InvenTrust Properties

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InvenTrust Properties Corporation

Fourth Quarter 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Daniel Busch - *Chief Executive Officer & President*

Michael Phillips - *Chief Financial Officer*

David Heimberger - *Chief Investment Officer*

Christy David - *Chief Operating Officer & General Counsel*

Dan Lombardo - *Vice President, Investor Relations*

PRESENTATION

Operator

Thank you for standing by, and welcome to the InvenTrust Fourth Quarter 2021 Earnings Conference Call. As a reminder, this call is being recorded. All participants will be in a listen only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, press star then two.

I would now turn the conference over to Mr. Dan Lombardo, Vice President of Investor Relations. Please go ahead.

Dan Lombardo

Thank you, operator. Good morning, and welcome to InvenTrust Properties Fourth Quarter 2021 Earnings Conference Call. Joining me on the call today are DJ Busch, President and Chief Executive Officer; Mike Phillips, Chief Financial Officer; Christy David, Chief Operating Officer and General Counsel; and Dave Heimberger, Chief Investment Officer.

Before the team starts with their prepared remarks, I would like to remind everyone that today's discussion may contain forward looking statements about the company's views on the future of our business and financial performance, including forward looking earnings guidance and future market conditions. These are based on management's current beliefs and expectations and are subject to various risks and uncertainties.

Any forward looking statements speak only as of today's date, and we assume no obligation to update any forward looking statements made on today's call or that are in the quarterly financial supplemental or press release. These factors and risks are described in more detail in our filings with the SEC.

In our discussion today, we will also reference certain non-GAAP financial measures. The comparable GAAP financial measures are included in this quarter's earnings materials, which are posted on our Investor Relations website.

With that, I will turn the call over to DJ.

Daniel Busch

Thanks, Dan. Good morning, everyone, and thank you for joining us today. 2021 was a year of milestones for InvenTrust where expectations were surpassed on many fronts. We executed on several corporate activities that led to a successful listing on the New York Stock Exchange in October of last year, which provided immediate liquidity alternative for all of our shareholders. By year end, our investment thesis gained traction given the increased transition to a more institutional shareholder base. When I look back at all that we accomplished for our shareholders, employees, our tenants, and communities, I'm extremely proud of the InvenTrust team.

The foundation of our success is built on InvenTrust's simple and focused strategy: to own and operate high quality, necessity based shopping centers in the Sun Belt, paired with a conservative balance sheet with ample liquidity to fund future cash flow growth. InvenTrust leads the retail sector in Sun Belt concentration and is one of the most focused retail portfolios in our space. The portfolio's attractive, demographic characteristics are expected to create strong leasing demand and organic growth at our markets continue to thrive.

Our high performing grocery-anchored tenants also play a critical role. These necessity based tenants are aligned with the current consumer shift towards essentialism and are resilient across economic cycles. Over 86% of InvenTrust NOI is derived from centers with a grocery presence. As our tenants continue to refine their multichannel strategies through physical locations, last mile concepts and pick up at store, InvenTrust will support them in their endeavors.

I also want to quickly touch on another one of InvenTrust's key pillars: sustainability and corporate responsibility. We are focused on effectively managing our business and assets to reduce our environmental impact and implementing initiatives to play our part in a lower carbon future. ESG is not new at InvenTrust. We've been a participant in the Global Real Estate Sustainability Benchmark, or GRESB, assessment since 2013 and something we have integrated into all aspects of our business. In 2022, the leadership team will continue to drive ESG initiatives and targets across the portfolio, and we look forward to sharing these results in our inaugural corporate responsibility report being released later this year.

Lastly, our balance sheet remains a cornerstone for our growth story moving forward. To that end, we announced earlier this week that we closed on two premier properties in Austin, Texas for approximately $190 million. These acquisitions, which Dave will discuss in a bit, are great additions to our portfolio and will increase our concentration in Austin, already our largest market. This transaction also satisfies about half of our two year net acquisition target and will bring significant cash flow into the portfolio.

With that, I'm going to turn it over to Mike to discuss our financial results. Mike?

Michael Phillips
Thanks, DJ, and good morning, everyone. I'll provide you with some color around our fourth quarter and full year results and walk you through our 2022 full year guidance.

To start, we remain encouraged by our continued improvement in our portfolio operating trends. InvenTrust produced $0.14 per share of NAREIT FFO in the fourth quarter and $1.18 per share for the full year 2021. Our NAREIT FFO was above the high end of our 2021 guidance range of $1.13 per share due to savings on onetime direct listing costs in the fourth quarter.

InvenTrust generated $0.38 per share of core FFO in the fourth quarter, flat over the same time period last year. For the full year 2021, our core FFO was $1.40 per share, an increase of 3.7% over last year. Our pro rata same-property NOI for the quarter reached $37.9 million, growing 3.1%. Our full year results totaled $144.8 million, up 4.4% compared to 2020. The increase in pro rata same property NOI was primarily driven by contractual rent increases from our existing leases, new rent coming online, and collection of prior period rental income, generating approximately 220 basis points of growth.

Turning to the balance sheet and our strong capital structure. At quarter end, we had $398 million of total liquidity, including $319 million of capacity remaining on our revolving credit facility and over $79 million of cash on hand. During the quarter, using cash on hand, we executed $100 million Dutch tender, which we completed in November, where we repurchased 4 million shares at a price of $25 per share.

We have only $22 million in debt maturities in 2022, and we ended the year with our net leverage at 22%. Our trailing 12 month net debt to adjusted EBITDA is now at 4.6x. Subsequent to quarter end, we drew on our revolving credit facility to partially fund the Austin portfolio acquisition. We also paid our Q4 2021 dividend, which represented an increase of 5% over the prior quarter. Our annualized dividend rate is now $0.82 per share.

As mentioned in our earnings release, our guidance for 2022 is as follows. For the year, we expect net income per diluted share of $0.13 to $0.19. We are providing NAREIT FFO guidance of $1.53 to $1.59 per share. We expect core FFO of $1.50 to $1.56 per share, representing a high single digit to low double digit growth over 2021. Pro rata same property NOI is expected to be in the range of 2.75% to 4.75%, and additional assumptions are provided in our supplemental disclosure.

With that, I'm going to turn the call over to Dave to discuss our recent transaction activity. Dave?

David Heimberger
Thank you, Mike. As DJ discussed, we're extremely excited to be adding two Austin assets into our portfolio. The assets further add to our presence as one of the largest institutional owners of open air shopping centers in Austin. The two properties total just over 125 acres in Southwest Austin, which is one of the most dynamic and highly coveted submarkets in the country with significant barriers to entry.

The Shops at Arbor Trails is an ultra-rare dual grocery-anchored center with Costco and Whole Foods both on a lease, as well as an outstanding lineup of complementary tenants with over 350,000 square feet and 99% leased occupancy.

Escarpment Village is anchored by HEB, the region's dominant grocer, also on a lease. It is 100% leased with over 167,000 square feet of GLA. Not only is this portfolio comprised of irreplaceable real estate with some of the best tenants in the market, both centers have components of ESG, including solar panels, water reclamation, a green roof, and electric vehicle charging stations, all of which match criteria we are actively looking for in future acquisitions.

Overall, this transaction demonstrates our team's ability to identify assets fitting our Sun Belt strategy and execute in a highly competitive market. Our significant presence in Austin and track record across numerous transactions allowed us to unlock this off market opportunity and bring meaningful cash flow growth to our portfolio. As DJ noted, the purchase price for both Austin properties was approximately $190 million.

Our commitment to delivering portfolio cash flow growth in the Sun Belt will continue to differentiate us in our sector. We believe the Sun Belt's business friendly environment, growing tech sector and in-migration will drive demographic growth that will continue to afford us compelling investment opportunities in the future. Whether it's Texas, California, Atlanta, Central or South Florida, or the Carolinas, we maintain a robust pipeline of potential targets in our core Sun Belt markets and continue to explore other prospects as well as opportunities to further round out our portfolio base and leverage our operational presence in these markets.

And with that, Christy will discuss our portfolio performance.

Christy David
Thank you, Dave. Including the new Austin assets, InvenTrust owns 64 neighborhood, community, and necessity based power centers, totaling 10.8 million of GLA. Our assets are the backbone of their communities with tenants providing essential products and services. These tenants draw strong foot traffic, which enhances our ability to increase rents and provide an attractive last mile solution for omnichannel strategy.

At the end of 2021, our leased occupancy was 93.9%, up from 92.8% at the end of 2020 and up 40 basis points from the third quarter of 2021. Our anchor lease percentage was 96.7% and small shops was 89%, increases of 120 and 130 basis points year over year, respectively. We expect continued upside in our occupancy levels as we look ahead through 2022, especially in the small shop category.

As always, occupancy gains start with leasing execution. We are very pleased with our leasing activity and the deal pipeline being generated by our local teams. We continue to see strong demand across the board with interest from tenants in many categories, including medical, fitness and fast casual restaurant concepts from tenants such as Chipotle, First Watch and Planet Fitness.

In the fourth quarter, we signed 72 leases totaling approximately 252,000 square feet of GLA. Our blended comparable lease spreads for the quarter were 4.1%. We will note that our new lease spreads did go back slightly for the quarter, but this is primarily driven by one lease out of a relatively small sample size of 7 new deals in the quarter.

The leasing environment remains healthy as it relates to both new concepts and well-established tenants looking for space in our centers. With that said, we continue to monitor the ongoing labor shortages and supply chain challenges being experienced throughout the economy. At this time, in general, our tenants have been able to adapt to these recent challenges and have not experienced any significant disruptions to their operations.

Annual base rent as of December 31 for the pro rata combined portfolio was $18.59, an increase of 2.1% compared to the same period in 2020. Anchor tenant ABR was $12.31 and small shop ABR was $31.42. Regarding our active development projects, our Publix redevelopment and property improvement at Suncrest Village in Orlando are under construction and on track to open in summer of 2022. Our Houston asset, Cyfair Town Center, is undergoing a property refresh and is on track to be completed in the third quarter of 2022 and is already generating significant leasing interest at the property.

Demand for pad locations in our portfolio remained strong. We executed a lease with Chipotle for a freestanding building at our Eldridge Town Center property located in Houston. Our teams continue to evaluate opportunities within our portfolio to meet the growing trend and demand for drive-through locations. As a reminder, our redevelopment thesis is conservative, with no large mixed use projects, major funding commitments, or long dated construction timelines. We remain focused on identifying opportunities that allow us to reinvest in our centers at attractive returns in a disciplined way.

Now I'll turn the call over to DJ for some final remarks.

Daniel Busch
Thanks, Christy. InvenTrust has been a publicly traded company for a little over three months now. Since our listing in October, our simple and focused narrative has resonated with several institutions and we continue to build these relationships. The company also has been added to several real estate and REIT indices, and we are hopeful that the trend will continue throughout 2022. We are off to a solid start in our journey as a traded company, but we're certainly not satisfied. The onus is on us to be transparent, available and proactive in our investor and analyst outreach.

Communicating our strategy and progress on our goals will be a focus, and we plan to build on the strong momentum we've been able to create in the first few months since our listing. Our assets are well positioned to benefit from the long term Sun Belt migration trends. Our talented and deep team is focused on continuing to successfully execute our strategy to capture the substantial opportunities ahead in our business. I look forward to continuing to share updates of our progress.

Operator, this concludes our prepared remarks. Please open the line for questions.

QUESTION AND ANSWER

Operator
There appear to be no questions at this time. So I would like to turn the conference back over to DJ Busch for any closing remarks.

CONCLUSION

Daniel Busch
Thanks, operator. If there are any follow up questions, please feel free to reach out to Dan Lombardo and our Investor Relations team, and we'd be very happy to discuss further. Have a wonderful weekend.

Operator
The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.