InvenTrust Properties Corporation

First Quarter 2022 Earnings Conference Call

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CORPORATE PARTICIPANTS

Daniel Busch - *Chief Executive Officer & President*

Michael Phillips - *Chief Financial Officer*

Christy David - *Chief Operating Officer & General Counsel*

Dan Lombardo - *Vice President, Investor Relations*

PRESENTATION

Operator:
Hello all. Thank you for your patience, and a warm welcome to the InvenTrust Properties Corp First Quarter 2022 Earnings Conference Call. My name is Louise, and I'll be the operator for today's call. If you would like to ask a question you will have the opportunity to do so at the end of the presentation. Please press star followed by one on your telephone keypad if you wish to ask a question.

I now have the opportunity to introduce your host, Dan Lombardo, Vice President of Investor Relations. Dan, please go ahead.

Dan Lombardo:
Thank you, operator. Good morning, everyone. On the call with me today are DJ Busch, President and Chief Executive Officer; Mike Phillips, Chief Financial Officer; Christy David, Chief Operating Officer; and Dave Heimberger, Chief Investment Officer. During today's presentation, the team will provide an overview of InvenTrust's first quarter operational and financial highlights, along with an update on our 2022 guidance. Following our prepared remarks, we will answer questions from the research analyst community.

Before the team starts with the 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. In addition, we 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. InvenTrust is a Sun Belt focused shopping center REIT that owns and manages grocery-anchored neighborhood and community centers as well as high quality power centers that often have a grocer.

With over 90% of our income coming from the Sun Belt region, InvenTrust is a clear publicly traded shopping center leader in these markets with the goal of further increasing our concentration through strategic capital allocation over time. For investors interested in allocating a portion of their portfolio to essential retail in the Sun Belt, InvenTrust is and will continue to be the natural choice for this investment thesis.

Since joining the public market last year, our team has delivered on several fronts. One is our disciplined capital allocation as demonstrated by our $100 million Dutch tender completed in November of 2021, where we repurchased 4 million shares at $25 per share.

Next, InvenTrust's focus on both internal and external growth continues to be on full display from our solid same property NOI growth and through the acquisition of additional premier Sun Belt properties. Both channels contributed meaningful cash flow growth for our shareholders during the quarter. Also during the quarter, the team put in place a couple of important initiatives.

First, the board authorized and approved a new $150 million share repurchase program. Then in March, as a logical next step following our listing, we established a $250 million ATM offering program providing efficient access to the capital markets. The board and management team view both these programs as important additions to our capital allocation decision making process as we evaluate additional opportunities.

The team also pursued and was assigned its inaugural credit rating from Fitch ratings in April. Fitch assigned a long term issuer default rating of BBB- with a stable outlook. According to the published report, the key drivers for the rating were InvenTrust's conservative balance sheet, Sun Belt concentration, grocery-anchored assets and solid tenant diversification. We are pleased with our investment grade rating, and we believe it reflects the quality of our cash flow driven by our simple and focused Sun Belt portfolio strategy and most importantly, our team's dedication to a best-in-class capital structure. The rating will expand our access to additional capital sources and support our ability to evaluate growth opportunities in the quarters ahead.

Turning to the portfolio. Our Sun Belt markets have benefited from in-migration for the last decade, and we have seen these trends only accelerate following the pandemic and should continue for years to come. Our markets have the right components to generate superior risk-adjusted returns above other regions. We believe are centers will provide sustainable rent growth and ultimately, value creation opportunities in the near and long term. Our assets within these markets continue to present significant leasing demand, stable rent with healthy occupancy levels, and accretive redevelopment opportunities.
With that, I'm going to turn it over to Mike Phillips to discuss our financial results and guidance in more detail.

Michael Phillips:
Thanks, DJ, and good morning, everyone. For the first quarter, the company produced $31.7 million of NAREIT FFO, or $0.47 per share. This represents a per share increase of 47% over the same time period in 2021. Our core FFO grew to $29 million, or $0.43 per share, a year-over-year increase of 39%. The increase in both NAREIT and core FFO for the first quarter of 2022 was largely driven by an increase in same-property NOI of $0.06 per share, G&A savings

of $0.03 due to nonrecurring costs of our succession planning in 2021, and a positive $0.03 impact from our $100 million share repurchase in Q4 of last year.

As our first quarter performance shows, our simple and focused strategy is producing strong financial and portfolio results for InvenTrust leading us to adjust our 2022 year end guidance, which we will talk through momentarily.

InvenTrust's pro rata same-property NOI for the quarter reached $38.7 million, growing 12.2%. The increase in pro rata same-property NOI was primarily driven by contractual rent increases, occupancy gains, and the timing of collections of cash basis tenants. We also have a favorable comparison against Q1 of 2021 of about 200 basis points related to rent relief given in Q1 2021 that we did not experience in 2022.

Turning to the balance sheet. As of March 31, we had $262 million of total liquidity, including $214 million of capacity remaining on our revolving credit facility and over $48 million of cash on hand. Our pro rata debt at a weighted average interest rate of 2.6% and a weighted average maturity of four years. We have no debt maturities in 2022.

Our leverage targets remain the same, net debt to adjusted EBITDA in the range of 5 to 6x, and net leverage in the 25% to 35% range with some quarter-to-quarter fluctuations as we evaluate potential acquisition and portfolio recycling opportunities. Our inaugural investment grade rating will allow us further access to capital while still maintaining our low-leverage business model.

As a result of our first quarter performance, InvenTrust is modifying our full year 2022 guidance. We are increasing our net income per diluted share guidance to be in the range of $0.18 to $0.24. We are raising our NAREIT FFO guidance to $1.58 to $1.64 per share, and we are tightening our core FFO range to $1.51 to $1.56 per share. Our same-property NOI growth guidance is increasing to 3.75% to 5.25%. Our G&A expense forecast has modestly declined, but will be more than offset by higher than expected interest expense driven by the current rate environment and future financing activity. And finally, net investment activity is increasing to $210 million. Additional guidance assumptions are provided in our supplemental disclosure.

Another point to note, we expect our quarterly FFO growth to moderate as we progress throughout the year. While we anticipate our EBITDA to increase every quarter in 2022, rising interest rates will have an impact on our FFO in the back half of the year. With the current balance on our revolver, which we consider short term financing, as just alluded to, we are evaluating opportunities to replace it with long term fixed rate debt that will be more expensive than the current rate achieved from the revolver. Simply put, for 2022, we expect to grow NOI both organically and through acquisitions. Our G&A will be slightly lower, which results in core FFO growth close to double digits, while prudently putting permanent debt financing in place to further solidify our debt structure.

And with that, I'm going to turn the call to Christy to discuss our portfolio activity.

Christy David:
Thank you, Mike. Our portfolio continues to experience strong leasing demand and activity. Significant interest is coming from retailers in many different segments, including retailers such as Sephora, MOD Pizza, and Athletico Physical Therapy, all of whom are expanding their presence in our Sun Belt markets.

Additionally, we are seeing increased activity in the health and wellness category. Urgent care, dental, vision, and wellness tenants are finding retail environments particularly attractive, and we believe they are a great complementary use for our centers. Health and wellness tenants tend to sign longer term leases, invest more capital in their space, and bring a positive presence within the center and the community. This makes them attractive to landlords like InvenTrust. These attributes also match our vision that our centers provide essential products and services to their communities.

InvenTrust's leased occupancy for the first quarter was 94.4%, 50 basis points above Q4 2021 and 150 basis points above Q1 of last year. Our anchor lease percentage increased to 96.6% and our small shop hit 90.5%, increases of 80 basis points and 290 basis points year-over-year, respectively.

Our annual base rent as of March 31 for the pro rata combined portfolio was $18.64, an increase of 2.2% compared to the same period in 2021. Anchor tenant ABR was $12.24 with small shop ABR hitting $31.51. In the first quarter, we signed 68 leases totaling approximately 183,000 square feet of GLA. Our blended comparable lease spreads for the quarter were 5% and our retention rate was 93%.

Focusing on some of our renewal efforts. Not only are we limiting downtime and capital spend, we are also able to push rents on these renewals as evidenced by our 4.4% lease spreads. These healthy retention and occupancy rates demonstrate that our properties are a great place for our tenants to successfully operate their businesses, but we believe the final piece to our success is the relationships and service level our team provides our tenants.

Understanding and communicating with our tenants is embedded in our local operating teams, which leads to our ability to quickly respond to our tenants' needs, generate marketing ideas, and business related solutions as well as provide our tenants a wide range of other resources. This is made possible by the concentrated and clustered configuration of our portfolio.

To conclude my remarks, we are closely monitoring the supply chain challenges and the inflation being experienced throughout the economy. While the effects to our portfolio have been marginal, we are starting to see increased cost and lead time on materials. Our tenants at this time have been able to adapt to these recent challenges and have managed their businesses to avoid any significant disruptions to their operations. InvenTrust will continue to work with our tenants as needed to help them conduct their business successfully.

Outside of normal leasing activity, we have a very modest and manageable redevelopment pipeline that even with these new headwinds should continue to be an accretive and optimal use of capital. Inflation over time may also affect consumer demand for discretionary goods, but our portfolio of necessity based grocery-anchored centers should continue to perform as necessity items and services have historically proven to be less susceptible to an inflationary environment. Bottom line, we believe the structure of our portfolio and balance sheet allows us to successfully operate in all economic environments and cycles.

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

Daniel Busch:
Thanks, Christy. In conclusion, I continue to be excited about InvenTrust's future. We will continue to maintain our simple strategy that should deliver sustainable cash flow growth in the future beyond the solid growth implied in our guidance this year. We hope that as more become familiar with our story and strategy, coupled with the potential additional inclusions to important indices and benchmarks, InvenTrust will continue to be an attractive investment alternative for current and new investors.

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

QUESTION AND ANSWER

Operator:
Thank you for the presentation. If you would like to ask a question, please press star followed by one on your telephone keypad now. If you feel like your question has been answered, please press star followed by two to remove your question.

Our first question today comes from Floris Van Dijkum of Compass Point. Floris, please go ahead. Your line is open.

Elizabeth:
Hey guys, this is Elizabeth on for Floris. Congrats on the quarter. Just in listening to your remarks, which of your existing markets will produce the greatest growth in your opinion? And are there any new markets where you could see InvenTrust owning assets?

Daniel Busch:
Hey Elizabeth, thank you for the question and obviously, the interest in InvenTrust. Without breaking it down to specific markets, I'll just point to a couple that we continue to be excited about. Obviously, Austin is our biggest market by concentration, nearly 20% on a pro forma

basis when you look at the two properties that we bought earlier this year. So we continue to really like the dynamics in that market for obvious reasons.

And then I will point to the central and western part of Florida. Those are markets where our current assets are performing quite well, and we continue to look for new opportunities to the extent that we can find some of those.

The last one I want to highlight that is experiencing similar demographic trends like Austin is in North Carolina. So the Raleigh-Durham, obviously, the triangle and then even in the Charlotte market as well we continue to see really strong new household formation. And then obviously, that turns into strong demand for the centers that we own in those areas.

As it relates to new markets, we're obviously exclusively focused in the Sun Belt. We have owned further West, call it, in the Phoenix market, but it's something that we -- there's a higher bar as it relates to getting into those markets and it really comes down to our ability to get scale. What we do believe is one of our competitive advantages, which Christy alluded to, is the clusters that we operate in. It helps us. It helps us relative to our size to be able to operate in an efficient manner in those markets. So to the extent that we could get a smaller portfolio in a new market to get to that scale, we would certainly consider it, but it is a higher bar.

Elizabeth:
Okay, great. Thanks for that. And then I know you mentioned a little bit about the redevelopment, but do you have any -- and you have a list on your stuff, obviously, of maybe some potential redevelopment opportunities. But maybe if you could expand on those a little bit kind of redevelopment or densification opportunities in your portfolio?

Daniel Busch:
No, it's a good question. And I think the way we think about our redevelopment, it's really incremental opportunities to get a strong risk-adjusted return while making the assets better. We have a couple of larger properties in very strong markets where you could argue that densification could be an opportunity down the road. But that's something that InvenTrust is not going to be embarking on by our -- at least by ourselves and at least not in the near term.

We like to think about our redevelopment pipeline is very smaller in nature, but manageable and an important driver of incremental NOI growth while reinvesting in the properties and certainly, making them better, improving the merchandise mix over time. So it's using, I guess, a baseball analogy, it's a double -- or a singles and doubles type of business as opposed to anything much larger than that.

Elizabeth:
Great. Okay. Thank you so much. Congrats, again, on the quarter.

CONCLUSION

Operator:
Thank you. We have no further questions at this time. And this presentation is being recorded, and a replay of the presentation can be accessed on the Investors section of the InvenTrust website at inventrustproperties.com. I would now like to hand back the call to DJ Busch for any closing remarks.

Daniel Busch:
Thank you to everyone that was able to join. We appreciate your continued interest in InvenTrust and we look forward to talking to you guys next quarter. Have a great day.

Operator:
Thank you all for joining today's conference call. Have a lovely rest of your day. This call can now end. You may now disconnect.