

Mobile Infrastructure Corporation

Fourth Quarter and Full Year 2023 Earnings Conference Call

Thursday, March 14, 2024, 4:30 PM Eastern

CORPORATE PARTICIPANTS

Manuel Chavez - *Chief Executive Officer*

Stephanie Hogue - *President, Chief Financial Officer*

Casey Kotary - *Investor Relations*

Presentation

Operator

Good afternoon, and welcome to the Mobile Infrastructure Corporation Fourth Quarter and Full Year 2023 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad, to withdraw your question, please press "*" then "2." Please note, today's 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 fourth quarter and full year 2023 performance. With us today from Mobile are Manuel Chavez, CEO and Stephanie Hogue, President and CFO.

During this conference call, we will make forward-looking statements to assist you in understanding Mobile management's expectations about our future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to our March 14, 2024, press release and our SEC filings for discussions of those risks.

In addition, our statements during this call are based on our views as of today. We anticipate that future developments will cause our views to change. Please consider the information presented in that light. We may at some point elect to update the forward-looking statements made today, but specifically disclaim any obligation to do so.

I will now turn the call over to Mobile CEO, Manuel Chavez, to discuss fourth quarter and full year 2023 performance, Manuel?

Manuel Chavez

Thank you, Casey. And thank you all for participating in today's call to review our fourth quarter results and discuss our outlook for 2024. As this is our first conference call since listing on the New York Stock Exchange of America, I'll begin with a brief overview of the Company and then discuss fourth quarter business performance and the progress we expect to achieve in 2024.

Mobile Infrastructure is the owner of a diversified portfolio of 43 parking assets, which are split between garages and lots in 21 markets with an average MSA population of about 2.9 million people, most of whom drive to their destinations. In 2022, this asset portfolio was valued at \$520 million by an independent national financial services firm. And since 2022, our net operating income has increased by 9.5%. Thus, while we are a small cap company, our underlying asset base is quite substantial.

Our team has deep industry expertise in acquiring and operating parking assets. The parking industry represents an enormous addressable market, yet the vast majority of parking assets are passively managed. In contrast, our corporate strategy is centered around actively managing each of our assets with the objective of driving utilization, rate optimization, and economies of scale.

To support these goals, we have invested in technology infrastructure that provides our team with a unique insight and a differentiated competitive perspective across our entire portfolio. Longer-term, we intend to leverage our experience, relationships and technology to become the acquirer of choice in the fragmented parking industry. And we see secular industry trends that point to the potential for significant value creation, but more on that a little later.

With this snapshot of Mobile Infrastructure as a base, here are the key takeaways from our fourth quarter results. First, we substantially improved the performance of our asset portfolio compared to year-ago levels. Second, we converted 26 of our parking assets from leased to management contracts during the first quarter of 2024.

Consistent with our corporate strategy, this transition gives us greater flexibility to optimize rates and utilization and closely manage expenses. And lastly, we entered 2024 with positive business momentum, and an improved financial position.

We view our parking facilities as infrastructure assets, and it may be constructive to provide more detail into our strategy to actively manage our asset portfolio to increase return. By leveraging our proprietary technology platform, we can work directly with our service providers to customize offerings that address the needs of our customers.

This is a key differentiator for us in a fragmented and often passively managed parking industry. For example, when we saw growth in hotel overnight traffic in certain markets in the fourth quarter, we offered options, like providing hotel guests drive in and out privileges that can be charged through the hotel room, which created more yield for us on those overnight guest parking spaces.

Also, our technology investment enables us to rapidly identify special events and conventions in our market and develop relevant options for those attending, which has resulted in increased parking reservations for us. We take a similar active approach to building a contract parking pipeline and customizing solutions that enhance customer conversion.

For example, we carefully track central business district announcements that are near our facilities. In many cases, we put together attractive parking options for potential tenants before they even enter the market. And we are seeing increased transient parking activity in several regions, which we are capturing by offering validations with restaurants and other retail destinations.

As a result of our active management strategy, fourth quarter revenue has increased 14% year-over-year. We are pleased with these top-line results, which when combined with the reduction in operating expenses resulted in a net operating income growth of 28% in the 2023 fourth quarter. Net operating income, or “NOI”, is a priority metric for us, as it most closely reflects the performance of our asset portfolio.

With 2023 in the rearview mirror, let me share our expectations for business trends in 2024, as well as our long-term vision for Mobile Infrastructure. Stephanie will discuss our specific 2024 guidance in a moment, but I can say that the growth we are anticipating in 2024 is supported by several business trends we saw in the fourth quarter of 2023, namely, continued positive momentum in our sales and leasing efforts, improved event driven rates and further strength in hotel traffic.

In 2024, revenue and net operating income are expected to benefit from the conversion to management contracts that we completed at the end of 2023. Following a transformational year in 2023, 2024 will be a year in which we accelerate operational improvements as we work to further strengthen the performance of our existing asset portfolio.

Over the medium-term, we will continue to monitor return-to-office trends, as improvement in these metrics will be a growth tailwind for the business. We are seeing the conversion of commercial to residential in several of our markets, particularly in the Midwest. This has the potential to have a significant positive impact on our business because it creates an overnight demand that historically has not existed in Tier 2 or smaller cities.

Also, there has been a loosening of traditional parking requirements associated with new constructions, with several cities having lowered or eliminated parking requirements for new developments. This is happening across the US. For example, in Cincinnati, the first apartment tower was built without any parking requirement. Similar trends are taking place in Minneapolis and Cleveland. Developers can turn that space into more residential, hospitality or commercial. This makes parking assets that are already built and in good standing more valuable to a city, a positive trend for us that should build over time.

Our long-term vision is to become the acquirer of choice in the parking industry. Our experience, relationships and technology infrastructure have attracted substantial interest in what is a fragmented and traditionally single-asset-owner market.

On our side, we are disciplined, identifying assets that are exposed to multiple demand drivers on adjacent blocks or, as we call them, micro markets. What I mean by that, is that we can have an asset in a smaller, more local market, but if it's surrounded by multiple demand drivers like multifamily residences, hotels, shopping venues, event locations, et cetera, we have the opportunity to significantly increase net operating income.

At this point, I would like to turn over the call to Stephanie Hogue, President and Chief Financial Officer, for a financial review. Stephanie?

Stephanie Hogue

Thank you, Manuel, and good afternoon, everyone. I will provide additional details about our financial performance in the fourth quarter of 2023 and the full year, as well as review our guidance for 2024.

Fourth quarter revenue of \$7.9 million increased 14% year-over-year as compared to \$6.9 million in the fourth quarter of 2022. We benefited from higher rent revenue as parking activity increased. We saw particular strengths in parking activity at our south and southwestern locations, which benefited from broad-based activity as well as continued historically high demand for premier events and higher hotel and valet traffic.

At the same time, our team's disciplined approach to our cost structure resulted in reduced property operating expenses of \$544,000, or roughly half of 2020's \$912,000. We managed property-level costs more tightly through a reduction of discretionary spending, insurance and professional fees. Property taxes were \$1.9 million, up slightly from \$1.7 million a year ago.

The impact of higher revenue and lower operating expenses resulted in net operating income, or "NOI", of \$5.5 million, which was up 27.7% year-over-year and represented 69% of revenue.

General and Administrative expenses of \$3.9 million increased \$1.2 million year-over-year, reflecting public company costs as well as non-cash compensation expense of \$2.4 million.

Adjusted EBITDA was \$3.4 million, up 36.5% from \$2.5 million last year, and represented a 43% margin on revenue. We believe our cost structure can support significant contribution margins on incremental revenue growth.

Shifting to full year results, revenue of \$30 million increased 4% year-over-year, with NOI of \$21.1 million, up 10% when compared to 2022. Similar to the fourth quarter, lower property operating costs allowed NOI to grow significantly faster than revenue. Adjusted EBITDA of \$14.8 million increased 34% year-over-year in 2023.

As Manuel mentioned, we converted 26 locations to management contracts in the first quarter of 2024. This conversion gives us greater control of our profitability as we can more directly focus on rates and utilization and manage our expenses in a way that is reflective of the performance of the underlying assets. For example, earlier this year, when we became aware of a high-demand driver for parking near one of our locations, we were able to adjust pricing and increase targeted advertising, which delivered tangible financial and operational benefits.

From an accounting standpoint, the shift to management contracts also will move our revenue recognition to a more standardized accrual recognition and away from cash-based accounting. As a result of this shift, reported revenue will be a better indication of business trends. In the past, our reported revenue has been skewed by the timing of collections, creating some lumpiness in our reported results.

Turning to our balance sheet, at the end of 2023, Mobile Infrastructure had \$17 million of cash and restricted cash. We ended the year with a \$29 million paydown of debt. Total debt outstanding was \$193 million, compared to \$220 million at the end of 2022. Recently, we refinanced \$59 million of our outstanding debts, and our next significant maturity is now a year away.

While 2024 is a year dedicated to implementing operational improvements to our existing portfolio, we continue to plan for an accelerated acquisition program. We have an active pipeline of potential transactions, including many family-owned operations that are being passed along to the next generation. These owners are extremely comfortable within the asset class and there's an opportunity in partnering or selling to BEEP, which offers sellers tax-advantaged treatment and diversification of their asset bases, as well as the benefit of becoming an owner in our larger portfolio with tech-enabled, data-driven asset management.

We have successfully integrated recent acquisitions and are confident we can continue to significantly improve NOI within the first 12 to 24 months of ownership. Our ability to acquire assets is predicated on our equity valuation returning to a more appropriate level. While we await more favorable economic conditions, we continue to build a robust deal pipeline, which stood at approximately \$300 million at the end of 2023, as well as consider creative solutions to become more active in the acquisition market.

Turning to 2024, we believe that the strategic plan put into place in 2023 is continuing to gain momentum, which should result in accelerating NOI growth. We are introducing initial 2024 guidance for revenue of \$38 million to \$40 million, which represents mid-single-digit organic growth and a shift from lease to managed contracts. That being said, I would like to use this

opportunity to note that we manage the business to net operating income, which is our operational North Star.

Net operating income, or "NOI", for 2024 is expected to range from \$22.5 million to \$23.25 million representing year-on-year growth of 8% at the midpoint. We look forward to sharing more of our progress as the year progresses ahead.

With that, I will turn the call back to Manuel for closing remarks.

Manuel Chavez

Thank you, Stephanie. To sum up, Mobile Infrastructure has a substantial asset portfolio that is set to have another year of improved performance in 2024. Our active management strategy is unique in our industry and has enabled us to gain share in our markets and will continue to be a differentiator for us as we further improve our operations in 2024. We have ambitious long-term growth plans that are underpinned by favorable secular trends and a robust acquisition pipeline. And our management team has significant ownership and is fully aligned with the shareholders' interests.

Operator, now I would like to open the call for questions.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question-and-answer session. To ask a question you may press "*" then "1" on your telephone keypad. If you would like to withdraw yourself from queue, please press "*" then "2". And once again, ladies and gentlemen, that's "*" then "1" if you have a question.

Today's first question comes from Bryan Maher with B. Riley. Please go ahead.

Bryan Maher

Great, thank you and good afternoon. Just a few from me today. In the pipeline, I think you said \$300 million Stephanie, how many assets would that represent? And maybe for Manuel, how long do you think it takes until you see positive indicators to pull the trigger on some of those or is it just simply a matter of the equity value of your stock?

Stephanie Hogue

Thanks Bryan. Good to hear from you. To answer the first part of your question, and then I'll kick it over to Manuel, the \$300 million represents about 15 to 20 acquisitions in the pipeline.

Manuel Chavez

Yes. So, when it comes to acquisitions, our eyes are wide open. We're having continuous conversations with relationships throughout the country that we continue to build on that pipeline. There still is a significant gap between seller valuations, as far as their expectations, and sort of what the market will bear. And it has been our experience that these seller expectations tend to lag the capital markets by a significant amount of time.

So, we're going to be very disciplined. And we're going to continue to build that pipeline and continue to build relationships and when sort of costs to capital markets come in line with seller expectations, then we're going to look to execute. You brought up a good point, though, there's another side to that coin, using our currency, our stock. We believe our stock does not reflect

the value of the portfolio. So, we're going to continue to focus on organic growth and see where the stock goes. In the short term, we're discovering and discussing creative structures in order to facilitate transactions. And that's really how we're organizing the acquisition efforts.

Bryan Maher

And this asset class is new to some of us, there's not a whole lot of parking REITs out there in the market? What kind of cap rates is the bid-ask spread? How should we think about that?

Manuel Chavez

Yes, that's fair. Historically, parking assets have traded from, depending on the market, they've traded from anywhere from mid-4 cap rates to mid-6 cap rates. There's been some movement in the market where you've seen 100 and 150 basis points of movement. But if you look back at the beginning of 2023, the cost of capital, at least debt capital was perhaps 500 basis points below where it is today. And so, that's sort of the delta on the bid-ask that we're dealing with today.

Bryan Maher

Okay. And just shifting gears, on the conversions from leases to management contracts, how many more of those are there to go and how many of the ones that remain do you think you would actually be able to get done in 2024?

Stephanie Hogue

Yes, that's a great question. So, we've converted 26, we're working through three additional that we are confident should be done through 2024. There are two potentials that may be done that would take us to a total of 31. The balance of those are of the assets that are on long-term leases. So, those will run off as the lease terminates, and then we will convert those to management contracts. So, that's really a '26-27 exercise.

Bryan Maher

Okay. And just two more from me and I hope I am not holding anybody up in the queue. But Stephanie, do you have kind of a run rate G&A number that we can think about for the quarters for this year?

Stephanie Hogue

We did not budget by quarter. It's really annual. I think we're expecting between five and six, still comparable to where we were last year on a cash basis.

Bryan Maher

Okay. And then just last, and again sticking with Stephanie for a second, when you look at your expenses, where is the most low-hanging fruit to get those numbers down as we move through the year?

Stephanie Hogue

On the property side or on the corporate side?

Brian Maher

Both.

Stephanie Hogue

On the property side, we had a number of discretionary expenses last year that were one-time in nature. So, some CAPEX upgrades, that was really related to technology and revenue

control. There were also some engineering studies that we did. And those are, like I said, one time in nature. So, we don't anticipate picking those up again, going forward.

On the G&A side, I think we are pretty normalized for the year ahead. Given the size of the company, I'm not sure, as a public company, they're just public company costs. So, I think we've got that pretty well normalized.

Bryan Maher

Got it. Thanks. That's all for me. And welcome to the world of quarterly conference calls.

Stephanie Hogue

We are looking forward to it, Bryan.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you'd like to ask a question, please press "*" then "1". Our next question comes from Brian Freckmann with Lyon Street Capital. Please go ahead.

Brian Freckmann

Hey guys. Congratulations on your first call.

Stephanie Hogue

Thank you.

Brian Freckmann

Wanted to just touch base there on return-to-office. How does that dynamic impact your forecasting strategies and potentially sort of what are the assumptions embedded, and anything you want to sort of discuss on that topic?

Manuel Chavez

Yes, that's a great question particularly with what we are seeing out there today. We are not basing our annual operating plan or budgeting on a return-to-office movement. The return-to-office move, quite frankly, has been anecdotal. It's been our experience over the past 18 months. It's been almost flat. So, our assumptions are that the status quo is the new normal. But what we do believe in is the continued densification of the urban core. We're firm believers and supporters of civic and public infrastructure and that infrastructure remains a giant demand driver. For example, athletic stadiums, ballparks and arenas, convention centers, concentration of hotel rooms, interstate connectivity and the increasingly residential development and redevelopment. And so, our idea to grow our business is to focus on those demand drivers and to drive utilization and rental rates by capturing those demands.

Brian Freckmann

Thanks guys. Appreciate it.

Manuel Chavez

Thank you.

Operator

Thank you. And this concludes our question and answer session. I'd like to turn the conference back over to the management team for any closing remarks.

CONCLUSION**Manuel Chavez**

Thank you, everybody. Appreciate your time this afternoon.

Stephanie Hogue

Thanks all.

Operator

Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.