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EDITED TRANSCRIPT

KIM - Q2 2018 Kimco Realty Corp Earnings Call

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OVERVIEW:

KIM reported 2Q18 as-adjusted FFO of \$155.7m and NAREIT FFO per diluted share of \$0.39. Expects 2018 NAREIT FFO per share to be \$1.43-1.46.



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CORPORATE PARTICIPANTS

Conor C. Flynn *Kimco Realty Corporation - CEO & Director*
David Jamieson *Kimco Realty Corporation - Executive VP & COO*
David F. Bujnicki *Kimco Realty Corporation - SVP of IR & Strategy*
Glenn Gary Cohen *Kimco Realty Corporation - Executive VP, CFO & Treasurer*
Raymond Edwards *Kimco Realty Corporation - EVP of Retailer Services*
Ross Cooper *Kimco Realty Corporation - President & CIO*

CONFERENCE CALL PARTICIPANTS

Alexander Goldfarb *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research & Senior REIT Analyst*
Brian Hawthorne *RBC Capital Markets, LLC, Research Division - Associate*
Christine McElroy Tulloch *Citigroup Inc, Research Division - Director*
Craig Schmidt *BofA Merrill Lynch, Research Division - Director*
Haendel St. Juste *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*
Ki Bin Kim *SunTrust Robinson Humphrey, Inc., Research Division - MD*
Michael Mueller *JP Morgan Chase & Co, Research Division - Senior Analyst*
Richard Hill *Morgan Stanley, Research Division - Head of U.S. REIT Equity and Commercial Real Estate Debt Research and Head of U.S. CMBS*
R. Jeremy Metz *BMO Capital Markets Equity Research - Director & Analyst*
Samir Khanal *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*
Vince Tibone *Green Street Advisors, Inc. - Analyst of REIT*
Linda Tsai *Barclays Bank PLC, Research Division - VP & Research Analyst of Retail REITs*

PRESENTATION

Operator

Good morning, and welcome to the Kimco's Second Quarter 2018 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to David Bujnicki. Please go ahead.

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

Good morning, and thank you for joining Kimco's Second Quarter 2018 Earnings Call. Joining me on the call are Conor Flynn, our Chief Executive Officer; Ross Cooper, the President and Chief Investment Officer; Glenn Cohen, Kimco's CFO; David Jamieson, our Chief Operating Officer as well as other members of our executive team that are present and available to answer questions during the call.

As a reminder, statements made during the course of this call maybe deemed forward-looking, as it is important to note that the company's actual results could differ materially from those projected in such forward-looking statements due to a variety of risks, uncertainties and other factors. Please refer to the company's SEC filings that address such factors.



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During this presentation, management may make reference to certain non-GAAP financial measures that we believe help investors better understand Kimco's operating results. Reconciliations of these non-GAAP financial measures can be found in the Investor Relations area of our website.

And with that, I'll turn the call over to Conor.

Conor C. Flynn - *Kimco Realty Corporation - CEO & Director*

Thanks, Dave, and good morning, everyone. Today, I'll provide an overview of our strong second quarter performance and an update on a great progress we've made on the execution of our strategy. Ross will then report on our quarterly transaction activity and describe the overall transactional environment. Finally, Glenn will provide details on key metrics and our updated 2018 guidance. Execution continues to be our #1 priority as we reposition our portfolio for the long-term growth and value creation. Our team continues to work tirelessly as we seek to improve in all aspects of our business. And our results for the quarter continue to demonstrate that our portfolio quality and value creation initiatives are working.

Now for some details. We are now over half way through the year and the pace and strong pricing of our dispositions, give us confidence that we will meet our full-year disposition range of \$700 million to \$900 million. The vibrant private market valuations coupled with widely available debt financing and strong pricing for our Midwest assets continue to demonstrate the disconnects between public and private pricing. Ross will go into detail on the encouraging pricing, execution and capital formations we have experienced recently.

More importantly, as we achieve our targeted dispositions for the current year, it positions us to restart our growth as we enter 2019 with a superior portfolio, concentrated in coastal markets where we see the best opportunity for growth and redevelopment potential.

And as I mentioned, our repositioned portfolio is producing solid results. Leasing volume continues to be near all-time highs for the company as our team is working diligently to create vibrant campus-like settings where our shoppers want to stay for extended periods of time. Our same-site NOI outperformed this quarter, due to strong leasing volume, a slowing of new vacancies and the additional rent collected from our Toys"R"Us boxes. The toys liquidation process has been drawn out, which has given us a running start on our re-leasing efforts. These efforts have produced significant interest from major retailers in off-price, furniture, fitness, specialty grocery and arts and crafts.

To recap, we had a total of 22 Toys"R"Us leases that fall into 2 categories, Opco leases and Propco leases. 15 of our leases are in the Opco entity of Toys"R"Us and we have already resolved 7 of those locations with retailers taking the entire Toys"R"Us boxes. Our remaining 8 locations in Opco have significant tenant interest, and we're working to convert this demand into leases as quickly as possible.

The second category of our toys boxes are leases in the Propco entity. We have 7 leases in Propco, which have not yet been rejected and the date of the auction has not yet been set. Rent continues to flow on these assets. We anticipate a Q3 resolution of the Propco entity and has been proactive in marketing these locations.

Looking ahead to the third quarter, we anticipate that the Toys liquidation will have a maximum impact of 70 to 80 basis points on our occupancy and same-site NOI, as we anticipate recapturing the majority of the boxes that have yet gone to auction. Notwithstanding the impact given the strong releasing to date for the demand for the remaining toys boxes, we feel confident in raising our same-site NOI guidance for the year to 2% to 2.5%.

Overall, we've seen demand match or exceed supply for high-quality locations, with retailers focusing on store growth in the top 20 markets, where populations are growing, wages are rising and employment is increasing. Our overall strategy is focused on repositioning our portfolio to be tightly concentrated in these top 20 markets where we believe demand will continue to be strong over the long run and provide unique opportunities for our mixed-use platform. Keep in mind, we are also at a 40-year low for new supply, which we don't see reversing anytime soon. The land costs continue to escalate, along with increases in labor and construction costs. We see the economy continuing to grow, demand from our retailers continuing to increase, and the millennial generation coming into its peak spending years. These factors have generated outsized demand for many of our assets, driving our occupancy level on our small shops to the highest level in the company's history at over 90%. Demand for small shops is being driven by multiple retailers expanding in the restaurant, service, health and wellness, medical and fitness categories.



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While our focus continues to be on execution and portfolio improvement, it is worth mentioning the 2 major events that occurred this year that have boosted the retail outlook for the year, and has retailers focusing on investment, both in existing store remodels and the rollout of new stores. First, cash reform has dramatically lowered the effective tax rate for our retailers, which were paying some of the highest corporate tax rates in the country. In numerous meetings with our retail partners, they have consistently touted tax reform as a major factor in their real estate expansion plans. Second, the Supreme Court ruling in the Wayfair case allowing state and positions of sales tax on e-commerce will likely level the playing field for all retailers regardless of channel. This ruling has effectively closed the loophole that allows pure e-commerce players to skirt states' sales tax and offer the cheapest price possible on a wide assortment of goods. We believe the ruling could potentially accelerate the trend of omnichannel retailing.

Turning to our Signature Series developments and redevelopments. They continue to mature and move closer to producing meaningful growth for the company as we approach 2019. As I mentioned the lack of new supply, whenever a high-quality project is brought to market by respected and well-capitalized developer, retailers are ready to jump at the opportunity. Our sites are substantially preleased, creating positive leasing momentum for these rare high-quality opportunities, which are poised to deliver on time. Our Lincoln Square mixed-use project in Center City, Philadelphia, is starting to prelease apartments with demand exceeding our budget.

The first Sprouts Farmers Market in Philadelphia is set to open at Lincoln Square this August and Target will soon follow. Our Pentagon Center mixed-use tower, called the Witmer is now topped off and will begin preleasing apartments in 2019. Dania Phase 1 is now 93% preleased and is set to open later this summer and stabilize in 2019.

Our Mill Station development is now 79% preleased, with Costco set to open in September. These Signature Series projects are large in scale and will deliver meaningful growth in 2019 and beyond, as we unlock the embedded value of our real estate.

In closing, we are pleased with the pace of our dispositions and pricing. We have taken advantage of this public-private disconnect by buying back our shares at a discount on a leveraged neutral basis. We are witnessing solid demand for our available spaces and have made meaningful progress on our Signature Series development and redevelopments that will start to deliver later this year. We continue to focus on what we can control, execute on our strategy to position the portfolio to generate consistent growth, supported by a strong balance sheet that will create long-term shareholder value. Ross...

Ross Cooper - *Kimco Realty Corporation - President & CIO*

Thank you, Conor. It has certainly been a busy first half of the year on the transaction side, with our team firing on all cylinders. Second quarter sales volume continued at significant pace with the sale of 17 shopping centers for \$320 million at KIM share, putting us well on our way to hitting on our 2018 disposition goals of \$700 million to \$900 million. In fact, with \$530 million KIM share of sales for the first half of the year, we are 2/3 of the way there and we continue to execute. Subsequent to quarter end, we sold an additional 2 shopping centers for a combined 49 million of Kimco share, and currently have another 200 million plus of Kimco share either under contract or with an accepted offer. We maintain our full year guidance range for both net sales volume and cap rates. As we communicated previously, in conjunction with the initial disposition targets for the year, it was always our goal to maximize proceeds in the first half of the year to minimize dilution in 2019. As Conor indicated, our team is dedicated to ensuring recurring FFO growth in 2019, and we fully understand how the timing of our 2018 sales impact that goal.

Given the timing and pace of our sales volume in 2018, we are comfortable indicating that next year sales will be meaningfully less than this year. Also, another benefit for expediting our 2018 sales volume is that it continues to strengthen the remaining core portfolio as evidenced by our operating fundamentals. As we move through the remainder of 2018, given our continued emphasis on owning properties and dynamic growth markets, we remain focused on reducing the asset count in the Midwest, while also selectively pruning flat or low-growth assets from other parts of the country. We sold our last remaining shopping center in Alabama this quarter, removing another noncore state from our ownership map.

The blended cap rates through the first half of the year was at the lower end of our expected range, reflecting positively on both the quality of the centers being sold and the investor demand.



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Through the first half of the year, we continue to be impressed by the level of activity and the profile of those bidding on our properties. Demand for our sites remained strong with readily available debt capital at continued low interest rates. With the 10-year settling around 3%, borrowing remains an attractive opportunity to maximize yield on investment for buyers. Highlighted during the recent RECon in Las Vegas and continuing through today, new bidders have emerged as well as some renewed interest from previously inactive investors. And while we have seen more sincere interest from potential portfolio buyers, we continue to see the greatest execution via one-off sales, which we'll remain focused on through the back half of the year. There has been no material change in valuations or investor appetite for high-quality core major markets. We have seen continued strong demand for institutional quality assets with recent transactions as 5 caps or below in South Florida, New Jersey, Atlanta, Southern California, Washington DC and elsewhere.

Glenn will now provide additional detail on our financial performance for the quarter.

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Thanks, Ross, and good morning. Following our solid first half results, we remain confident and energized that we will meet our objectives for 2018 and position our company for growth in 2019. We're starting to realize the benefits of a high-quality portfolio comprised of a strong and diverse tenant roster located primarily in the top MSAs where we see the best opportunity for growth. Occupancy is near all-time highs and new leases signed continue to deliver positive double-digit spreads. Our development projects are progressing and are expected to begin contributing to our growth in 2019 and beyond.

Now for some details on our second quarter results. NAREIT FFO was \$0.39 per diluted share for the second quarter 2018, which includes \$9.5 million or \$0.02 per share of net transactional income, comprised primarily of \$5.6 million from preferred equity profit participations and \$3.6 million from an equity method distribution above our basis. NAREIT FFO per share for the second quarter last year was \$0.41 and includes \$0.03 per share of net transactional income, mostly from the \$23.7 million distribution received from our Albertsons investment. FFO as adjusted or recurring FFO, which excludes transactional income and expense and nonoperating impairments was \$155.7 million with \$0.37 per share for the second quarter 2018, compared to a \$160.7 million with \$0.38 per share for the second quarter last year, and reflects the impact of our successful disposition program.

Our operating portfolio continues to improve and deliver positive results. During the quarter the operating team executed 369 leases, totaling 2 million square feet at an average rent per square foot of just over \$18. Our average base rent for the entire portfolio has increased 4.6% over the past year and 5.2% when you exclude our ground leases.

Total occupancy is at 96%, up 50 basis points from a year ago. And our anchor occupancy is at 98.1%, up 60 basis points from a year ago. Same-site NOI growth was 3.9% for the second quarter, including 10 basis points from redevelopment. Of particular note is the fact that 80% of the same-site growth came from increased minimum rent and percentage rate. For the 6 months, same-site NOI growth was 3.2%. In terms of the second half same-site NOI growth for 2018, as Conor indicated, we would be impacted by the Toys"R"Us liquidation as well as the tough year-over-year comp for the third quarter. Mitigating this impact is the wide spread of 310 basis points that remains between our leased and economic occupancy levels. If the factoring in these items and based on our year-to-date performance, we are raising our same-site NOI guidance range from 1.5% to 2% to a new range of 2% to 2.5% and believe the upper end of the increased range is achievable.

Our balance sheet and liquidity position are in excellent shape. We ended the second quarter with over \$300 million in cash, zero outstanding on our \$2.25 billion revolving credit facility and no debt maturing for the balance of the year. We also opportunistically utilized our common share repurchase program to buy back 3.5 million shares at a weighted average price of \$14.53 per share, totaling \$50.8 million, representing a 10% FFO yield and a 7.7% dividend yield. Year-to-date, we have repurchased 5.1 million common shares at a weighted average price \$14.73, totaling \$75.1 million.

Our consolidated net debt to recurring EBITDA remained at 5.7x, same as the first quarter. And when you include the transactional EBITDA, the metric improves to 5.5x. In addition, as a result of the progress made on the disposition program, we have elected to exercise the make-whole provision and repay early our \$300 million, 6.875% bond due in October 2019. This bond is our most expensive unsecured debt instrument, and will be repaid in late August. We will incur a charge of approximately \$13 million or \$0.03 per share in the third quarter that will be included in our



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NAREIT FFO. With the repayment of this bond, we will have no debt maturing until 2020 and our weighted average debt maturity will be over 11 years.

We remain focused on reducing net debt-to-EBITDA, a key driver will be the EBITDA contribution that will flow once the development projects with \$530 million invested to date start to come online in late 2018 and into 2019. Based on our first half performance and expectations for the balance of the year, we are raising the bottom end of our NAREIT FFO per share and FFO as adjusted per share guidance range from \$1.42 to \$1.46 to a new range of \$1.43 to \$1.46. The NAREIT FFO per share range includes the net transactional income to date and the anticipated early debt prepayment charge of \$0.03 in the third quarter that I previously mentioned.

And with that, we'll be happy to answer your questions.

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

We're ready to move to the Q&A portion of the call. (Operator Instructions) You may take our first caller.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Samir Khanal of Evercore.

Samir Khanal - *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*

So Conor, you mentioned the same-store NOI guidance and when you look at your same-store guide implies a deceleration of -- to about 1.3% for the second half, Toys is certainly having an impact of 70 to 80 bps, which you mentioned. So what are, sort of, the other headwinds that kind of get you through the 1.3% in the second half here?

Conor C. Flynn - *Kimco Realty Corporation - CEO & Director*

Well, you're right. I did go into detail about the impact of the Toys. We'll have to see how that Propco auction plays out still. But we feel actually very comfortable in the high end of our 2% to 2.5% range. We've seen -- as you've seen in our operating fundamentals, that the leasing volume continues to be at near all-time highs, but that is the real focus for us, is continuing to look at the back half of the year and continuing to push that.

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Yes, the other thing I'd offer is that during the third quarter of last year, we received a pretty substantial tax refund of about \$1.5 million that is not there this year on one of our sites. So that just adds to the tougher comp comparison.

Samir Khanal - *Evercore ISI Institutional Equities, Research Division - MD & Equity Research Analyst*

Okay. I guess, as a follow-up, I know you don't have an estimate or guide for '19 yet, but it feels like with Toys paying rent a bit longer in '18, the setup going into '19 doesn't seem to be that great, so will be more of a headwind. So what are the things we need to, sort of, think about from a tailwind perspective as we formulate our thesis for '19 here from a same-store perspective?

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Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Well, again, we're not going to give guidance yet. We're only halfway through 2018. But there are some positives, if you look at it. We have a lease to economic occupancy gap of 310 basis points today and quite candidly, that gap is probably going to widen a little bit as we start releasing some of these toys boxes. So you're going to wind up with more leasing done there and widen that gap a little bit until it starts narrowing, when that flow starts coming online. Remember same site is, in our case, cash base.

Conor C. Flynn - *Kimco Realty Corporation - CEO & Director*

I'll just add, that of the 15 Opco leases that we have control over, almost half of them are already backfilled, so we feel really good about the momentum we have going there.

Operator

The next question comes from Craig Schmidt of Bank of America.

Craig Schmidt - *BofA Merrill Lynch, Research Division - Director*

I guess, just on a follow-up. If you had to speculate will Toys"R"Us be a bigger impact in 2018 or 2019?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

I would say probably have a little bit more impact potentially in '19. Because, again, where we sit today, we still have a lot of rent that's still flowing, right? I mean, really through the first 6 months of the year, except from four of the boxes, everything has been paid so far. And with the 7 Propco leases, those are still paying as well. So, I mean, it's going to come down to the timing of when, from a same-site perspective, when those flows start happening. But I think, Dave, maybe will add here, the prospects on leasing are very strong. We feel good about being able to get them leased up pretty quickly.

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

Yes, thanks, Glenn. As we have reiterated on past calls, the demand side for the Toys"R"Us boxes continue to be very, very strong and as Conor referenced, we have almost half of those resolved in the Opco entity. And we continue to pre-lease the Propco's in the case we do actually recapture some of those boxes and we've seen an excellent activity on those that we just recaptured this quarter as well. So we feel very comfortable with where we stand today in terms of the demand side of this and see it as a positive outcome longer term.

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Yes, don't lose sight of the fact of just how diverse our portfolio is. Although the Toys thing is clearly a headline item. Again, it makes up, we're talking about 70, 80 basis points of total ABR, where we leased and had it signed for the boxes now the lease is coming online. So, headline issue more than anything else, I think.

Craig Schmidt - *BofA Merrill Lynch, Research Division - Director*

Okay, and then just on the non-same-store sales, I mean, sorry, non-same-store NOI. Even if we exclude Puerto Rico, it's down significantly. I just wonder what's in that bucket?



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David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

In terms of the same-site NOI, that's -- rather the NOI coming from non-same-site locations?

Craig Schmidt - *BofA Merrill Lynch, Research Division - Director*

That's correct, the non-same-store NOI and then given your foot note, I subtract that out, I'm coming down with a decrease of about 41%?

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

Those are primarily properties that we acquired during last year, Craig. That's pretty much outside of Puerto Rico. That's really what it is driving that.

Operator

The next question comes from Jeremy Metz of BMO Capital Markets.

R. Jeremy Metz - *BMO Capital Markets Equity Research - Director & Analyst*

As I look at the same-store detail on Page 9, your recoveries has been turning higher than your actual increase in expenses. Is this simply a reflection of the higher occupancy leading into greater recoveries? And then in terms of the tenant improvement dollars, it looks like this is the highest it's been on a quarterly basis in a few years. So I was just wondering, are you having to get more today to drive leasing or is it more reflective of some of the box leasing you're doing and higher, overall, churn you're replacing, just some color on those churns will be great?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

This is Dave. So, I'll take the first one and the second. So with the first one, we have a year-over-year the economic occupancy is higher, so you are spot on on that. That's helped with the recovery income. We'll continue to see that trend on a go-forward basis. As it relates to the TI dollars and the contributions, in general, we haven't seen a change in deal costs. It's not as if that the tenants themselves are demanding more to induce them to come into our centers. It's really driven by the population of the tenants here at any given point in time. So when you look at our operating real estate lease summary sheet, on the new lease side, you'll see on this quarter, it's actually around \$13.10, while the trailing 4 quarters was about \$15. So we're right in line there, actually a little bit less. On the non-comp side, it is elevated a little bit this quarter, really driven by 2 specific deals that were value-creation deals. If you left those out, we'd be at \$21 a foot, which falls below our trailing 4 quarters. So we're still pretty much in line with where we would expect to be.

R. Jeremy Metz - *BMO Capital Markets Equity Research - Director & Analyst*

Okay, and then maybe a question for Conor or Ray, if he is on the line here. But it looks like Glass Lewis recently recommended against the Albertsons Rite Aid deal. I know it's a little early, but assuming the transaction doesn't come to fruition, how do you think about monetizing that investment going forward? As it seems like, that's seeming going to -- was going to unlock some immediate capital starting in 2019. And I guess, if it doesn't happen, can we maybe see you needing to ramp dispositions again to fund that gap?



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Raymond Edwards - *Kimco Realty Corporation - EVP of Retailer Services*

This is Ray. With respect to the Albertsons and Rite Aid transaction. For us, at least, on the Albertsons side, they're really performing very well. Last 2 quarters -- I got 2 straight quarters of same-store comp growth. This last quarter, they beat -- their EBITDA was \$44 million above last year's. And they're really trending very well. So to the extent that if the Rite Aid shareholders don't approve transactions, I think we're very well suited for the company going forward to take other opportunities. You saw it today, the transaction with SUPERVALU that rid us out of consolidation in the grocery business on the wholesale side, but I think there's a lot of opportunities going forward for Albertsons. We'll just keep our heads down and keep making money on that and work it out as you go forward. But I think, Glenn also wants to talk to you about the capital part.

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Yes, from the capital standpoint, again, as I've mentioned, several times already, there's nothing in our numbers for '18 or '19 as it relates to Albertsons. We remain completely focused on execution around the portfolio, our dispositions, our balance sheet management, our developments, our redevelopments. When and if Albertsons happens, it will be a positive for us, but there's nothing baked into our numbers for it. And as I mentioned, we've no debt maturities and enormous amount of liquidity at this standpoint. So we are very comfortable with our capital position.

Ross Cooper - *Kimco Realty Corporation - President & CIO*

And our disposition plan for '19 will not be impacted one way or the other. So that wouldn't impact our desire or need to ramp up disposition in '19.

Operator

Our next question comes from Mr. Brian Hawthorne of RBC.

Brian Hawthorne - *RBC Capital Markets, LLC, Research Division - Associate*

My first question is, so conceptually when you look at increase in shop occupancy, can you kind of frame it up for us as what's really driving that? Is that from increased leasing or more of that is from dispositions?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

No, I'd say -- this is Dave. The higher-quality portfolio is clearly starting to showcase its benefits. The higher occupancy is driven by accelerated lease-up of those vacancies. Those vacancies are typically vacant less time as opposed to those sites that we've sold in the past. In addition, our retention rates are higher as well. So that's obviously a big contributor to maintaining and increasing our occupancy quarter-over-quarter, year-over-year. So that's where we see a massive improvement in terms of our occupancy rates.

Ross Cooper - *Kimco Realty Corporation - President & CIO*

Yes, in fact, the dispositions through the first half of the year averaged 96% occupancies. So the assets that we're selling are actually primarily stabilized.

Conor C. Flynn - *Kimco Realty Corporation - CEO & Director*

You really see the boost coming from the growing economy, and the small shops are really driven by local entrepreneurs, franchises. And that's really where -- and then also we see the big boost from medical, from fitness, from health and wellness, through service and from restaurants. And so those areas of the economy are booming, and they continue to really drive the occupancy growth in our small shops.



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Brian Hawthorne - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. And then the other one, when you look at your watch list, have you seen the shift mix from -- in terms of like the anchor versus shop split?

Conor C. Flynn - *Kimco Realty Corporation - CEO & Director*

The mix has always been a focus on retailers that have gotten themselves in a bit of trouble, whether it's through over leveraged or a distressed business plan. So that really hasn't changed the shift or the mix of the watch list.

Operator

The next question comes from Alex Goldfarb of Sandler O'Neill.

Alexander Goldfarb - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research & Senior REIT Analyst*

Just a few questions. First, just going back to the Albertsons, on last call, you guys said that you expected to vote in July, now the vote is in August. Glenn, you've been pretty clear that there's a lot of capital that's going to come out of monetizing Albertsons, that's non-dilutive because you're not booking any income against it. So it does seem like monetizing Albertsons is critical to you guys deleveraging and getting on your run rate, especially when we look at dividend coverage, which is pretty tight and the sales this year, mean that you are going to have to increase it despite the very tight coverage. So if you could just walk through, just seeing to Jeremy's question, it wasn't maybe as full as what I would like, but just if Albertsons doesn't happen, how do you plan to delever in a non-dilutive way? Or should we assume that in our modeling, that if this doesn't happen, that there will be dilution? And just a little bit more from Ray on why the vote was pushed from July to August. Sounds like Albertsons doesn't have the votes to win.

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Okay, so a couple of things. First, as it relates to leverage, is -- again, there's nothing in our numbers for '19. And our leverage is going to naturally come down because we have all these developments and redevelopments that are going to start flowing and producing further EBITDA. Now the reality is that if Albertsons does happen and it monetizes, the leverage comes down that much quicker. To your point, we're not booking any income, and we would have this inflow of cash, but we have not based our forecasts on that happening. So we're not really concerned about it. Leverage will naturally come down over time. It accelerates in the event that a monetization happens.

Conor C. Flynn - *Kimco Realty Corporation - CEO & Director*

Alex, we feel very comfortable with our capital plan to fund everything we're looking to do in '19, with the plan we have in place with no Albertsons monetization whatsoever. Because the EBITDA will come online and it will improve the dividend coverage. And that's the way we've been running the business. We're focused on running the business, not having an investment that we don't control the monetization of impacting that.

Raymond Edwards - *Kimco Realty Corporation - EVP of Retailer Services*

This is Ray. I mean, the reason for the timing being pushed back couple of weeks. This is really procedurally, they have to get the approval and the final okay from the SEC of what they -- when they filed the S-4 and they had to negotiate that. It took a couple of weeks longer than they thought and they felt that instead of giving 30 days, they give like 40 odd days for the votes to happen, because the decision they made. They really think middle July or early August is kind of rounding error in timing with nothing else than that.



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Alexander Goldfarb - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research & Senior REIT Analyst*

Okay. And then just as a second question. Everyone's favorite topic FASB accounting. Glenn, do you guys have an estimate for what the change in internal lease accounting is going to impact your '19 numbers?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

We do. I mean, our initial estimates, based on what we've done is, it will impact it by about \$0.02 to \$0.03, somewhere between \$8 million to \$11 million. So that's got to be taken into account as you're doing guidance numbers for '19.

Operator

The next question comes from Christy McElroy of Citi.

Christine McElroy Tulloch - *Citigroup Inc, Research Division - Director*

Just a follow up on the discussion around the second half same-store trajectory. There was a lot of talk about the toys impact, but just, as it relates to the leases that have been executed, but yet to commence, I think you had previously talked about, about \$15 million of rent commencing in second half. Can you maybe provide an update on that number? And in terms of like timing, is that weighted more to Q4 as we think about the same-store trajectory going from Q3, which sounds like there's going to be a more significant deceleration to Q4, which maybe more muted?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Yes, I'd say that the third quarter would be our low point in terms of quarterly same-site NOI growth, and you'll see it start picking up again in the fourth quarter. And again, we raised our guidance. So we're comfortable at that 2% to 2.5% range and that we are comfortable that we will get toward the upper end of that range as well.

Christine McElroy Tulloch - *Citigroup Inc, Research Division - Director*

Right. So just an update on the \$15 million. Is that still generally within the range or is it higher?

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

Yes, Christy, that's still with...

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

It's still within the range, but it will be more weighted towards the fourth quarter.

Christine McElroy Tulloch - *Citigroup Inc, Research Division - Director*

Okay, okay, perfect. And then, Ross, just -- how should we think about that accelerated pace of dispositions and what sounds like what you talked about a decent transaction market conditions in terms of where you expect to fall on the full year range, which remains pretty wide at this point, recognizing your comments that 2019 volume will fall off. But obviously, the difference between an incremental \$150 million from here versus \$350 million in second half has a pretty meaningful implications for how we're thinking about further dilution in 2019. Maybe if you can give us a little bit more of a precise -- more precision in terms of where you expect to fall in the range?



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Ross Cooper - *Kimco Realty Corporation - President & CIO*

Sure. It was always the team's goal to push as much of the dispositions to the first half of the year as possible, so we're very pleased with that. I think you'll see a little bit of a slowdown in Q3 in terms of total volumes, certainly compared to Q2. But to your point, given where we are and that the pace and the execution, we would expect that, at a minimum, we'll be at the midpoint, probably towards the upper end of that range by the end of the year.

Operator

The next question comes from Vince Tibone of Green Street Advisors.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of REIT*

For the 7 Toys boxes that have been resolved, when do you expect those leases to commence? And do you expect the time to backfill Toys? Or how will the time to backfill Toys compare to the time it took to backfill Sports Authority in your mind?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

Sure. With the first question, as it relates to the 7, we had for that were signed this last quarter. So there's, obviously, no down time in rent, they're assumed immediately and so that resolved those. As it relates to the two that were released, we had expected those to start flowing towards the back half of end of '18 into '19. And we did sell one within the quarter as well, so that was -- that totals up to your 7. As it relates to the balance, we've always stated, we expect them all to get resolved within the next 18 to 24 months.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of REIT*

Okay, that's helpful. With the 4 that were assumed, how did that number maybe compare to what you're expecting at the beginning of liquidation process? I know some are still outstanding or still in the process, but I'm just curious how that compared to your expectations?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

That results is better than our original assumption and expectation.

Vince Tibone - *Green Street Advisors, Inc. - Analyst of REIT*

Okay, great. And then one more from me. Can you quantify how much the switch from variable to fixed CAM this year has impacted same store in the first half? And I think you've said it was an incremental boost in the first quarter, so is that the same in the second quarter? And is this going to be kind of a headwind slightly in the second half just to be within the comps?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

It probably helps us 20, 30 basis points at the beginning part of the year, but I think, it's going to all balance out when we're all set and done. So again, we remain comfortable with the guidance range that we've put out.

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The next question comes from Michael Mueller of JPMorgan.

Michael Mueller - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Just a quick one here. How much of the 50 basis point same-store NOI increase is coming from the slower unwind of toys?

Conor C. Flynn - *Kimco Realty Corporation - CEO & Director*

So it's tough to break it out, right?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

It's probably not a lot, Mike, to be honest with you. I mean, really what's happening is, rent commencements are a key driver for us in the same-site growth because, again, we cash bid. So as these rents -- the rents are really starting to flow and you see that of the 3.8% same-site growth for the quarter, 3% of it or 80% of the number is really coming from the minimum rent line. So that's more of the driver. I mean, the Toys"R"Us had modest impact at this point. It's more of the back half that's in there.

Operator

The next question comes from Rich Hill of Morgan Stanley.

Richard Hill - *Morgan Stanley, Research Division - Head of U.S. REIT Equity and Commercial Real Estate Debt Research and Head of U.S. CMBS*

Just wanted to spend a little bit of time on CapEx and get your opinion on how we're supposed to be thinking about it. It looks like quarter-over-quarter it increased, and I recognized that can be pretty noisy. It doesn't look like it's that far off from where it was the year end 12/31/17. But you also sort of, obviously, had done a good job in reducing the size of your portfolio. So I'm curious how we should be thinking about CapEx going forward? And if you're seeing any changes in sort of your mix of CapEx spend between in line and big box? Or there -- have your CapEx spend per square foot increasing? Anything that you can give us color on that, that would be really helpful?

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

Sure, so something I referenced earlier is that -- on our pace in terms of new lease yields and the cost associated with those. It's really indicative of what's in the population on a quarter-over-quarter basis. So it will vary as a result of that. In this quarter, for example, we executed more anchor leases than prior quarter. So you'll see an elevation in terms of number of deals and GLA executed compared to Q1, which will have an impact on those numbers as well. But as I referenced in the non-comp new leases, it is elevated at \$36 this quarter, driven by 2 specific deals. You strip those out and you're back to \$21, which is in line with the trailing 4 or actually slightly below that. So on a go-forward basis, we continue to see our deal costs remaining pretty much where they've been historically.

Conor C. Flynn - *Kimco Realty Corporation - CEO & Director*

I would just add to that. The demand for the Toys boxes, we've been pleasantly surprised that they are being backfilled by a single user. So when you look at the CapEx and the net effective rents, it does benefit and it accelerates the RCDs the rent commencement dates when you have a single user backfilling that box. And so for the first round of leases that we've done, they have been single users coming into those boxes, which is a nice benefit to see.



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The next question comes from [Steven] Kim of SunTrust.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

This is Ki Bin. Going back to the lease accounting question. I thought, I was under the impression that you guys might change the way you compensate your leasing agents in order to not be really impacted by the ASU A42. And so it sounds like there was a change?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

No, we have modified it somewhat that we'll be able to continue to capitalize some of those costs, but there are other costs that are much harder to capitalize. There's a lot of legal costs that we're able to capitalize today that you won't be able to under the lease accounting. And you can't capitalize all of the costs that we have today. So in total, I mean, we're primarily very internal leasing organization. Again, as I mentioned, I think there is an \$8 million to \$11 million impact in total for the year.

Conor C. Flynn - *Kimco Realty Corporation - CEO & Director*

We did try and get out of it and change our compensation plan to address it, but there is, obviously, things that Glenn has pointed out, that doesn't capture just the leasing side of it.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Right. So if it didn't change the compensation plan, would it have been maybe like \$5 million or higher. Is that -- what's the delta?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Yes, I mean, the impact would have been much higher probably like another \$0.02 or \$0.03.

Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. Now just going back to your asset sales. Obviously, you guys have made some pretty good progress in this first half. Can you just give us a sense about the occupancy rates, the ABR and just a kind of overall quality of what you've sold so far and the cap rates as well?

Ross Cooper - *Kimco Realty Corporation - President & CIO*

Sure. Yes, the occupancy was averaged out right at 96%. So they're primarily stabilized assets. It was previously mentioned, I mean, they are good-quality assets. They are outside of markets that we view as long-term growth markets for us and may not have the redevelopment of value-add potential that our coastal portfolio, our portfolio in Texas and a couple of other select markets have, which is why we've ultimately decided to exit those. But the quality is fine, the tenancy is stable in many cases good credit. So the demand has been there. The bider pools have been relatively deep, more so than we saw in 2017. ABR is sort of right around or slightly below the average of the portfolio. So you're seeing a slight uptick based upon the dispositions in the go-forward portfolio. But overall, within the portfolio there, there is no real distress remaining even the disposition that we're selling are well-stabilized solid assets.



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Ki Bin Kim - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And the cap rate was?

Ross Cooper - *Kimco Realty Corporation - President & CIO*

Yes, so the cap rate to the first half of the year is still on the low end of that 7.5% to 8% range, and we continue to see that at the low to midpoint of cap rate range going forward.

Operator

(Operator Instructions) The next question comes from Haendel St. Juste of Mizuho.

Haendel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

Glenn, I got a couple for you. One, I guess, you referred to the gap between lease and occupied space, looks like about 310 basis points, which is very similar to what it was at this point last year. So I'm curious how much of the closing of that gap is implied in your outlook for same-site NOI in the back half of the year? And how would you describe the overall leasing conversation, the process. Are you finding that the time to occupy is diminishing and has, especially because last year at this time, again, we're expecting that gap between the physical and the leased tailwind to materialize, but it took a bit longer?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Well, again, the gap, the gap has widened primarily because of the Toys"R"Us liquidation. So you have -- the good news is that we've leased the boxes. The bad news at the moment is that the rents not flowing for the same-site purposes, so you have this widening that's occurred. The gap will probably stay this wide during the second half of the year because as we go into the third quarter, you're going to have more leases that -- more toys boxes that came back to us in the third quarter. And then it's a matter of the lease up that's going to go with it. So the more leasing that actually gets done, the wider that gap is going to be until the cash starts flowing.

Conor C. Flynn - *Kimco Realty Corporation - CEO & Director*

Which sets us up for '19 to have to be a strong end.

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Correct. And then on your second part, I'm going to turn it to David in terms of the timing on the leases getting done with the tenants.

David Jamieson - *Kimco Realty Corporation - Executive VP & COO*

Yes, in terms of the Toys, we're continuing to see -- and generally I think timing of leases has maintained itself, to start with what we've seen with the Toys"R"Us 18 to 24 months as it relates to the other anchor leases. Yes, we continue to see between a leasing executed and opening on the anchor side around 10 months.



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Haendel St. Juste - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Equity Research Analyst*

Got it. Got it. Okay. And then Glenn, just to follow up on one more, the -- I guess, I'm just curious on the appetite for stock buybacks here, given your recent round of stocks here. Over \$17, you're buying year-to-date with the price below \$15. Assuming the stock price holds here, curious how you're thinking about allocating those incremental disposition proceeds beyond your normal redev.

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Again, the primary focus for us is to continue to improve overall net debt-to-EBITDA. We were very opportunistic buying the stock back at under \$15 a share. As I mentioned, 10% FFO yield, 7.7% dividend yield. So we'll watch where cost to capital is. Again, we also just announced that we're going to pay off our \$300 million bond. So we're going to use cash to help bring those debt levels down. So, it's really a watching what cost of capital is and where that stock price is and then trying to do best capital allocation as we see fit.

Conor C. Flynn - *Kimco Realty Corporation - CEO & Director*

And we're still trading at a sizable discount to that asset value. So, it, obviously, still is a piece of the capital allocation plan that we have, and we have plenty of opportunity to utilize that.

Operator

The next question comes from Linda Tsai of Barclays.

Linda Tsai - *Barclays Bank PLC, Research Division - VP & Research Analyst of Retail REITs*

The \$115 million credit losses you forecasted for '19, how much have you used on a year-to-date basis?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Used probably about half of it so far and then the balance of it will probably get used up as we go through the rest of the Toys boxes. So we still feel comfortable that, where our credit loss levels are for the year are really the appropriate level.

Linda Tsai - *Barclays Bank PLC, Research Division - VP & Research Analyst of Retail REITs*

And then in the centers where Toys went dark, did it create any coterency issues in terms of other retailer leaving?

Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Not really, no.

Linda Tsai - *Barclays Bank PLC, Research Division - VP & Research Analyst of Retail REITs*

Okay, and then just any update on Puerto Rico. I think, Puerto Rico is in the same property numbers right now. Is it going to have a beneficial impact when it reenters the pool in '19?

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Glenn Gary Cohen - *Kimco Realty Corporation - Executive VP, CFO & Treasurer*

Well, it's not actually going to reenter the pool in '19. We've removed it so we can keep focused on the continental U.S. as the same-site pool. And if you look at our same-site pool, it's probably the largest -- most complete pool of pretty much anyone. There's only 10 assets in total that are not in our same-site pool today. 7 of those are our Puerto Rico assets. But in terms of operations, Puerto Rico has performed pretty well. Where our occupancy level is back to where it was prior to the hurricane. The guys and our team has done a tremendous job getting the properties back in shape, and we've actually benefited from the fact that we actually had capital and people on the ground to repair those properties quickly were some of the other retail property owners really just didn't have the access to the capital or the product to kind of fix their properties up. So we've really been able to benefit from some further lease up.

Operator

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

David F. Bujnicki - *Kimco Realty Corporation - SVP of IR & Strategy*

Thank you for participating on our call today. I'm available to answer any follow-up questions you may have, and I hope you enjoy the rest of your day.

Operator

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

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