Plymouth Industrial REIT

Third Quarter 2024 Earnings Call

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CORPORATE PARTICIPANTS

Tripp Sullivan – *Investor Relations, SCR Partners*

Jeff Witherell – *Chairman & Chief Executive Officer*

Anthony Saladino – *Executive Vice President & Chief Financial Officer*

Jim Connolly – *Executive Vice President, Asset Management*

PRESENTATION

Operator
Good morning, and welcome to the Plymouth Industrial REIT Conference Call to review the company's results for the Third Quarter of 2024. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key then zero on your telephone keypad.

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 Tripp Sullivan of Investor Relations.

Tripp Sullivan
Thank you. Good morning. Welcome to the Plymouth Industrial REIT Conference Call to review the company's results for the Third Quarter of 2024. Yesterday afternoon, we issued our earnings release and posted a copy of our prepared commentary and a supplemental deck on the Quarterly Results section of our Investor Relations page. In addition to these earnings documents, a copy of our 10-Q, when filed, can be found on the SEC Filings page of the IR site.

Our supplemental deck includes our full year 2024 guidance assumptions, detailed information on our operations, portfolio and balance sheet and definitions of non-GAAP measures and reconciliations to the most comparable GAAP measures. We will reference this information in our remarks. We will reference this information in our remarks.

With me today are Jeff Witherell, Chairman and Chief Executive Officer; Anthony Saladino, Executive Vice President and Chief Financial Officer; Jim Connolly, Executive Vice President of Asset Management and Anne Hayward, General Counsel.

I'd like to point everyone to our forward-looking statements on Page 1 of our supplemental presentation and encourage you to read them carefully. They apply to statements made in this call, our press release, our prepared commentary and in our supplemental financial information.

I'll now turn the call over to Jeff Witherell.

Jeff Witherell
Thanks, Tripp. Good morning and thank you for joining us today. I'll hit a few highlights first and then we'll go to Q&A.

We've made some big announcements in the past few months relating to securing capital that can propel our growth. In late August, we announced the strategic transaction with Sixth Street. I view this as transformative for us in several respects. Most notably, we put a valuation marker on our largest portfolio with the Chicago recap JV and sourced capital for up to $500 million in acquisitions. We secured a tremendous partner in Sixth Street who has continued to build out their real estate platform.

We also significantly enhanced our borrowing capacity with this month's refinancing and upsizing of our unsecured credit facilities to $1.5 billion. With this increase in the revolver and recasting of one of the term loans, we've extended our maturities and enhanced the ability to pursue other unsecured debt.

The combination of Sixth Street and the additional borrowing capacity solves our current capital needs.

Our focus for the balance of this year and throughout 2025 is on our leasing opportunities and putting the capital to work. That's what you can expect to hear from us in the next several quarters.

Our earnings release and prepared commentary outlined a few tenant challenges we faced during the quarter that we did not anticipate. We are confident that we will work through these and get the spaces leased. We've always done a great job of keeping our buildings well leased and expect that Plymouth will have a greater exit velocity and momentum wrapping up this year. That will set us up for a strong 2025.

We're off to a good start on the acquisitions front with the Memphis portfolio we completed during the quarter. We have another portfolio under contract in Cincinnati that we're excited about. Our pursuit pipeline is over 11 million square feet and over $1 billion in size with nearly all of the opportunities located in our existing markets. We know these markets well and we now have the capital to expand our scale.

I look forward to providing more updates over the next several months on how we're progressing with the leasing and capital deployment. I would now like to turn it over to the operator 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 your telephone keypad. If you were 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 comes from Mitch Germain with Citizens JMP.

Mitch Germain
Jeff, maybe just talk about some of the issues that arrived. I know you have them in your prepared comments, but I think last quarter, you mentioned an issue in Cleveland that was unanticipated, but it seems like now you have some other vacancies that were realized that— I guess, were they unanticipated or the lease was delayed? Can you just maybe describe a little bit more detail about those different situations?

Jeff Witherell
Yes. Sure, Mitch. Jim Connolly is here. As you know, he heads up asset management. So, he's got all the detail on that, so we'll let him walk you through it.

Jim Connolly
So, starting off with Cleveland, we had two issues in Cleveland. One at 2100 International Parkway where the tenant was up to-date through Q2 on rent, but abruptly laid off all its employees, informed us they couldn't pay rent. So, we evicted them effective 09/30 and have taken legal action against them for whatever rent they owe us and in future rent.

At the end of Q2, we were pretty far along with a half building user, but they put that deal on hold. However, now we're really far along with a full building user that wants to take the building at the beginning of 2025. So, I mean, we acted pretty quickly and got a tenant identified. We also have a backup tenant for that building should that deal not go through.

The other building in Cleveland is 1350 Moore Road. The tenant was current as of Q2. However, it became clear that their business was not going to be viable going forward and we started the eviction process. This all happened very quickly. The tenant left a bunch of equipment and inventory behind that had to be cleared out, which it cost us approximately $500,000 to clear up.

We had a replacement tenant that was executed and is currently in dispute due to the prior tenant interference that we still need to resolve. We are pursuing legal action against the prior tenant and trying to rectify the situation with the new one. We are also pursuing new prospects that we have lined up for next year should our current lease not be rectified and that we do have a specific prospect in mind.

I want to point out on vacancy that it's not a bunch of new vacancy. There's St. Louis property that we've talked about all year just went vacant in July. There was the Chicago property that's been vacant, which we will get into detail in a second. But if you exclude those two, we only have— it's 2.7% vacancy. So, it's really just those two leases that drove the Q3 vacancy.

Mitch Germain
Thinking about some of these tenant issues, I know that it appears that they weren't exactly things that were on your watch list prior to identifying them. But are you spending a bit more time engaging with your clients to gain a better sense of their respective businesses to identify what other issues could arise?

Jim Connolly
Yes. We're constantly doing that. In this case, I think we moved swiftly to eliminate a long-protracted problem and we're working with all our tenants.

Jeff Witherell
Mitch, I think we've been on this for seven years about this, right? We've built a vertically integrated platform. We manage about 75% of our own properties in-house. We engage with our tenants on a daily basis. This was something that came up very swift. It's not a portfolio-wide issue. As Jim alluded to, we're backfilling both of these spaces very quickly.

Mitch Germain
Jeff, anything you could share about the Cincinnati portfolio?

Jeff Witherell
Yes, it is about $40 million. It's a multi-tenant. I think it's going to come in at a pretty good yield. I think we're going to like the yield on it, and it's got the growth that we're looking for, similar to Memphis. That's probably about it. I mean we are under contract—

Mitch Germain
I was going to say, is that going to close prior to year-end or do you anticipate it like right around—

Jeff Witherell
I believe it will close before year-end.

Mitch Germain
Then maybe just provide some perspective on— I think what you said about $1 billion pipeline, 11 million square feet, was that?

Jeff Witherell
That is correct.

Mitch Germain
Yes. Anything there that— is it one-off? Is it portfolios? Then to the extent, obviously, you've got about— if we net out the $40 million purchase, you've got about like 450 or so of dry powder from the recent

transaction that's closing. So, I mean, kind of what's— is there potential to grow Sixth Street as well to maybe unlock some additional growth?

Jeff Witherell
Yes, to all that. It's certainly— there's three portfolios in there. Again, I don't know where these go. I mean we're actively negotiating. So, we'll see. One portfolio would be on balance sheet. We have another one that would work as a JV. And that's mostly a geographic concentration as well as if it’s got a value-add component that we don't want to bring on balance sheet— the same reasons we've done JVs in the past, right? So, we have that identified.

There's a lot more one-off deals that are popping up in our markets. And then just small portfolios— $15 to $20 million portfolios. So, it runs the gamut. Again, we look for some good starting yield, but we're also looking for growth and so that's the mandate. So, we're pretty excited about our existing footprint.

We've got some— as I think you alluded to before, we have a couple of deals in Texas we're looking at. So that would be a market that we've always wanted to get into and we'll see how that plays out.

So, yes, I mean, Sixth Street is there with plenty of capital. It's really just putting the deals together.

Operator
The next question comes from Rich Anderson with Wedbush.

Rich Anderson
Maybe just to put a finer point on Mitch's question around Cleveland. You mentioned abruptly laid off employees in the case of 2100 and business not viable in the case of 1350. I don't know what those businesses were and maybe I don't want to know, but I'm curious as to what the learning event is from this in terms of just sort of monitoring credit, monitoring industries that you're exposed to? And if there's anything that you take from this that you look throughout your portfolio and say, we've got to give something here or there a second look and make sure that we're protected. Any comment around that topic?

Jim Connolly
Yeah. I mean, obviously, both of these industries were fairly new industries. The one at 2100 was an online retailer that had some sort of new system that was going to improve everybody's online ordering, but it didn't really pan out. Everybody used different sources. And we kept them— I mean, they were in there for a couple of years, and they were always current on rent. We made sure that all of our investment, our commissions and tenant improvements, were paid back. We had a letter of credit that covered all that. So, we didn't lose on that investment. We lost on the future part of it.

The other tenant is refurbishing windmill furniture. So, it's a business that is a viable plan, but it's just— it's in its infancy. And they were current for a couple of years as well. So, I would say moving forward, we would definitely not pursue these new type of transactions without a larger backing financial support.

Rich Anderson
The second question is the marker on the Chicago cap rate with Sixth Street of 6.2%. Would you agree, not to be cynic here, but would you agree that, that number was influenced by the fact that there was also the preferred and there was also the warrants? Like in the absence of those other elements of the transaction, would that 6.2% really have been 6.2% or would have been something greater?

Jeff Witherell
Well, Rich, I think it's— I mean, Sixth Street wouldn't have done one without the other, right? I mean I

think this is a transformative transaction. They underwrote the entire company. They physically looked at over 75% of our assets. So, they're backing Plymouth, if you will. But as far as the portfolio is concerned, and this is where I'll go back to this and continue to pound the table as I've done for the last 6 months, there have been a number of trades out there of like-kind properties to Plymouth portfolios of anywhere from 5 million square feet to 14 million square feet that have traded between 6% and 6.5% cap. That's the marker.

So again, we have 35 million square feet of property at a great basis, and we're going to get all this product leased as we always do. All of us in this room have been in the business for at least 20, 25 years. I think when you cap our NOI next year, you're going to be right back into a great NAV calc based on those comps. I mean we're in the market every day looking at portfolios, and we're getting outbid because people are paying 6%, 6.25% caps for this stuff. So, I stand by that.

Anthony Saladino
Rich, one follow-up to Jim's commentary with respect to 1350 Moore. This tenant was on the watch list. We were working closely with them to potentially recapitalize their business. As a contingency plan, we sourced, identified and fully negotiated with a new tenant at a 27% positive spread to expiring rents. That's the tenant that Jim mentioned with respect to the lease-up and now there is some legal contention but ultimately, that will be sorted out here in the near future.

I don't want the takeaway to be that we haven't been acutely focused on tenant health. We have been. These tenants, in particular, were closely watched. I think what we were surprised by was the velocity of change, but to Jim's point, we've moved quickly to vacate a tenant that wasn't going to pay rent, sourced, identified and prepared the space to accommodate a new tenant at a substantially improved rental rate.

Rich Anderson
Then last question for me. You mentioned NOI next year. I don't think you're going to give guidance, but there's a lot of movement here, right? You have Chicago, you have Cleveland, Memphis, the joint venture and St. Louis, of course. When you net all that up, is there growth next year from the company or do you think that you got to work some things out and sort of TBD. That maybe the real number to look at would be the year following when everything is sort of addressed.

Jeff Witherell
No. I do believe that there is significant growth ahead. I don't know if we'll get into this if I'm asked this question, but like in St. Louis, we ran through a whole— I think we ran through over 10 prospects. We now have another group of prospects in there. I mean I think, if you look at the overall national vacancy rate, it's at 6.4%. The long-term average is 7%. All the brokerages are telling us that they feel that 2025, there's going to be an uptick.

Construction, I think we're delivering about 300 million square feet this year. That's the lowest since 2018. So, there was still 96 million square feet of absorption so far year-to-date, probably going to break 100 million. So, there's still good things happening in industrial.

If you go to Memphis, we have a lot of opportunity to mark-to-market. I think we did tell people, but I'll reiterate it that we started that out at an 8 yield. Over the next 2 to 3 years, that probably gets us to a 10 yield. I think the Cincinnati portfolio is going to provide similar metrics. So, I feel really confident that we get St. Louis leased up. As we've mentioned, these two properties in Cleveland have prospects there that we're working on. So, I feel really confident that we're going to get some pretty good growth next year.

Rich Anderson

I agree. It's just a matter of timing, right? You get something leased up, it doesn't necessarily cash flow immediately is the main point that I'm thinking about, just in cadence between 2025 and 2026.

Jeff Witherell
Yes.

Operator
The next question comes from John Kim with BMO Capital Markets.

John Kim
On your Memphis acquisition, you mentioned Accredo Health is leaving some of their space by year-end. Was that known previously? Because I think in the last call, you mentioned the 70% tenant retention rate on the portfolio.

Anthony Saladino
Yes, that square footage was a known vacate. There's about 100,000 of that, that was previously a call center that we're converting back to more templated industrial space. We don't know if we're going to deliver two 50,000 square foot suites or a 100,000 square foot building. We're going through the diligence on that as we speak. Then there's another 33,000 square feet, again, previously occupied by Accredo Health. It has a higher office finish. It's an office-like building. We're likely to divest that building. In fact, that is currently under contract.

John Kim
Then Communication Test Design, they renewed or extended to 2025, which is what you had indicated. What are the chances that they extend past that year, and would that be at market rents or is there a prearranged renewal rate?

Jim Connolly
There's not a prearranged rate. Obviously, it's a large space. So, it would be at market or a slight discount to market because they're taking up a lot of space. But their contract, the reason why they wanted a one-year deal was because their contract has a one-year out on it with DirecTV, I believe. As soon as that extension date goes by, they will extend. Now if for some reason that contract didn't extend— there's two buildings there. It's not one building. They would always need one of the two buildings, so they would extend one of them and not the other one. So, it's not likely that they're going to move out.

John Kim
In your prepared commentary, there was a mention of transitory vacancy— 487,000 square feet. Some of that was going to— it sounds like a start into 2025, but then there was wording about executing leases on 70% of that space. So, I'm not really sure if those two sentences tied to each other. I was wondering if you could just elaborate on that.

Jim Connolly
There were some leases that we expected to start in Q4, start generating cash in Q4, that likely are going to start in 2025.

Anthony Saladino
Yes. So, the 70% reference, John, was for leases executed, but not commenced. So, we'll see contribution from 70% of that transitory vacancy in early Q1.

John Kim
When you say executed, that means occupancy, not signing a lease?

Anthony Saladino
No. Executed lease. They haven't taken occupancy nor has rent commenced as of yet. We have a lease agreement that is drafted and signed.

John Kim
Then on your pursuit pipeline, I think the first time you used that wording of 11 million square feet. How much of that do you expect to eventually close?

Jeff Witherell
That's a tough question, John. We really don't know. I mean we don't— we're so volatile when it comes to acquisitions and capital that we can't say 10% closure rate. And if it's on the pipeline, it's really something that we could execute on. So, this is not product in California or somewhere like that. This is product that's in our markets.

I don't have a great answer for you to say that, but I will say that, I mean, we're actively negotiating over $300 million of acquisitions as we sit here today with LOIs.

Anthony Saladino
Yes, John, I think the way to look at that is that, that pursuit pipeline is a subset of the larger pipeline. There is a higher confidence level around execution, but to Jeff's point, that's a difficult thing to specifically handicap.

John Kim
Yeah. Because I mean, last quarter, it was less than a million square feet. Now it's 11 million. It's a pretty big jump, so I'm just wondering if you can do that.

Jeff Witherell
Well, I mean, we closed a Sixth Street transaction, which you never know a good deal like that's going to close until you get to the table and sign the docs, which we did. So, with that capital, we now can put LOIs out and stuff like that.

Capital's always the question. If you have it, you can be aggressive, and if you don't, you can't be. So that's the catalyst. The Sixth Street capital is the catalyst for us to have a much bigger pipeline that's actionable, not just to talk about it.

Operator
The next question comes from Todd Thomas with KeyBanc Capital Markets.

Todd Thomas
I wanted to ask about the NOI bridge or the FFO bridge that was provided in the prepared commentary, which was really helpful. Thank you for that. And sort of going back to Rich's question about earnings or NOI growth going forward, maybe just to confirm around the fourth quarter. It looks like the $0.03 NOI shortfall, that's the piece that's not recurring. So, your Q4 implied guidance is $0.48 at the midpoint, $0.47 at the lower bound. Is that right? Is that how we should think about the exit rate into 2025 or when we think about some of the moving pieces around the Sixth Street transaction and other leasing and so forth, is there anything else that would weigh on FFO as we do think about sort of the run rate into ’25?

Anthony Saladino
No. I think your interpretation of the articulation of that bridge is accurate. I think Jim mentioned we did have some one-time impacts, the most meaningful of which was a $500,000 cleanup fee related to the

tenancy at 1350 Moore.

Todd Thomas
So that includes now everything that's been announced, everything you know, and then some of the lease-up, some of the commencements and some of the capital deployment— all of that should build off of the fourth quarter FFO run rate.

Anthony Saladino
Correct.

Todd Thomas
Then I just had a question about leasing in general and sort of the leasing pipeline and some of the discussions that you're having with tenants. We've heard about longer decision-making time frames and I'm just curious to get your take. With the election being behind us, does that improve leasing activity at all at the margin or is there still a bit of uncertainty or maybe more uncertainty and hesitation around maybe certain policies that might, private leasing activity from picking up a bit? What's your thought process there? What are you hearing?

Jeff Witherell
Jim will jump in here in a minute, Todd, but this is Jeff. I think we were together, what, four or five weeks ago and after that, the velocity of leasing really, really slowed down. Again, whether it's the election or whatever, but I think we were out four or five weeks ago talking to investors, and we actually felt a pickup in activity. But the last three or four weeks, there's a real slowdown. Personally, I would think that is leading up to the election and possible rate cut today and so on and so forth.

Jim, do you want to add some color?

Jim Connolly
Yes. Specifically on St. Louis, we had a couple of tenants that said they weren't going to make a decision until after the election. So, hopefully, they get back to us in the very near future.

Operator
The next question comes from Brendan Lynch with Barclays.

Brendan Lynch
On the St. Louis asset, Jeff, you mentioned that you have about 10 prospects and now you have different prospects. Can you give any color on how that process is evolving and the new lease proposals?

Jeff Witherell
Sure. Jim, this is St. Louis.

Jim Connolly
Yes, sure. So, a little recap of the St. Louis market. There's approximately 3.8 million of space available in Edwardsville submarket in 7 buildings, including ours. There are four leasing transactions that are nearing completion that would effectively take half of the space off the market. These are deals for various reasons are not ideal for us. Pricing was low and there's some hazard issues on what's being stored. So, we're not expecting to close on these. However, we're still in the RFP process on those.

However, if we don't ultimately close on one of them, that will leave only 3 buildings with space over 325,000 square feet in the market. One of these is only 326,000 square feet. So, we are 1 of 2 buildings that can afford a user over 500,000 square feet. So, what I'm getting at is we're really the only game in the market, and our building is new and that other one is 30 years old. So, with all this pickup in the market and activity, I'm really confident that we're going to land a prospect very soon.

Brendan Lynch
Some of your peers are also leaning more into occupancy over rate at present. Given the uptick in vacancy in the portfolio, can you talk about how you're trying to balance those two things as we go into 2025?

Jim Connolly
Specifically, in Q2, our number, our rent growth was a little lower and partially to do because we had two renewals in Indianapolis on large tenants that took up additional space. Because they took on additional space, the rent increase wasn't quite as high. So that drove it down from where we were at normally like 18% down to like the 12%, 12.2% that you see. So really, we are factoring that into our deals. And in this case, we're working with tenants to expand and of course, give them a rate discount if they do.

Operator
The next question comes from Anthony Hau with Truist Securities.

Anthony Hau
Can you guys provide any progress update on the remaining space at Latty in St. Louis and the 16801 Exchange in Chicago? What's the interest level for these spaces right now?

Jim Connolly
Yes. We're really confident that the existing tenant is going to expand into either all of the 40,000 square feet left at Latty or at least half probably by the end of the year. That's our timeframe. On Exchange, that building— there's been a lot of interest, but a deal hasn't come through.

What we're doing is we've managed to get the taxes down quite a bit during the year through our appeal process, but we're also applying for a 6B status, which requires the building to be vacant for one year, which it will be at the end of this year. That will get us an additional 60% savings on taxes and make the building much more attractive going forward.

Anthony Hau
Then, for the St. Louis building, if you guys can't find an attractive deal, at what point do you decide to redevelop it into a multi-tenant building and what would the incremental return be?

Jim Connolly
Yeah. So, I mean, ideally, we want to not go beyond— we really want two tenants in there, one or two. We don't really want to go beyond that. It's easily divided into two. You get into three, you're going to have to put in more offices. So, that's our objective is to keep it to one or two at this point.

Jeff Witherell
On that particular building?

Jim Connolly
Yeah.

Jeff Witherell
Yeah. I mean that's the case with every building, Anthony, right? Some buildings are conducive to multi-tenant, and some are not. When you have a million square feet, you don't just break it up into 10 bays or something like that. I mean, how are your doors? How is it sprinklered? Where is the wastewater? I mean

all these things come into play. If you have to start jackhammering concrete floors to put in pipes, that cost a fortune. So, we're on that. That's something we're specialist at.

Anthony Hau
Just one last question for me. For the Cleveland spaces, are you guys expecting to receive rent payments through the eviction court?

Jim Connolly
We haven't factored it in, but we are expecting to get some compensation.

Anthony Hau
How much would that be and would you guys like receive it like year-end or like in 2025?

Anthony Saladino
I would not count on that, Anthony. Let us work the process, but from a modeling perspective and certainly from an accounting perspective, I would expect zero return.

Jeff Witherell
Yeah, and we don't want to be talking on an open call our legal strategy. We're on it. This isn't our first rodeo.

CONCLUSION

Operator
This is the end of the question and answer session.

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