## CORPORATE PARTICIPANTS

**Braden Lyons**
*Investor Relations*

**David Dunn**
*Chief Executive Officer*

**Andrew Agatep**
*Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Himanshu Gupta**
*Scotiabank*

**Jenny Ma**
*BMO Capital Markets*

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by and welcome to the Slate Retail REIT Second Quarter 2020 Financial Results Conference Call.

At this time all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press star one on your telephone. Please be advised that today's conference is being recorded. If you require any further assistance, please press star zero.

I would now like to hand the conference to your speaker today, Braden Lyons, Investor Relations. Thank you. Please go ahead, sir.

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**Braden Lyons, Investor Relations**

Thank you, operator, and good morning, everyone. Welcome to the Q2 2020 conference call for Slate Retail REIT. I am joined today by David Dunn, Chief Executive Officer, and Andrew Agatep, Chief Financial Officer.

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 financial measures, both of which can be found in management's discussion and analysis. You can visit Slate Retail REIT's website to access all of the REIT's financial disclosure, including our Q2 2020 investor update, which is available now.

I will now hand over the call to David Dunn for opening remarks.

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**David Dunn, Chief Executive Officer**

Thank you, Braden, and thank you to all participants for joining the call this morning.

Before speaking to our quarterly results, I would like to first acknowledge the ongoing impacts of the COVID-19 pandemic. These last few months have presented us with a number of unique challenges that we have never experienced before; however, we were very pleased with the resiliency and defensiveness that our portfolio of grocery-anchored assets has demonstrated over the same period.

Our durable and quality portfolio was assembled to generate consistent cash flow and thrive in all market conditions and that is exactly what it has done over the last few months.

As of June 30th:

- All 77 of our assets have remained open during the pandemic.
- 62% of our tenants have been deemed essential by the government.
- 92% of our tenants are currently open and operating.

Our investment thesis and solid foundation have allowed us to secure sector-leading rent collections consistently from April through to July with collection levels ranging from 86% to 92% in cash over that time. In aggregate, we agreed to $1.3 million of rent deferrals, which many tenants have already started to repay. We expect to substantially collect the residual rents by the end of 2020.

Now, a few comments on the second quarter:

As part of our Q2 results, we are pleased to announce our planned name change to Slate Grocery REIT, which remains subject to final TSX approval. While our business will have a new name, our strategy will remain the same. Our new name better reflects our business and investment thesis, which have always been and will continue to be centred around the last mile of essential logistics, investing in high quality grocery-anchored assets in major markets across the United States. We stand alone as the only pure-play grocery business in the

REIT sector and our name will now reflect that differentiation.

Despite a challenging environment, we achieved solid operational results this quarter. Our team completed over 518,000 square feet of leasing at a weighted average rental spread of 2.3%. This represents one of our best leasing performances since inception in 2014. Our grocery-anchored partners were active this quarter. We completed five renewals and two net new leases. Both of the new deals will see grocers invest significant capital into new stores as well as the REIT co-investing in common area upgrades.

Exclusive of termination fees, same-property NOI was positive and occupancy remained stable within our historical range at 92.2%. Not included in our second quarter reporting are two anchor and one junior anchor executed leases that will absorb approximately 79,000 square feet of vacancy with a pro forma portfolio occupancy of 93% and add $1.1 million of annual base rent.

Additionally, we completed the REIT's second largest acquisition since inception during the quarter. The deal was attractive to us when it was initially announced in early March for $106.5 million as it hit all of our investment criteria: well-located assets anchored by market-dominant, high-credit grocers, including Harris Teeter, whose parent company is Kroger; Food Lion, whose parent is Ahold Delhaize; and Weis Markets. The seven grocery-anchored assets added over 623,000 square feet of gross leasable area to our portfolio and are located in markets where we already have an established presence.

We were able to complete this transaction on an opportunistic basis for $90 million, or $144 a square foot, which represents a 16% discount from the original contract price. The discount reflects a decrease in the price, not the value of the assets. There were no significant changes to the portfolio as a result of COVID-19 and rent collections for the acquired assets have been in line with ours. This transaction will add $0.10 per unit of FFO growth to our portfolio.

I am incredibly proud of the tireless effort that our team has put forth over the past few months. It has been a combination of both this effort and our portfolio's resilient tenant mix that has enabled our businesses' strong performance throughout this unprecedented landscape. Looking ahead to the third quarter and beyond, we will continue to work diligently with our Board to position our portfolio to create value for our unitholders and take advantage of the opportunities that lie ahead. On behalf of the entire Slate Retail REIT team, we wish you and yours good health. We thank you for your continued support – I will now hand it over for Q&A.

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## QUESTION AND ANSWER SESSION

**Operator**

As a reminder, to ask a question you will need to press star one on your telephone. To withdraw your question, press the pound or hash key. Please stand by while we compile the Q&A roster. Your first question comes from the line of Himanshu Gupta with Scotiabank.

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**Himanshu Gupta, Scotiabank**

Thank you and good morning. So, first of all, it sounds like a good decision to change the name to Slate Grocery. I think it is more reflective of your strategy. And then in terms of rent collection, 89% to 90% in Q2, what are the tenant categories that have not paid and what kind of visibility do you have in terms of collecting the remaining amount?

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**David Dunn, Chief Executive Officer**

Good morning, Himanshu. Yeah, we are certainly happy to have changed the name. It is something we have been talking about internally for some time and we are very appreciative of the Board for supporting our rebranding initiative. To your point, it aligns with exactly what our business is and we think that it will address any potential confusion in the market that we stand alone as an essential-based tenant, pure-play grocery-anchored vehicle.

As it relates to your cash collections question, we have 62% of our business as essential-based tenants, but when you look at our collections, frankly, a lot of our tenants are paying rent. We have been working on deferrals, we quoted $1.3 million of deferral agreements, but this is now a discussion centred in the repayment of these deferrals. And for the month of July our expectation was that $50,000 of deferred rent was to be due and payable and all of that cash has been received.

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**Himanshu Gupta, Scotiabank**

Okay. Thank you for that update. And then just switching gears, on the $90 million portfolio acquisition this quarter at an 8.7% cap rate, what is the weighted average lease term of this portfolio? Are there any anchored leases coming due in the next one year or so? And in general, do you think is this reflective of the overall market? Has the pricing moved in the last few months?

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**David Dunn, Chief Executive Officer**

I will address as many questions as I can remember from your series. Yeah, that deal was a deal we were very happy to close. As I stated in my opening remarks, to get it at a 16% discount is a real win for us. We were able to provide liquidity the fastest to the seller and we do not believe that the cap rate that the deal was done at is reflective of anything but an opportunistic play for our business. There are several traditional grocers that are of investment-grade quality. These are the tenants we want to continue to increase our position with and grow with. And no, there are no near-term expiries from a grocery standpoint and we are extremely happy to have these assets within our portfolio.

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**Andrew Agatep, Chief Financial Officer**

One thing to note is that the portfolio is very similar in terms of composition, actually a little more weighted with grocers, and the good news is, in terms of collections, it has been quite similar to that of the REIT. In June we collected about 95% of cash in terms of billings and in July it is about 90%. So, it is in line with the REIT and it is following the same sort of cash collection trajectory.

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**Himanshu Gupta, Scotiabank**

Got it. And on your IFRS valuation this quarter the cap rate was 7.41 unchanged. Did you revisit the portfolio valuation this quarter or are you waiting for more transactions in the market to make an assessment on the cap rate?

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**David Dunn, Chief Executive Officer**

No, we have done our homework, Himanshu. From what we have seen in the market there is no evidence to justify a discount in cap rates for a couple of reasons. Our dispositions that have been completed within the COVID era were not discounted by even a dollar. I think we did five dispos. So that is a very good track record.

From a new deal standpoint, what we are seeing, certainly there is less volume in the market, but there are deals starting to happen. And none of those deals are selling at a discount. We are seeing prices come in higher than what brokers are guiding on. And then, we have been talking to our capital markets partners in America and they are not seeing any evidence in their world of discounted pricing either, so we are comfortable where we are. That said, we did make some adjustments to some of our lease-up expectations and market rents, but from a cap rate standpoint, we are comfortable where we are.

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**Andrew Agatep, Chief Financial Officer**

Looking as well at our capital recycling program, since 2019 those $220 million proceeds of sales, that came in at a 7.2 cap. Also, just thinking about our most recent quarter with the disposition of two properties, they came in at a 6.9 cap, so to me, I think that is quite telling of the grocery properties that we own as well as demand for our product.

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**Himanshu Gupta, Scotiabank**

All right. Thanks for the colour. And maybe last question from my side on the capital allocation. What are your priorities in the near term and is it fair to say that you are looking to do more acquisitions in the next little while given that the disposition program is more or less complete now?

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**Andrew Agatep, Chief Financial Officer**

We make an assessment quite regularly as to the best way we can provide unitholder return. The whole capital allocation strategy is something that we will continue to assess with the Board more frequently in light of the pandemic. So, it is something we will assess on a case-by-case basis.

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**Himanshu Gupta, Scotiabank**

Okay. Thank you. Thank you, guys, and I will turn it back.

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**Operator**

Your next question comes from the line of Jenny Ma with BMO Capital Markets.

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**Jenny Ma, BMO Capital Markets**

Thanks. Good morning. With regards to the $1.1 million of additional rent from the leasing that is not captured in Q2, can you talk about the timing of when you expect that to hit the cash flow?

**Andrew Agatep, Chief Financial Officer**

Typically, that can span between six months to about eighteen months, so we expect it to sort of trickle over that period.

**Jenny Ma, BMO Capital Markets**

Is it front- or back-end loaded?

**Andrew Agatep, Chief Financial Officer**

I would say more on the back end.

**Jenny Ma, BMO Capital Markets**

Back end. Okay. That is helpful. With regard to the name change, I am just wondering if you could share your thoughts on stand-alone grocery boxes versus the grocery-anchored shopping centres. Is that something that you have explored or is there an opportunity that is readily available in the US?

**David Dunn, Chief Executive Officer**

Hey, Jenny. Good morning. Yeah, it is certainly something that we look at. We like deals that do have some in-line space. That is how we create our value. Obviously, anchoring in grocery, we want a high percentage of our rent roll to be comprised of grocery, but to create value and hit the returns that we are seeking, we do tend to like a shopping centre that has maybe a half dozen to ten shop tenants, something that would be south of 100,000 square feet where you can put a solid merchandising mix together and increase your NOI organically.

**Jenny Ma, BMO Capital Markets**

I guess that leads to my next question, which is when you think about these kinds of shopping centres, I know the Slate Retail portfolio was fairly defensive but, given the impact of the pandemic, is there a thought to evolving your tenant mix a bit to reduce the exposure to restaurants and gyms? Or do you think this impact is more or less transitional and you are happy with the balance right now?

**David Dunn, Chief Executive Officer**

We like our tenant mix. I have said before, these types of neighbourhood grocery-anchored centres have a very good variety of tenants. We are adding medical users. There are certain tenants we would like to grow with, but overall, no, we are not looking to reposition this in any way. We are doing deals with regional health care providers that are supplying urgent care and primary care to communities and we continue to add a few of those deals. I think we like where we are right now.

**Jenny Ma, BMO Capital Markets**

Okay, great. And then I am just wondering, in the US, has there been any talk about any sort of rent assistance or retailer assistance programs from the government? I am not following it as closely, so I am wondering if there is anything that I may have missed.

**David Dunn, Chief Executive Officer**

Happy to discuss that. So, there is a large program in America to support families and to support small businesses. It is very different than CECRA here in Ontario and in Canada. It is purely government support. So, the first act that was legislated in April was the CARES Act and the Paycheck Protection Program. It was upwards of $3 trillion of government support provided through banks but directly to small businesses. Owners such as Slate Retail REIT stand to benefit and we did early on. About 6% of our tenants received government support under the Paycheck Protection Program. There is currently new legislation working its way through Congress, the HEALS Act, which is the second wave of support. It is going to be smaller. There will be support for families and more support for small businesses. We are tracking that. It is still working its way through Congress right now.

**Jenny Ma, BMO Capital Markets**

Okay, great. That is really helpful. I guess I will keep my eye out for that. That is all for me. I will turn it back.

**Operator**

Again, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad.

At this time, there are no further questions. I would like to turn the call back over to Braden Lyons for closing remarks.

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**Braden Lyons, Investor Relations**

Thank you, everyone, for joining the Q2 2020 conference call for Slate Retail REIT. Have a great day.

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**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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