

SILA Earnings Call Transcript

Date: 2025-11-05

Quarter: 3

Operator: Good morning, and welcome to Sila Realty Trust Third Quarter 2025 Earnings Conference Call and Webcast. [Operator Instructions] I will now turn the conference over to your host, Drew Miles, Senior Associate of Capital Markets and Investor Relations for Sila. You may begin.

Drew Miles: Good morning, and welcome to Sila Realty Trust's Third Quarter 2025 Earnings Conference Call. Yesterday evening, we issued our earnings release and supplement, which are available on the Investor Relations section of our website at investors.silarealtytrust.com. With me today are Michael Seton, President and Chief Executive Officer; and Kay Neely, Executive Vice President and Chief Financial Officer. Before we begin, I would like to remind you that today's comments will include forward-looking statements under federal securities laws. Forward-looking statements are identified by words such as will, be, intend, believe, expect, anticipate or other comparable words and phrases. Statements that are not historical facts, such as statements about expected financial performance are also forward-looking statements. Actual results may differ materially from those contemplated by such forward-looking statements. A discussion of the factors that could cause a material difference in our results compared to these forward-looking statements is contained in our SEC filings. Please note that on today's call, we will be referring to non-GAAP measures. You can find the reconciliation of these historical non-GAAP measures to the most directly comparable GAAP measures in our third quarter earnings release and our earnings supplement, both of which can be found on the Investor Relations section of our website and in the Form 8-K we filed with the SEC. With that, I will turn the call over to Michael Seton, our President and Chief Executive Officer.

Michael Seton: Thank you, Drew, and good morning to everyone joining us today. As we reflect on the third quarter, I am pleased to report positive results that continue to exemplify the resilience and strength of Sila Realty Trust's investing platform. Our steadfast commitment to pursuing prudent, accretive growth has consistently yielded meaningful results for our shareholders, reinforcing the value of our strategic long-term approach to building our company. During the quarter, we made significant strides to further expand our net lease health care real estate portfolio by making several key investments in lower cost patient settings. Our \$16.3 million acquisition of the Southlake portfolio comprised of a medical outpatient building and an adjacent ambulatory surgery center operate symbiotically and demonstrate the type of necessity-driven health care real estate that is central to our investment thesis. These buildings are anchored by investment-grade affiliated tenancy and benefit from strong operational synergies and are strategically located in Southlake, Texas, an affluent suburb of Dallas. The overlapping physicians who are uniquely aligned in their ownership of the ASC tenant seamlessly transition from providing patient consultations in the MOB to surgical procedures in the ASC. Furthermore, the ownership affiliation with and proximity to Baylor Scott & White Medical Center enhanced the overall tenancy, acting as a referral network for strong patient volumes. In addition to the Southlake acquisitions, during the quarter, we closed on the \$70.5 million Reunion Nobis portfolio, which is comprised of 2 newly constructed state-of-the-art inpatient rehabilitation facilities located in Plano, Texas; and Peoria, Arizona. These purpose-built facilities operated by an experienced and well-regarded partner and Nobis Rehabilitation Partners serve 2 of the fastest-growing markets in the United States. Both the Southlake and Reunion Nobis transactions, which total approximately \$87 million, demonstrate our laser focus on acquiring best-in-class net lease health care assets in markets

with strong and growing demographics. In addition to the achievements on the acquisition front during the quarter, we have had success at sourcing opportunities to deploy capital at attractive yields to serve our existing tenancy. In the first example, PAM Health entered into an amended lease in May for a facility, which we own in San Antonio, Texas, whereby Sila is providing approximately \$5 million of capital at an attractive yield for the property's redevelopment as a 34-bed inpatient rehabilitation facility. The commencement of operations at this location is anticipated for December 2025. Please note that PAM Health has been paying full rent to Sila as it has anticipated repositioning the facility to better serve the San Antonio marketplace. Base rent will increase to reflect Sila's additional capital deployment upon commencement of operations, and Sila will also enjoy the benefit from a new 20-year triple net lease term. As another example, we have made significant strides at our Dover Healthcare facility located in Dover, Delaware, which is tenanted by a joint venture between Bayhealth and PAM Health. Sila purchased the facility in April 2025 for \$24.1 million. During the third quarter, we acquired adjacent land to the facility to support an approximately \$12.5 million expansion of the building, which we expect to be completed by the end of 2026. Sila expects to generate a highly attractive yield on the deployment of its capital to expand the facility and benefit from a new 20-year triple net lease term, which commences upon completion of the expansion. This development will add nearly 13,000 square feet and up to 12 new beds to the facility, a much needed increase to serve the high demand of the patient population in Dover, Delaware. As a final example, we expect to have a similar expansion in capital deployment opportunity at our PAM Health and University of Kansas IRF in Overland Park, Kansas, which is anticipated to cost approximately \$16 million. This expansion will add 2 additional floors and 17 new beds, which we expect to commence and be completed in 2026. Collectively, the opportunities, which I just mentioned, along with others that we have in the pipeline, are our concerted response to the ongoing demand for high-quality health care services in the markets in which we operate. These expansion opportunities underscore our consistent ability to enhance value for Sila's shareholders, generating cash yields on our incremental capital deployment of typically 150 basis points or better, beyond our acquisition cash cap rates. Real estate ownership often presents opportunities to provide capital to a captive audience, our existing tenants. Utilizing our existing portfolio, these opportunities that I mentioned, along with more to come, lend support to our thesis of continuing to externally grow the company through acquisitions of highly utilized health care real estate. Our pipeline for acquisitions remains strong with an approximately \$43 million opportunity that has been awarded to Sila and is anticipated to close in early 2026, subject to our customary due diligence process. We have a strong acquisition opportunity set as we head into 2026 and expect a similar level of acquisition volume next year, as we have accomplished so far this year. We do expect our targeted cap rate to tighten somewhat due to anticipated looser Central Bank monetary policy. As I have stated repeatedly, we are committed to growing thoughtfully, strategically and accretively. Turning to leasing activity. We have successfully renewed 90% of our 2025 lease expirations. In the third quarter, we executed 3 lease renewals, which accounted for approximately 58,000 square feet or 1% of portfolio ABR. Following the close of the quarter, we experienced an unanticipated tenant departure at our Alexandria healthcare facility located in Alexandria, Louisiana, whereby a tenant with whom we had a lease-out for signature to renew decided to vacate. This tenant represents 15,600 square feet or approximately 0.3% of total portfolio square feet in ABR. The tenant paid full rent and holdover rent between its stated lease expiration of July 31, 2025, and through, and including October. In addition to leasing news, we are pleased to report that despite having approximately 3 years left on a lease with Community Health Systems, or CHS, at our Fayetteville Healthcare Facility in Fayetteville, Arkansas, we are agreeing to terminate our lease early with CHS, receiving a termination payment and anticipate simultaneously executing a new lease with Washington Regional Medical Center, best-in-class regional hospital system. Washington Regional will assume the entire facility under a new lease agreement for 17.5 years, and we expect this transition to take place in December 2025. This strategic transition from CHS to Washington Regional will move CHS from being our third largest tenant to our sixth largest tenant. I would like to take a moment to remind everyone what Sila's differentiated proposition brings to its shareholders. Sila distinguishes itself from many peers through its integrated focus on health care assets and a long-term net lease structure, which we believe yields better long-term outcomes for shareholders. The nondiscretionary nature of health care spending has been demonstrated to show

durability and resilience across market cycles. Our thesis around triple net lease structures is critical to achieving the best outcomes for our shareholders over time as property operating expenses are passed through to tenants, mitigating the high cost of day-to-day ownership of real estate. Our longer duration lease terms should result in reduced re-tenanting capital expenses, namely tenant improvement allowances and lease commissions, relative to peers with shorter term lease agreements. We are confident that our distinctive and disciplined approach, supported by our robust balance sheet and available liquidity, position us to be able to sustain positive momentum and deliver value to our shareholders. At this time, I will turn the call over to Kay to provide further insight into our financial performance.

Kay Neely: Thank you, Michael, and good morning, everyone. I am pleased to share that our disciplined capital allocation and accretive transactions continue to result in strong financial performance in the third quarter. For the third quarter of 2025, cash NOI was \$42.8 million, an increase of 4.9% from \$40.8 million in the third quarter of 2024. This increase was largely driven by acquisition activity over the last year and same-store cash NOI growth of 1.2%, partially offset by reduced cash NOI from our Stoughton Healthcare Facility. Compared to the second quarter of 2025, cash NOI increased 2.2%, primarily due to the acquisition of the Southlake and Reunion Nobis portfolios as well as reduced carrying costs at Stoughton as demolition of the building is underway. Our third quarter AFFO per share decreased by 0.8% compared to the third quarter of last year, primarily due to the increased interest expense related to the new swaps we entered into at year-end 2024. This was partially offset by the acquisitions and other cash NOI items mentioned previously and increased notes receivable interest income related to our fully funded mezzanine loans. Compared to the second quarter of this year, AFFO per share increased 4.2%, primarily driven by the acquisitions mentioned previously, increased interest income from our mezzanine loans and a decrease in G&A.; Beyond earnings, Sila's in-place tenancy remains strong. Our percentage of reporting obligors increased by 2.4% to 75.8% and collectively reported an EBITDARM rent coverage ratio of 6.19x, up from 5.31x from the second quarter of 2025. This increase in coverage was largely driven by one tenant, which possesses a high EBITDARM rent coverage ratio that was recently added into the reporting population due to a lease assignment. Without this one tenant, our average EBITDARM rent coverage ratio would have remained at 5.31x quarter-over-quarter. These strong coverage ratios of our tenants and guarantors help further solidify our portfolio's resilience and demonstrate the durability of the income stream that we have built in our pursuit of providing long-term value to our shareholders. Though political headlines and the macroeconomic landscape continue to be top of mind, we believe our strong tenancy, balance sheet position and available liquidity continue to distinguish us in terms of both security and growth potential. At the conclusion of the third quarter, our revolver provided nearly \$450 million of available funds, resulting in total liquidity exceeding \$476 million, while our net debt-to-EBITDAre ratio of 3.9x remains below our targeted range. The combination of a robust balance sheet, low to moderate leverage and a prudent AFFO payout ratio of 71% for the quarter, reinforces our confidence in our ability to maintain a sustainable dividend and our ability to grow our portfolio thoughtfully and accretively. During the third quarter, the Board authorized a share repurchase program of up to \$75 million in gross proceeds for a 3-year period from August 4, 2025, limited to \$25 million in gross proceeds in any 12-month period. We did not purchase any shares under the program during the quarter. Additionally, on August 12, 2025, we entered into an at-the-market equity offering sales agreement or our ATM program, through which from time to time, we may offer and sell shares when we believe it is in the best interest of our shareholders. We established the ATM program, as many REITs have done, to add another tool in our toolbox to be readily available when we are able to accretively raise equity capital with an immediate vision into how those funds will be deployed. To date, no shares have been issued under the ATM program. We are particularly proud of the results from this quarter, building on to many successes throughout 2025. Although we still possess considerable dry powder, we will continue to remain prudent in the allocation of our capital, ensuring that leverage levels are maintained within sustainable limits. We have now put in place various tools, including the share repurchase program and the ATM, which give us full flexibility to take thoughtful and accretive actions when we believe the time is right. We remain fully committed to our capital allocation philosophy, focusing on the acquisition of high-performing triple net lease health care assets leased to quality

tenants that operate in growing markets close to the patient. With that, we look forward to taking your questions.

Operator: [Operator Instructions] Your first question comes from Rob Stevenson from Janney.

Robert Stevenson: The CHS termination payment, was that in third quarter? Or is that going to be in fourth quarter? And how much was that?

Michael Seton: Rob, thank you for joining. That CHS termination payment that we anticipate would come in the fourth quarter. The expectation is that Washington Regional will take over that facility. So essentially, we'll have an effective lease starting December 1. And so, my expectation is simultaneous with that, we would terminate the CHS lease, and we would receive that termination payment, which is, roughly speaking, a couple of hundred thousand dollars.

Robert Stevenson: Okay. That's helpful. And then, Kay, you're going to get -- in the fourth quarter, you're going to get the full quarter benefit of the August and September acquisitions and the -- you're going to -- that's going to net out against some of the Louisiana departure. Anything else of note positively or negatively likely to impact the income statement in the fourth quarter versus the third quarter?

Kay Neely: Yes. The main things I would factor in would be continued decreased carry costs for Stoughton. So as that -- more and more of that building comes down, the carry is reduced. We're, I think, roughly about \$75,000 a month as we get to the end of the year. And we expect that to be roughly about \$35,000 a month into 2026. However, our intention is also to appeal real estate taxes and to drive that down even further once that occurs. In terms of -- we [indiscernible] a clarification on deferred rent. We have deferred rent we're receiving, Michael spoke to in his prepared remarks, on one of our PAM properties. That will just be reflected in rental revenues going forward. So you won't see that line item. So the amount will still factor in. It will just be up at the top as opposed to added in for AFFO. We do think G&A; for the year will come in below previous communicated range. Previously, we had indicated a range of \$22.5 million to \$23.5 million for G&A.; We do believe we will be at the low end, if not slightly below that range for 2025. We do have demolition costs. Of course, those, if you see in our supplemental, are added back for core and AFFO, but separately distinguished on our income statement and in that reconciliation table, so you can see those amounts. Those amounts will continue to be incurred through the end of the year and into the very early parts of 2026. And the only other item that's a little bit seasonal in nature is just any accruals related to any bonuses.

Robert Stevenson: Okay. That's extremely helpful. Thank you very much for that detail. And then I guess the other thing for me is, so you've got -- it seems like with the third quarter, I don't know what the fourth quarter is looking like for you, but it seems like the deal volume has been kicking up as the stock price has sort of moved below \$24. If you do that \$40 million transaction in early '26, how much more capacity do you have and stay within your targeted leverage ranges to do additional deals without needing to issue equity at these type of levels?

Kay Neely: We estimate something around \$200 million, \$220 million to hit the midpoint of our communicated leverage target, which we had previously stated would be 4.5 to 5.5x net debt-to-EBITDA. So to around 5x is \$200 million roughly.

Robert Stevenson: Okay. That's extremely helpful. And then last one, Michael, as you're looking at the -- whatever you guys refer to it internally, but essentially a tenant credit watch list, and you look back a couple of quarters, is that list getting shorter? Is it staying the same? Is it increasing as operators have difficulty? How do you sort of characterize the sort of evolution of your credit watch list these days? And where is that likely to be going as we enter the beginning of '26?

Michael Seton: I would say that we're cautiously optimistic. We had a very good rent collection year this year. I would tell you, we're more focused on lease maturities and obviously, renewal rates for those leases as we look forward. We have a long lease duration in the portfolio, as you well know. I don't -- I wouldn't tell you the watch list has per se increased. We have things move up, we have things move down. I think we had a very solid year in 2025. We're obviously not done yet, but I'm optimistic. As we go into next year, we do see our operators performing well. I mean, as you know, Big Beautiful Bill Act has been out there. We've talked about our assets being a mitigating factor in that space. I would say, overall, we're -- I'm cautiously optimistic about what the future holds. I mean that from a tenant credit perspective, because I don't think anybody knows what the future holds in the context of federal

government reimbursement and so forth. But what -- you can see our coverage ratios are strong and they remain -- and they continue to be strong and they continue to go up. So we feel good about who we're aligned with on the tenant side.

Operator: Your next question comes from John Kilichowski from Wells Fargo.

John Kilichowski: My first one is just on capital deployment and where you find opportunities that are most attractive. I mean, given where your stock is trading today, does -- maybe rotating out of some noncore assets, surgical specialty and buying back stock here get more attractive relative to growing the asset base. I'm curious what that spread needs to be for you to say that's where incremental dollars should go?

Michael Seton: John, thank you for joining. We found opportunities, I'll speak first to really 2025 thus far -- The opportunities that we found have been more in the IRF space than the other spaces that we target. Of course, MOB is a key area of that. We've seen a lot of MOB sales. I mean, volumes are down admittedly from years ago, but we've seen a number of MOB sales out there, particularly large portfolios as you monitor as well in the marketplace. But the quality of that hasn't been the quality that we seek to have within our portfolio, hence, our targeting of particularly IRFs, where we can get long WALT, we can get high-quality operators, we can get demonstrated performance in the portfolio. So that's what we've clearly found in the Nobis transactions. That's clearly what we found in the transaction that I'm referring to, that we may close on in January subject to our due diligence. From the capital recycling perspective, we're long-term owners of real estate. Sure, there are things that we have on the radar, and we do have a list of properties that could be potential dispositions. I would say those tend to be a little bit more event-driven, whether they're tenant-driven, could be an issue with the tenant, or as it relates to a tenant simply wanting to own their real estate, which we have a number of those occurring as well. So I don't know that they'll come to fruition. Nothing is per se penned in. There are some discussions taking place. But as we look at those opportunities, I think the -- we are, I would say, slanted and prejudiced towards deploying capital in new investments at this point. Obviously, we are very aware of our share price in terms of cost of capital, ability to raise future equity capital. Kay gave some numbers as it relates to ranges where we can expect to lever up to, and the runway that we have. That being said, the Board did approve a share repurchase program. So we've got really, I would tell you, all the tools in the toolbox, capital ready to deploy, certainly properties that we could sell where we could invest those or buy back shares, of course, and then the share repurchase program. So we're remaining nimble in terms of our approach to capital deployment.

John Kilichowski: Well, that was very helpful. And I guess as you think about -- obviously, you're still tilted towards the acquisition side. I guess when you talk about the development opportunities that you're seeing that are a little bit higher yielding and you look at your leverage capacity, I think the number was \$200 million. What percentage of that do you think could be deployed into maybe some of those opportunities relative to just the few simple acquisitions that you noted cap rates are getting a little bit tighter here?

Michael Seton: We like the -- we, as you know, had done late last year now those Lynchburg mezzanine loans, and we like those kinds of opportunities because they're double-digit, mid-teens type returns. We recognize it as interest income for purposes of -- income purposes. So it's current development deals. If we're funding the development as equity owner, really the income gets recognized when that property goes into service. That being said, when we talk about expansion opportunities within our portfolio, those are relatively short-term constructions, 12 months or less. And those yields, as I mentioned, are 150 basis points or greater. So we'd like to find more of those opportunities. We're conscious of tenant exposure. We want to make sure there's opportunity for that -- expansion of that property in that particular marketplace. But we love those opportunities because the tenants also captive to us because we own the underlying land, for instance, and they're adding on to their building and attaching it to existing building, which we already own. And by the way, I would mention some of those yields are 300 basis points wide of our acquisition cap rate. So it can really vary, but we -- I tried to be, I would say, relatively conservative in saying minimum kind of 150 basis points or greater. So we're looking for those development opportunities. I don't think there's a ton of medical development in the marketplace today. I think banks out there are willing and able to do, for instance, MOB transactions. But in the rehab space, there's probably more limited folks willing to do those kinds

of transactions on the lending side. So we want to be a partner to those developers and to those tenants that want to expand.

John Kilichowski: Okay. Last one for me, if you wouldn't mind. Just on the opening remarks, you made the comment about the Alexandria tenant, and I apologize if I missed this, but that move-out that's happened in October, is there like -- do we have any expectations on what's going to happen to rent in 4Q?

Michael Seton: Yes. So they were scheduled to expire already in late July. And as mentioned in the remarks, I mean, we had a lease out for signature with them. They paid holdover rent through the months of August through October. So full rent plus the 25% additional holdover rent. And we do have an expectation that they may need another month of staying there. So we may very well get November rents with holdover. We're obviously very early in the month of December. Most tenants kind of pay in the first, I'll call it, 10 days or so. So -- but that's the indication to us at this time.

Operator: [Operator Instructions] Your next question comes from Michael Lewis from Truist Securities.

Michael Lewis: As far as these development or expansion projects, how do you know when one is a [candidate]? How do you know it works and that the risk reward is balanced? Does the tenant come to you with it and you kind of evaluate it? How do you get comfortable with those and you know you've got the right one?

Michael Seton: Michael, thank you for joining. I would tell you, it's -- the vast majority of the time, it's really an inbound from the tenant. So we're monitoring, as you know, the financials of these operations. The operations in a particular case may be doing very well and that property may be busting as it seems essentially. And that tenant is saying, "Hey, there's a market." So we'll often review those pro formas of the tenant saying, "Hey, this is what it looks like if we add this number of beds." We've already got, of course, the benefit of the credit of the existing operations because the operations in those facilities are not shut down or stopped, they actually continue and the construction goes on. So I would tell you, it's really communication from the tenant. Of course, we monitor, so we know which properties are good candidates for those. And we do market our tenants and say, "We're here to be your partner and provide capital."

Michael Lewis: Okay. Great. And then, this is an old question, I guess, but still relevant. As the shutdown goes on and the battle seems mostly focused on these ACA subsidies, you've got good coverage across the portfolio. Is there any risk anywhere you see if the, I guess, call it, the Republicans prevail and those subsidies go away?

Michael Seton: Yes. I mean that's a great question. I mean, as you know, we're not acute care hospital owners per se -- short-term acute care hospital owners per se. We're focused on outpatient procedure settings, lower-cost patient settings. So even when we have a situation where there may be a hospital partner, which we have a number of LifePoint transactions like that. In fact, all of our LifePoint transactions are really like that. We're not looking really to the hospital credit in that case. We're looking to the site performance in those transactions. We like the benefit of the branding of hospitals related to marketing and patient recognition. But from an operational standpoint, we're not looking to those. I do think that it's -- we're going to see -- even if there is some ACA subsidy continuation or there's something more done than is currently passed by the Big Beautiful Bill, we might see more influx to emergency rooms. Naturally, we'll see less insured. I mean, even if someone's premium goes up \$100 a month, they may elect to not have insurance. So I think that we'll see that. And I think that's a stress on the whole system overall. The facilities that we focus on, as you know, looking at our portfolio is really the MOB and the lower-cost patient setting, post-acute spaces. So the rehab and of course, we own some LTACs as well, kind of a limited amount of behavioral. So we think we're much more insulated than a lot of folks out there. But I would tell you, it's not good for the whole health care marketplace, just generally speaking. But again, with our focus, we think we're pretty well insulated.

Michael Lewis: Okay. And then lastly from me. So you've got the ATM program. You've got the buyback program. Is there -- are you closer to one or the other? Or does neither one of those look attractive here? Does it depend if an opportunity pops up? How do you think about that?

Michael Seton: Well, we've read your reports, Michael, and I think you have a good -- when you think about NAV, for instance, for us not necessarily price target, as well as with your peers, that's what we're thinking about when we're thinking about kind of ATM type levels. So we feel we need to be higher.

Issuing equity now, we think, is very dilutive and not reflective of the value of the company. So we don't think this is the right level to do it. So we do feel we're trading at a pretty substantial discount. So that leads into, of course, your -- the alternative, which we could be doing. And I think that, that's always a topic of conversation in the company and with the Board. We want to be thoughtful about how we're spending money. If we only have \$1, we only have that \$1 to spend. So we want to put it in the right place. I mentioned from an acquisition standpoint that we had done -- we've done about \$145 million of acquisitions so far this year. And sort of the indication I gave for next year was, hey, it's going to be a base case scenario kind of relatively consistent with that. And I think that's a fair statement. It could be more if we find the right opportunities. But at the end of the day, we want to be thoughtful and we want to be also -- what's critical in our minds is also the quality of our balance sheet as well.

Operator: Ladies and gentlemen, there are no further questions at this time. I will now turn the call over to Michael Seton, CEO, for closing remarks. Please go ahead.

Michael Seton: I would like to once again extend my sincere thanks to the entire Sila team. Their hard work and dedication continue to drive successful outcomes. On behalf of our leadership team and Board of Directors, we deeply appreciate the support and confidence of our shareholders. Thank you, and have a great day.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you all for your participation. You may now disconnect.