

## **CORPORATE PARTICIPANTS**

**Blair Welch**  
*Chief Executive Officer*

**Andrew Agatep**  
*Chief Financial Officer*

**Connor O'Brien**  
*Managing Director*

**Paul Wolanski**  
*Senior Vice President, National Sales and Investor Relations*

**Allen Gordon**  
*Senior Vice President*

**Braden Lyons**  
*Vice President*

## **CONFERENCE CALL PARTICIPANTS**

**Sairam Srinivas**  
*Cormark Securities*

**Gaurav Mathur**  
*iA Capital Markets*

## **PRESENTATION**

### **Operator**

Good day, ladies and gentlemen, and welcome to the Slate Grocery REIT Fourth Quarter 2022 Financial Results Conference Call.

At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question and answer session. If at any time during this call you require immediate assistance, please press star-zero for the operator. This call is being recorded on Wednesday, February 15, 2023.

I would now like to turn the conference over to Paul Wolanski, Senior Vice President, National Sales, and Investor Relations with Slate Grocery REIT. Please go ahead.

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### **Paul Wolanski, SVP, National Sales, Investor Relations**

Thank you, operator, and good morning, everyone. Welcome to the Q4 2022 conference call for Slate Grocery REIT. I'm joined this morning by Blair Welch, Chief Executive Officer; Andrew Agatep, Chief Financial

Officer; Connor O'Brien, Managing Director; Allen Gordon, Senior Vice President; and Braden Lyons, Vice President.

Before getting started, I would like to remind participants that our discussion today may contain forward-looking statements, and therefore we ask you to review the disclaimers regarding forward-looking statements as well as non-IFRS measures, both of which can be found in management's discussion and analysis. You can visit Slate Grocery REIT's website to access all of the REIT's financial disclosures, including our Q4 2022 investor update, which is now available.

I will now hand over the call to Blair Welch for opening remarks.

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### **Blair Welch, Chief Executive Officer**

Thank you, Paul. Our Q4 results show that, in a year defined by widespread market volatility, Slate Grocery REIT has maintained steady growth and strong performance, highlighting yet again the defensiveness of our grocery-anchored portfolio.

Heading into 2023, market fundamentals in the grocery-anchored sector are favorable. High construction costs and retail conversions and redevelopments are keeping inventory levels low. This dynamic is creating tailwinds for our portfolio, accelerating leasing demand and rental growth.

Importantly, our average in-place rent in the portfolio is \$12.22 per square foot, which is significantly below market rents and the per square foot rent required for new construction. This means that we have significant rental growth embedded in our portfolio.

By steadily increasing our rents, we believe that we can unlock this growth and significantly increase our revenue and the overall value of our real estate. Our team's operational performance this past year underscores this growth potential embedded in the portfolio.

We completed a record 1.8 million square feet of total leasing in 2022. New leasing was completed at 20.7% above average in-place rent, and total leasing was completed at a 9% spread to in-place.

We have a further 2.7 million of contractual base rent coming online, two-thirds of which we expect to occur in the first half of 2023. Our grocery-anchored retention rate in the year was 100%, and our 93.2% portfolio occupancy presents runway for continued growth.

We completed over \$424 million of acquisitions in 2022 at a defensive basis, with upside on our rents and occupancy, providing runway for organic growth and value creation. We also sold four non-strategic properties and one outparcel, with plans to recycle these proceeds into new accretive opportunities. Lastly, the REIT completed \$25 million in redevelopment projects, adding \$3.4 million to our NOI, which represents a 13% return on investment.

The REIT's share price finished the year on a strong note, gaining 17% in the fourth quarter and providing a total all-in return of 12.5% in 2022.

Heading into 2023, the REIT is well capitalized with a strong balance sheet, meaning we can be flexible and act quickly to capture attractive opportunities. Our partnership with Slate North American Essential Fund validates the REIT's net asset value and provides the REIT with access to nimble capital. We also refinanced \$608 million of the REIT's credit facility in 2022 at improved terms. And at year-end, 92.9% of the REIT's debt portfolio is fixed, with no debt maturing in 2023.

We have strong conviction in grocery-anchored real estate, and we continue to evaluate new investment opportunities to acquire well-located real estate anchored by high performing grocers. We are well-positioned for growth, and we will continue to allocate capital strategically in ways that are accretive to the REIT.

On behalf of the Slate Grocery REIT team and the board, I would like to thank the investor community for their continued confidence and support. I will now hand it over for questions.

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#### **Operator**

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Should you wish to decline from the polling process, please press the star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

The first question comes from Sairam Srinivas of Cormark Securities. Please go ahead.

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#### **Sairam Srinivas, Cormark Securities**

Thank you, operator. Good morning, Blair. Good morning, Paul. Thank you for the comments earlier. My

first question is primarily on the dispositions. I know you indicated about recycling this year. Any color on the pipeline, and can you give us a little bit more color on the assets that were sold in November of last year?

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#### **Blair Welch, Chief Executive Officer**

Good morning, thanks for calling in. What we try and do is, when we see an asset that's non-core to our strategy or we think we've already maximized value, we look to sell it. It's going to be strategic and minimal. We're not out selling a lot of assets, but we try and add value to the portfolio. I'll let Connor describe what we sold.

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#### **Connor O'Brien, Managing Director**

Of the four assets, two were assets that were non-grocery-anchored. When we acquired the property, there was a grocery-anchor in place. I think those two dispositions show the value of buying at a low per square foot basis with low in-place rents, as it gives you flexibility if tenants expire and move out.

In both of those scenarios, we acquired the properties approximately seven years ago and were able to get a mid-teen total return despite the grocer leaving. We were able to replace those single-digit rents with mid-teen rents with modest capital and execute and dispose of those assets at attractive values.

Of the other two, one was a grocery-anchored asset, a high-performing grocer. However, there were gross leases in place. In an inflationary environment, we didn't like the gross lease nature. We were able to do an off-market deal with a local buyer at a very attractive valuation. So, we took the opportunity to dispose of that, and we'll recycle that into other attractive grocery-anchored assets.

The final property we disposed of was part of the 13-property portfolio acquired last year. It did not have a grocery-anchored component to it, so it was viewed as non-strategic. We were able to dispose of that at just under \$2 million higher than our internal allocation for that property at acquisition. This was a great result in short order, speaking to the attractiveness of the portfolio acquisition we made in July of 2022.

In terms of the pipeline, I think we have a very robust pipeline of both individual property opportunities as well as portfolios. I think the grocery-anchored space today is an attractive place to be. The cost of financing is roughly 5.5%, and you're able to use positive leverage with spreads of north of 100 basis points.

As we look forward into 2023, we're going to be looking for high-performing grocers in markets with positive demographic trends and under market rents, and we think there will be lots of opportunities to deploy capital into these strategies.

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**Sairam Srinivas, Cormark Securities**

Thanks for that color, Connor, and nice hearing from you. I think that is a good segue to my next question, and that's primarily on acquisitions. Are you seeing this high-rate environment put any pressure on some of the markets you want to target? And are you seeing opportunities come up in those markets?

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**Blair Welch, Chief Executive Officer**

I'll let Connor get into the color. At a high level, the U.S. grocery business is highly fractured. There are approximately 40,000 grocery stores in the U.S., and the biggest portfolio, we think, is probably 500 assets. A lot of them are owned by single owners or partnerships, and they might be coming under pressure because of how or where they've financed it in the last five to 10 years.

We are hearing about one-off opportunities. We're also hearing about portfolios of grocery – similar to what we've executed on in the last couple of years that might be in mixed or diverse portfolios – that can sell the grocery for cash. We will be strategic, and we are optimistic. That's the high macro level, but I'll let Connor get into some more of the specific micro detail.

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**Connor O'Brien, Managing Director**

We're constantly evaluating opportunities in today's market. What we're seeing is the private buyer continues to be successful in a lot of one-off marketed processes. But I think that goes back to how Slate differentiates itself.

If you look back, since COVID, we've completed almost \$1 billion of acquisitions. However, most of those have not necessarily been a marketed one-off opportunity, those were creative transactions. I think that speaks to the Slate platform – being creative and looking to structure deals that we can buy at a portfolio discount or provide a seller a creative solution and get attractive pricing. At the same time, I still think in this environment we will be able to be successful in one-off opportunities going forward.

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**Sairam Srinivas, Cormark Securities**

That's great. Thanks for the color, Blair and Connor. I'll turn it back.

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**Blair Welch, Chief Executive Officer**

Thanks.

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**Operator**

Thank you. Once again, ladies and gentlemen, if you do have a question, please press star-one at this time. The next question comes from Gaurav Mathur of iA Capital Markets. Please go ahead.

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**Gaurav Mathur, iA Capital Markets**

Thank you, and good morning, Blair.

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**Blair Welch, Chief Executive Officer**

Good morning, Gaurav.

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**Gaurav Mathur, iA Capital Markets**

Firstly, as 2023 rolls forward, is there a pecking order in your capital allocation decision between acquisitions, development, and the NCIB?

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**Blair Welch, Chief Executive Officer**

Excellent question, and we talk about this internally and with our Board continuously. It's really about what's the best return to the unitholders.

We have extreme confidence in our existing portfolio and the embedded growth in our rents, as we've discussed. The team has done great, redevelopment, but it's really adding on development to existing sites, and that can get us low-teen, mid-teen returns.

Then, we look at new buys. Our job is to continually allocate to opportunities that we think provide the best return. If we're getting mid-teens or high teens in something, maybe we should allocate that or compare it to something else. I think it's fluid, Gaurav, but I know we're well capitalized. We have liquidity, and we'll do what we think, with the Board, is the right way to get total return to the unitholder.

**Gaurav Mathur, iA Capital Markets**

Great. Just on the recent dispositions, has the depth of the buyer pool changed over the last couple of quarters? And are you seeing more private buyers going after the onesie-tvosie assets versus larger portfolio deals?

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**Connor O'Brien, Managing Director**

I think from a financing standpoint, large groups will probably be able to finance these types of assets at around 5.5%, and private buyers a little bit wider than that. That being said, private buyers in some situations will buy all cash and will be in 1031 exchange opportunities which will be different than your typical institutional real estate investor.

So, yes, that's changing price. However, the private buyer is a lot harder to track, as you may have an individual in a particular market that will overpay for a marketed asset that we view slightly different.

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**Blair Welch, Chief Executive Officer**

To add to Connor's comment, in the middle and back half of 2022, it wasn't a cost of financing issue for doing M&A or big deals. It was actually the availability to get the cash.

In 2023, what we're seeing is there is availability. All the lenders, the usual suspects, are out lending again. But it is the cost, and therefore the cost needs to flow through your model, and it's changing the price. Lenders are being more selective on who they lend to, and they don't like taking binary risk on a onesie-tvosie unless they're within a group that can show diversification and balance sheet strength. So, I think Slate Grocery REIT is in a good position.

As I said before, a lot of grocery on the onesie-tvosies were financed CMBS. Based on what we see last week in the U.S., the first two CMBS deals were priced because it was quiet for a while, as you well know, and they were actually five-year deals with different types of asset classes instead of 10. So, we're seeing a quantum shift in the market.

I guess that means they're being risk off, and I think it is selective. We are well financed. The team did a great job financing some debt already. So, we can get the financing, but it is thinning out who else is buying.

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**Gaurav Mathur, iA Capital Markets**

Great color. Lastly, on new and existing leases, especially across the non-anchor segment, do you have any concerns in the tenant mix as we head into a recession?

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**Blair Welch, Chief Executive Officer**

No, I don't think so, -- I'll let Allen and the team jump in a little bit more. I'll just highlight our committed occupancy is the 93 number, but our actual in-place occupancy is 91. That was strategic because we bought these portfolios that we thought were under managed, and we think we have a couple percentage points of occupancy in our back pocket, and we're excited.

But the demand we're seeing is from all over the place. We're seeing it from enclosed malls, we're seeing it from pad users that can't afford to be in pad rents so they're going in line. I think this is unbelievably strong for us, because we're seeing demand from users that we wouldn't usually see.

I think we're being strategic with who we want to deal with, how we want them in, and what we're willing to pay. I'll let Allen give you more color on the specific tenant demand we're seeing.

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**Allen Gordon, Senior Vice President**

I'd say further to that, Blair, you have the limited new supply coming to the market due to the high cost of construction. With our low in-place rents, we certainly see a very strong and have a very strong tenant demand right now, resulting in favorable conditions to continue to drive that growth. So, we're very bullish on that.

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**Gaurav Mathur, iA Capital Markets**

Great. Thank you so much for the color, gentlemen. I appreciate it and I'll turn it back to the operator.

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**Blair Welch, Chief Executive Officer**

Thanks, Gaurav.

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**Operator**

Thank you. There are no further questions at this time. I will turn the call back to Paul Wolanski for closing remarks.

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**Paul Wolanski, SVP, National Sales, Investor Relations**

Thank you, everyone, for joining the Q4 2022 conference call for Slate Grocery REIT. Have a great day.

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**Operator**

Ladies and gentlemen, this does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.