

Mobile Infrastructure Corporation

Third Quarter 2024 Financial Results

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CORPORATE PARTICIPANTS

Casey Kotary – *IR Representative*

Manuel Chavez – *Chief Executive Officer*

Stephanie Hogue – *President*

PRESENTATION

Operator

Good day, and welcome to the Mobile Infrastructure Corporation Third Quarter 2024 Earnings Conference Call. 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, please press star, then two. Please note this event is being recorded.

I would now like to turn the conference over to Casey Kotary, Investor Relations Representative. Please go ahead.

Casey Kotary

Thank you, Operator. Good afternoon, everyone, and thank you for joining us to review Mobile's third quarter 2024 performance. With us today from Mobile are Manuel Chavez, CEO, and Stephanie Hogue, President.

In a moment, we will hear management's statements about the company's results of operations as of the third quarter of 2024.

Before we begin, we would like to remind everyone that today's discussion includes forward-looking statements, including projections and estimates of future events, business or industry trends or business or financial results. Actual results may vary significantly from those statements and may be affected by the risks Mobile has identified in today's press release and those identified in its filings with the SEC, including Mobile's most recent Annual Report on Form 10-K and its most recent quarterly report on Form 10-Q. Mobile assumes no obligation and does not intend to update or comment on forward-looking statements made on this call.

Today's discussion also contains references to non-GAAP financial measures that Mobile believes provide useful information to its investors. These non-GAAP measures should not be considered in isolation from or as a substitute for GAAP results.

Mobile's earnings release and the most recent quarterly report on Form 10-Q provide a reconciliation of these measures to the most directly comparable GAAP measures and a list of the reasons why Mobile uses these measures.

I will now turn the call over to Mobile's CEO, Manuel Chavez, to discuss third quarter 2024 performance. Manuel?

Manuel Chavez

Thank you, Casey, and thanks to all participating in today's call to review our third quarter results and discuss our business outlook.

We continued to make operational and financial progress in the third quarter, increasing our net operating income, or NOI, by 3.8% to bring year-to-date NOI growth to 9.5%, in line with high-single-digit guidance we provided at the beginning of this year.

Revenue growth of 21% reflects the year-to-date conversion of 29 of our 41 parking assets to managed contracts from leases as well as a modest contribution from organic growth. This strategic shift has strengthened our operating model in several ways. We now have greater

access to parking data, which we are using to increase utilization and the real time insight we are gaining into marketplace condition, informs our marketing and pricing decisions.

Additionally, we now have more ability to control expenses at the asset level, which has enabled us to use our resources more efficiently. We are pleased to see third quarter recurring contract parking volumes increase year-on-year for the second consecutive quarter, offsetting sluggish transient parking demand at hospitality in event locations in our markets.

In fact, we believe we are at an inflection point as COVID-related cancellations of corporate parking contracts which have masked the success we have had in bringing on new business for much of 2024 are mostly behind us. It appears that, by now, most of the corporates located in our markets have resolved their policies with respect to the number of days that employees are required to spend in the offices, which provides us with a baseline of occupancy for our nearby parking facilities.

In the third quarter, our Revenue Per Available Stall, or RevPAS, showed a year-on-year growth for the first time this year, which is a good indication of the improved performance of our underlying assets.

In addition to the wind down of COVID-related corporate contract cancellations, two other secular trends have begun to emerge that should modestly benefit our results in the fourth quarter and have a more meaningful positive impact on our 2025 performance.

First, we are seeing an early indication that return to office trends in our markets. This has been particularly notable in the healthcare, professional services, and food and beverage sectors, building on the strength we have seen earlier this year from employees returning to in-person work at social services and municipal offices.

Second and even more potentially impactful is the conversion of Class B downtown commercial offices to residential apartment living, which has taken place across several of our markets with specific strength near many of our Midwestern locations. The first of these projects will begin delivering space in Q4, creating a pickup in demand at our adjacent parking location where we have substantial capacity.

These conversions represent an important demand driver for our company as the shift from the previous commercial usage of 8:00 a.m. to 5:00 p.m. parking access to a 24/7 parking access should result in a significant increase in utilization and revenue. And in addition to the residential aspect, certain of these projects include hotels and new amenity rich commercial spaces.

The pace of these conversions has accelerated since the beginning of the year, and there are a number of similar projects under construction in our markets that are scheduled for completion in 2025 and 2026, and the developers of these new residential units are keen to offer parking as part of their sales proposition. Our analytics, expertise and micro market relationships and well located downtown parking assets have given the company a first mover advantage to capture these new growth opportunities, and we are actively engaged in discussions on pricing and number of required spaces with developers.

As we work to increase the utilization and profitability of our assets, we are also keeping a close eye on opportunities to capture premiums on our asset values. This was the case with one of our parking lots in the third quarter in Indianapolis, which was just sold for over \$4.6 million. The proceeds were a significant multiple of the annual income we were receiving on this property. This

highlights the fact that our assets can have an even higher value for other uses, and when this reaches a level that makes sense, we are willing to sell to optimize value, far above the net asset value of \$7.25 per share that is based on what is deemed the fair market value of our assets minus outstanding debt. When there is a motivated buyer who is assembling downtown real estate, we are in a strong position to benefit. We also continue to evaluate opportunities to expand our portfolio with assets that have multiple demand drivers and where we can leverage our market expertise.

In summary, we like our market positioning and see several opportunities for upside, namely newer residential projects close to our location and greater consistency in demand for parking.

I will now turn the call over to Mobile's President, Stephanie Hogue, who will provide a more detailed review of our third quarter operating and business results. Stephanie?

Stephanie Hogue

Thank you, Manuel, and good morning, everyone. I am pleased to discuss the financial details of our third quarter 2024 results. We are happy to report that, within a few weeks of our Q2 earnings conference call, we took decisive strategic actions designated to enhance long-term shareholder value and narrow the gap between our net asset value or NAV of \$7.25 per share and our share price.

First, we established a \$40 million line of credit to provide capital flexibility specifically for initiatives such as repurchasing the company's preferred and common shares. Previously, when preferred shares were redeemed, they were converted to common shares, which often found their way to the equity market quickly, putting unnecessary pressure on our share price.

The conversion essentially had us issuing shares at a significant discount to our intrinsic value, making the new shares highly dilutive. With our new credit line, we have shifted to redeeming preferred shares for cash. Since implementation, we have drawn \$7.8 million to redeem preferred shares. We have made good headway and now have \$23.7 million of preferred shares remaining, down from \$39.5 million at the start of the year.

In addition, we have caught up on accrued distributions on outstanding preferred shares. By bringing distributions current, we believe that the pace of redemption may slow as investors are again realizing a current return from ongoing distributions.

Finally, our Board authorized a \$10 million share repurchase program. To date, we have repurchased about 250,000 shares at an average price of \$3.16 per share. Together, these actions highlight both our positive outlook and our efforts to achieve a share price that is more in line with the value of our asset portfolio.

Now, let's turn to the third quarter. Revenue of \$9.8 million in the third quarter increased 21% year-over-year from \$8.1 million in the third quarter of 2023. Over the past year, revenue has benefited from the conversion of 29 assets to management contracts, including two that were completed in the third quarter.

As a reminder, the conversion results in higher revenue as we recognize revenue based on volumes and rates rather than cash collections from operators, which do not typically occur on a straight line basis. We view accrual-based revenue recognition for management contracts as a reliable metric for investors to monitor our underlying business trends. We continue to work to

convert additional facilities to management contracts and expect further progress as more leases roll over in 2026 and 2027.

In our third quarter earnings release, we introduced Revenue Per Available Stall, or RevPAS. RevPAS is a key metric we use within our portfolio. As we convert additional locations to management contracts, RevPAS will provide investors a view of our ability to improve location performance. As Manuel mentioned, same location RevPAS reached an inflection point in the third quarter, turning positive on a year-over-year basis for the first time in 2024.

While there are some seasonal and other factors that can impact RevPAS, we look forward to sharing more with you on our top-line performance via this metric, which we plan to report quarterly going forward.

Property operating expenses were \$1.8 million compared to \$400,000 in last year's third quarter. The increase primarily resulted from the shift to management contracts and the related accounting treatment of recognizing asset level expenses within our financial statements.

Property taxes were \$1.8 million, flat with last year. Net operating income, or NOI, was \$6.1 million, up 3.8% from \$5.9 million in last year's third quarter. NOI represented 62% of third quarter 2024 revenue with the bulk of the growth derived from our managed locations, underscoring the benefit of our shift in the business model.

General and administrative expenses of \$2.7 million were down from \$4.2 million in last year's third quarter. This included non-cash compensation of \$1.3 million in the current year quarter compared with \$3.1 million of non-cash comp in the prior year quarter. As we have mentioned in the past, Mobile Infrastructure benefits from significant operating leverage and can grow without significant G&A increases as our infrastructure can readily support a larger asset base.

Adjusted EBITDA was \$4.5 million, up 2.2% from \$4.4 million last year, and adjusted EBITDA margin was 46.2%.

Looking at our balance sheet, Mobile Infrastructure had \$14.3 million in cash and restricted cash at the end of the quarter. Total debt outstanding was \$203.3 million, up from \$192.9 million at the end of 2023, reflecting cash used for the strategic shareholder actions I mentioned earlier. We have several active initiatives underway on refinancing and expect to have more to report before year-end.

Our year-to-date results position us to reaffirm our prior 2024 guidance, and we continue to expect revenue in the range of \$38 million to \$40 million, which includes the benefit of our shift from leases to management contracts together with modest organic growth.

Our revenue guidance is based on gross revenue, which includes sales tax and credit card fees, typically around 10%. We report on a net revenue basis, which excludes these fees.

Finally, as you know, in managing our business, we focus significantly on NOI. Our NOI guidance, which we are reaffirming, as well, is for NOI in the range of \$22.5 million to \$23.25 million.

And with that, I will turn the call back over to Manuel for his closing remarks.

Manuel Chavez

To sum up, we are pleased with our year-to-date performance as it puts us on track to reach the full year 2024 guidance we provided at the beginning of this year. At that time, we described 2024 as a year in which we would focus on operational improvements as we work to further strengthen the performance of our existing asset portfolio.

We have done just that and have succeeded in increasing our net operating income by almost 10% amid challenging market conditions. Longer term, we expect to build on our proven operating model to become the acquirer of choice in the fragmented parking industry.

Operator, let's open the call for questions.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question, you may press star, then one on a touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

The first question today comes from Bryan Maher with B. Riley. Please go ahead.

Bryan Maher

Thank you, and good morning, Manuel, and Stephanie. First of all, I want to start off by thanking you for the much improved earnings deck with that data - very, very helpful for modeling. Kind of moving on, your earnings deck says replacement cost is significantly higher than NAV. Can you quantify that? How are you coming up with that number? Is it appraisals? Is it cost to purchase? Give us some more color on that, please.

Manuel Chavez

Yeah, so replacement costs would include a combination of land value and construction cost.

Bryan Maher

And so is that something you're monitoring across your portfolio to make that statement?

Manuel Chavez

Yes. Yes, it is. We -- out in the market talking to construction and engineers to monitor the replacement costs in each market.

Bryan Maher

Okay. And then when we think about your acquisition pipeline, which is pretty big, what are the risks of somebody else acquiring those properties in front of you? How should we think about that? Who are the sellers? What are their motivations?

Manuel Chavez

Right. So it's important to note that our acquisition pipeline is not stagnant. So while we may refer to it as \$300 million or \$400 million, \$500 million across the U.S., those assets are constantly changing. Some of them are trading, and some of them aren't. And frankly, if they're trading at values where we don't see upside or we don't see material accretion, we're okay with that.

We're going to be patient and disciplined buyers. But the important thing is that we have our heads up and our eyes open, and we're in the market. We're constantly talking to buyers and sellers. And so we are growing that pipeline.

Bryan Maher

Okay. And when you are looking at properties to buy, is your preference to do more of a lot transaction or a garage transaction, and why?

Manuel Chavez

So we like both asset types. Primarily, we are underwriting to parking income. Oftentimes, when parking lots trade, they trade-off land value, which could be well in excess of parking income.

Bryan Maher

Okay. And then, just last for me, on the Indianapolis property you sold, was that something that you marketed or was that an unsolicited offer?

Manuel Chavez

No. So we were out in the market talking to stakeholders and developers. We had a parking investor make us an unsolicited offer that was less than half of what we eventually sold it for. And so being disciplined in our sale process and understanding that we buy properties and assets off of parking income and we sell them to stakeholder premiums and for developer multiples. and so we were able to identify a stakeholder and developer that valued the site as land value. And so that's where we transacted.

Bryan Maher

Okay. Thank you. That's all for me.

Manuel Chavez

Thank you.

Operator

The next question comes from Marc Riddick with Sidoti & Company. Please go ahead.

Marc Riddick

Hi, good morning.

Manuel Chavez

Good morning.

Stephanie Hogue

Good morning.

Marc Riddick

So I was wondering if you could talk a little bit more about the RevPAS measure and some of the components there. I guess maybe why don't we start with the -- so we're able to see growth in the third quarter year-over-year on the same location RevPAS. Can you talk a little bit about maybe some of the puts and takes involved there as far as what led to the growth year-over-year and what areas that investors should target?

Manuel Chavez

Yeah, sure. So RevPAS is a combination of utilization and average rate. Both drive that number. At the beginning of the year, we had some significant sort of COVID cancellations, and these were actually people that -- or companies that made commitments to us in the latter part of 2023 and then changed their mind on how they were going to conduct sort of return to office from either the number of people or days of week or just not return at all. And that's certainly a trend that we saw throughout 2022 and 2023.

What we've seen is -- so that hit us in the first quarter, which created a significant headwind. Since the first quarter, we've seen the lessening of those COVID cancellations. And so while we've been growing sort of in the background, we've been growing against this headwind. And so finally, in the third quarter, we were able to outpace those cancellations in the latter part of Q4 and then Q1 of 2024.

Marc Riddick

So is it reasonable to say that the year-over-year growth in this measure for the third quarter, I guess specifically, is more a reflection of utilization growth as opposed to the revenue component?

Manuel Chavez

Yes, it is.

Marc Riddick

Okay. Okay, great. And then, Stephanie, I think on your -- in your prepared remarks, you made a comment on seasonality or pacing. I don't want to misquote that. But I was wondering if you could talk a little bit about that and how we should think about it, whether that's seasonality within a quarter and then maybe what the factors are that might be there. I would imagine revenue mix might have something to do with it, but maybe you can expand on that for us.

Stephanie Hogue

Yeah, that's a great question. So there is seasonality in the business, which is one of the reasons we really like the trailing 12-month RevPAS because it gives you a clear view of how sticky revenue is. But if you look at the numbers on the page, first quarter is typically our lowest and that has -- to your point, there's a lower mix of travel, hotel events. So you're really more kind of in that transient daily and monthly category. As you go through the year, third quarter is the peak in terms of the mix of events and uses of a parking asset. And second and fourth quarter are roughly comparable in terms of usage, utilization and the dynamic changes of the daily use of the assets.

Marc Riddick

Okay. Great. And then last one for me, and this might be a little squishy, but forgive me if it is - I seem to recall, last year, it felt like -- and you can tell me if I'm wrong about this -- it felt like we had a really healthy -- actually a very strong amount of events and concerts and major artists touring and things of that nature. I'm not sure if that was necessarily as strong on a nationwide basis this year. Can you -- but I thought that was something that was sort of beneficial for you guys last year, if I remember correctly. First of all, you could tell me if I'm wrong about that, and maybe just sort of touch a little bit on whether or not that -- how we should think about the flow of concerts and sporting events and stuff like that.

Manuel Chavez

Yeah, that's a great question. In 2023, we saw across our portfolio, it was sort of a COVID-related lockdown bounce back in experiential spending. So movement around travel, events, even food

and beverage type demand drivers, we saw a lot of sort of a bounce back that was bigger than historically, which would be the norm. And I think in 2024, we've seen sort of a reversion to that norm, and we would expect now we would sort of be back on that pace of single-digit top-line growth in our transient revenue.

Marc Riddick

Great. Thank you very much.

Manuel Chavez

Thank you.

Stephanie Hogue

Thanks, Marc.

Operator

The next question comes from Michael Diana with Maxim Group. Please go ahead.

Michael Diana

Okay, thank you. On your revenue drivers, you talked about early indications of return to office. Could you give us some either anecdotal evidence or any particular geographies that you're seeing this?

Manuel Chavez

Yes. We're seeing -- I mean, certainly return to office trends are stronger in the Southwest and in the Midwest than they are on the Coast. We are seeing Tuesdays as the peak days for return to office and Fridays as the trough. We have been seeing a transition of people that have been slowly coming back to the CBD core, back to their office and buying daily parking. We've been seeing a transition from that into monthly contract parking, which is positive for us.

And then I would say that the continued sort of re-amenitization of Class A office towers into sort of these more experiential lobbies has also sort of expedited that return to office movement. So we're closely tracking where developers are deploying capital and getting out in front of that return.

Michael Diana

Okay. Thank you. And then, conversion of downtown office space to residential rentals, can you tell us which market your first conversion -- that first conversion was in, or if not, just generally where you see this happening?

Manuel Chavez

Yeah, so we are seeing it happen across our portfolio. What we've seen is that from the time of announcement to the time of actually releasing apartment units to the public, that timeline varies, and it varies considerably, up to 12 months to 18 months. So we're really focused on when these projects are zoned. They get building permits, they're financed, and then they actually break ground on it. And so once that starts, we're closely tracking it. It's having a more immediate impact in Cincinnati to us right now, but we're also seeing, in the pipeline, we've got impacts in Fort Worth, Cleveland, Ohio, Indianapolis, as well.

Michael Diana

Okay. And I guess, you -- in certain cases, you say you've started negotiating with the developers of those conversions to actually use your parking services.

Manuel Chavez

Yes. Yes, we have. In some cases, the developers want to control the cost of the parking for their renter, and so they'll go on and make longer-term commitments to us. And in other cases, the developer just wants to sort of point their renter in our direction and negotiate their own parking rate.

If there's a significant offset of risk with the developer taking on sort of longer-term at an appropriate price, then we're happy to sort of shift that risk in exchange for recurrent income. If there's not, then we're also very, very happy, and most times actually happier, to just supply spaces on the open market.

Michael Diana

Okay, very interesting. On the expense side, you mentioned that you're "gaining additional oversight on expense." I guess you mean as you get more properties moving from leases to managed contracts. And you also mentioned operating leverage. What is the opportunity here on the expense side, if any?

Stephanie Hogue

Yeah, so you're exactly right. The conversion from leases to management contracts gives us greater visibility and transparency into what's happening at the asset and therefore allows us to work with the operator to maintain an expense margin pretty tightly. So that's the key in terms of the business strategy shift.

The operating leverage that I referenced in the remarks is really around the business strategy. And so having third-party operators allows us to scale the company pretty quickly with an asset base without scaling the corporate overhead. Our operators are great partners for us. They are additional boots on the ground. And so it allows us to scale materially without adding twice the overhead.

Michael Diana

Okay. Great. Thanks. And then, finally, do you have any updates on either your use of technology or ancillary revenue?

Manuel Chavez

Yes. So we work with a number of different operators, and as you've seen, because it's been in the news as -- a lot lately, there's been an enormous amount of venture capital money deployed in sort of parking technology providers and parking operators that are actually developing their own technology now. So we work closely with our operators and service and hardware providers to make sure that we're staying on top of the latest in terms of validations, revenue control, wayfinding, etc.

Michael Diana

Okay. Great. And anything on ancillary revenue?

Manuel Chavez

Ancillary revenue, we're continuing to talk with, whether it's EV charging, we have talks with self-storage, with cell phone towers. We still see a lot of opportunity with that. We are looking at opportunities to really analyze best partners in that and then analyze sort of the longer-term impact on our assets, as well.

Michael Diana

Okay, great. Thank you very much.

Manuel Chavez

Thank you.

CONCLUSION

Operator

Concludes our question-and-answer session. I would like to turn the conference back over for any closing remarks.

Manuel Chavez

Thank you all for attending. Have a good day.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.