Moving ahead to Slide 16. On a same-store basis, the average annual rent renewal on March 1 was 6.9%, which was applicable to 71% of the total residents. When comparing to the previous quarter last year, the blended private pay and Medicaid rate increased 4.9%. We believe another strong year of resident rate increases combined with the 100 basis point occupancy expansion is a continued testament to the value Sonida provides to our residents and their loved ones.

The company continues to expand its level of care revenues with an annualized year-over-year increase of $1.8 million or 13.6% on its same-store portfolio. This 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, and 2024, the company modified its memory care pricing structure to introduce a level of care surcharge that appropriately differentiates the degree of care being provided by our staff. Both the utilization of our clinical software and new pricing structure led to immediate value creation across the recently onboarded acquisition communities.

Diving into more of the margin drivers, we will move ahead to Slide 17 to discuss operating expense trends. As a percent of revenue, total labor, excluding benefits for the first quarter decreased 110 basis points as compared to the same quarter in 2024. This relative decrease in labor yielded 71% and incremental flow-through on the additional revenue for the same period and is reflective of continued stabilization of total hours work and average hourly wage profile. This flow-through profile is anchored by a strong employee base with increasing year-over-year retention, as Brandon referenced in his earlier comments.

On the nonlabor expense front, absolute costs increased only $200,000 from Q1 2024 to Q1 2025. This is largely the result of our ability to hold fixed cost increases to inflationary levels in areas such as insurance and real estate taxes, while also utilizing the total portfolio scale to drive down our per unit cost profile in areas such as food and service contracts. Closing out the P&L for this quarter's earnings, our G&A has shown stabilization following the onetime build-out of our business development and operational excellence functions in 2024 to support the overall growth initiatives of the company.

This quarter's strong operating results from our acquisition portfolio were tied directly to our team's ability to swiftly integrate these communities into the Sonida operating model. G&A, excluding noncash stock compensation expense, and onetime transaction severance costs decreased $200,000 from $7.7 million recognized during the fourth quarter. Notwithstanding material acquisitions, the company's goal is to continue to maintain its current G&A composition.

Moving to the balance sheet on Slide 18. Our total debt at shares comprised of 61% fixed rate debt. Without the inclusion of the company's secured credit facility, the weighted average rate is 5.2%, 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 $43 million immediately available as of the end of the quarter. The company anticipates an increase in availability as the underlying borrowing base assets securing the facility continued to expand their NOI profile.

The company continues to execute on its long-term strategy of delevering the balance sheet with a target of 7x based on acquisition NOI stabilization, continued same-store growth and responsible debt management. Finally, as of today, the company is in compliance with all financial covenants required under its mortgages and credit facility. And finally, on Slide 19, last year, we introduced a bridge to $100 million of NOI based on 2024's pro forma in-place NOI of $78 million and an assumption-driven placeholder for growth through community stabilization of $22 million. We were able to share only limited visibility into attainment during our year-end earnings report due to acquiring 10 of the 19 operating acquisition communities in the final quarter of the year.

Today, we are excited to report that with our first full quarter of total portfolio stabilization behind us, we were able to realize $12 million in annualized NOI growth attributed to incremental actual portfolio NOI recognized in Q1 2025 as well as the run rate impact to NOI from another successful annual rate increase campaign. As we continue to drive occupancy expansion and leverage pricing power to pass through renewal and market rate increases, while driving our unit cost economics down, we continue to believe that this $100 million of NOI is an achievable near-term target with meaningful upside thereafter.

Back to you, Brandon.

Brandon M. Ribar
President, CEO & Director

Thanks, Kevin. Starting on Slide 21 with capital allocation in our existing portfolio, I will expand on the repositioning communities Kevin referenced in his comments. Within this repositioning category, we identified an opportunity to design an offering consistent with the private pay landscape in these markets while reducing our exposure to government reimbursement.

In late 2024, the Indiana Medicaid program converted to a managed Medicaid model, creating significant disruption by limiting both the timing and authorization for residents to access to benefits for assisted living and memory care services. As a result, we intentionally reduced the number of medicate admissions, thereby decreasing overall occupancy in these communities. We are now removing units from service, converting the product type to a different unit mix and investing capital to upgrade the physical plant where the demographic income profile supports a private pay model. We are projecting capital spend of $4 million to $5 million in total across the 5 communities.

Completion of these projects will meaningfully reduce the company's Medicaid percentage of total revenue, currently at 9%, and we expect return on investment to exceed 30%. Shifting gears. Capital markets today continue to be shaped by liquidity seeking and debt motivated sellers. This backdrop is generating a steady pipeline of investment opportunities with attractive risk-adjusted returns for Sonida. We remain focused on acquiring high-quality assets at a discount to replacement cost, where we can unlock value through operational improvement.

In these situations, we benefit from owning well-located real estate at a favorable basis with upside for market improvement combined with the unique alpha generated by our operating platform and leadership. On Page 24 of our investor presentation, we highlight 1 of our initial 2024 investments the Stone joint venture, which closed in May. We acquired 4 recent vintage high-quality assets for $64 million or approximately $140,000 per unit.

At acquisition, the portfolio was generating just $1.5 million of NOI, reflecting low occupancy and elevated expenses. Upon assuming management, Sonida stabilized leadership through targeted personnel transitions and robust training and mentorship. We also equipped community teams with our business intelligence tools, expense and revenue management processes and regional support structure to rebuild each community's operating model. As a result of our focus on people and process, NOI has grown fourfold, all while improving the quality of services delivered to residents even as occupancy remains below stabilized potential.

Turning to Page 25. As we shifted to offense early last year, we identified a strategic opportunity to expand in the Southeast, targeting high-growth markets where we have deep operating expertise and strong regional support. We ultimately acquired 2 portfolios totaling 10 assets for approximately $135 million or $180,000 per unit. These assets served as the cornerstone of our successful equity and debt raise last summer and closed in Q4 2024.

Since acquisition, we focused on operational integration and made targeted capital investments of approximately $2 million across the portfolio, addressing deferred maintenance needs and selectively upgrading furniture and finishes. Early results are encouraging, with margin improvement driven by both disciplined expense management and active revenue strategies, including level of care assessments. The 10 assets delivered a combined NOI yield in excess of 10% in Q1, with significant upside remaining as we continue to grow occupancy and drive healthy rate growth.

In addition, we are under contract to acquire 2 more communities in major southeastern markets for a combined $22 million with closings expected in Q2. These off-market deals reflect the same profile as many of our other recent investments, quality assets in attractive markets with operational upside, and we look forward to providing additional details soon. Looking ahead to the broader 2025 investment landscape, we are not simply pursuing growth for growth's sake. We remain disciplined deploying capital where we see accretive opportunities that offer compelling risk-adjusted returns and clear strategic value. The current environment is presenting a wealth of these opportunities. And as we continue to refine our operational integration playbook, we believe we are uniquely positioned to capitalize on this opportunity set.

Sonida's focused on results-driven operational strategies, operational excellence and capital allocation yielded another quarter of strong performance and accelerating growth in the newly acquired communities. The combination of in-place revenue and NOI growth, responsible and attractive investment activity and broader application of our owner-operator platform uniquely positions Sonida as a leader within the senior living and real estate landscape.
Our team is highly focused on operational execution and committed to continued excellence and value creation for the remainder of 2025 and beyond. This concludes our prepared remarks Operator, please open the line for any questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Ronald Kamdem with Morgan Stanley.

Ronald Kamdem
Morgan Stanley, Research Division

Just 2 quick ones. First is on the repositioning portfolio. So the 5 assets that were moved out of the pool into the portfolio, it sounds like from your opening comments, there was a -- it sounds like a Medicaid change and in Indiana, if I heard correctly. Just a little bit more color there. I know you talked about the dollar spent for those assets. But just what kind of time line, any occupancy targets that you're thinking through? Just would love to hear a little bit more about sort of the repositioning assets.

Brandon M. Ribar
President, CEO & Director

Thanks, Ron, and good to speak with you. So I think the repositioning portfolio for us is a story around opportunity within our portfolio to invest some dollars to fully align those communities with our long-term business model. So we are, as you know, heavy private pay. And the opportunity to continue to reduce our exposure to the Medicaid program presented itself when there was a change in the program that ultimately made it a little bit more difficult for people to access the Medicaid benefits in the state of Indiana and in order to get ahead of any kind of long-term detriment to it. We looked at these 5 communities, which have the heaviest exposure to the Medicaid program. And they're in good markets where they do support a private pay model but we felt the assets needed to be positioned with capital investment to make sure that we could really appeal to the private pay individuals. .

And so that meant in order to get the investments completed and to make sure that we were appropriately managing the margin in those communities that we were taking units out of service continue to take units out of service in the first and second quarter here so that we can get that capital invested and ultimately shift the business model in those communities to a far more heavily focused private pay reimbursement model that matches with the long-term vision for our company as a whole. So we thought it was a really good opportunity to use some of our dry powder to deliver what we think is going to be a strong return profile for those internal capital investments.

Ronald Kamdem
Morgan Stanley, Research Division

Great. And then my second question would just be what about the remaining private pay? Any other sort of assets that could potentially be on that repositioning bucket? And then if you could also talk about just the 2 acquisitions that you guys have tied up and sort of any color on those on the pipeline.

Brandon M. Ribar
President, CEO & Director

Yes. Happy to do so. I think that within our portfolio, the repositioning bucket, these 5 are the most immediate opportunities there. We have done quite a bit of investment over the last couple of years across the portfolio. So I wouldn't say that there's an expectation around a large-scale kind of transition of communities into that repositioning bucket or need there. So I think we'll continue to evaluate that. Just as our portfolio grows, just shy of 100 assets now, there may be opportunities down the road where we want to use that same concept where the business model does need an adjustment or we're going to make a major capital investment that would change the trajectory of the business, but would create near-term disruption.

So we'll continue to monitor that, but nothing on the immediate horizon within the portfolio. So we'll continue to show the results of this repositioning effort, and feel confident that the results will really show the benefit from a capital investment and repositioning of these assets. And then just on the 2 additional acquisitions that we mentioned, these are strong southern markets in Florida and Georgia, where we have a couple of individual acquisitions that are very, very consistent with what we purchased in the kind of the latter part of 2024, where these are communities that will benefit from our operational overhaul. They're very nice kind of new vintage communities.

And again, kind of the return expectations are consistent with what we bought towards the end of last year where we feel like these can stabilize with low double-digit yields. And so we think this is representative of an ongoing opportunity to use our platform to identify strong, very high-quality assets that just need some operational kind of capabilities and transitions. And then can stabilize with really solid operating metrics in the very near future.

Operator

[Operator Instructions] There are no further questions at this time. I will now turn the call back over to Mr. Brandon Ribar for closing remarks.

Brandon M. Ribar
President, CEO & Director

Thank you all for participating this morning, and this concludes today's conference call.

Operator
Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.