



CT REIT 2016 Second Quarter Results Conference Call

Wednesday, August 3, 2016 – 11:00 AM ET

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opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These considerations, risks and uncertainties include, among other things, the factors discussed in our Annual Information Form dated February 16, 2016 (see “Cautionary Note Regarding Forward Looking Information” and “Risk Factors”) and Management’s Discussion and Analysis for the period ended December 31, 2015 (see “Part 12– Forward Looking Information” and “Part 10 – Enterprise Risk Management – Risk Factors”).

For more information on the risks, uncertainties and assumptions that could cause CT REIT’s actual results to differ from current expectations, please also refer to CT REIT’s public filings available on SEDAR at www.sedar.com and at www.ctreit.com.

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CORPORATE PARTICIPANTS

Ken Silver
Chief Executive Officer, CT REIT

Louis Forbes
Chief Financial Officer, CT REIT

CONFERENCE CALL PARTICIPANTS

Pammi Bir
Scotia Capital

Michael Markidis
Desjardin Capital Market

Alex Avery
CIBC World Markets

Sam Damiani
TD Securities

Michael Smith
RBC Capital Markets

Jenny Ma
Canacord Genuity

P R E S E N T A T I O N

Operator

Good morning. My name is Valerie and I will be your conference Operator today. At this time, I would like to welcome everyone to CT REIT’s Second Quarter Earnings Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers’ remarks, there will be a question-and-answer session. If you would like to ask a question during that time, simply press star then the number one



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on your telephone keypad. To withdraw your question, press the pound key.

The speakers on the call today are Ken Silver, Chief Executive Officer of CT REIT, and Louis Forbes, Chief Financial Officer of CT REIT.

Today's discussion may include forward-looking statements. Such statements are based on Management's assumptions and beliefs. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. Please see CT REIT's public filings for a discussion of these risk factors, which are included in their 2016 MD&A and AIF, which can be found on CT REIT's website and on SEDAR.

I will now turn the call over to Ken Silver. Ken?

Ken Silver, Chief Executive Officer, CT REIT

Thank you Operator and good morning everyone. We're very pleased to welcome you to CT REIT's Second Quarter 2016 Investor Conference Call. I'll lead off with a discussion of our Investment and Development activity and Louis will then briefly review certain financial matters.

We've been busy over the past few months and I'm delighted with what we've been able to achieve. Yesterday we announced five new investments including the development of a Canadian Tire store in Elmira, Ontario. A Canadian Tire anchor development in Amos, Quebec and the intensification of three properties currently in the REIT portfolio.

All told, these new investments represent \$24 million of capital, approximately 133,000 square feet of incremental gross leasable area and are expected to earn a 6.76 percent weighted average going in cap rate on completion. Our quarterly disclosures lay out the expected timing for completion of these developments.

Subsequent to our last update we completed the acquisition of an enclosed mall anchored by a Canadian Tire store in Winkler, Manitoba, the vend-in of an existing Canadian Tire store in Edson, Alberta. The development of a Canadian Tire store in Innisville, Ontario and the

expansion of a Canadian Tire store in Sherwood Park, Alberta.

In the second quarter, we closed on properties adding 1.1 million square feet of GLA to our income producing properties. In total, these investments, along with previously disclosed projects, represent a year-to-date addition of approximately 1.3 million square feet to the portfolio at a cost of \$189.1 million paid for through a combination of Class BLP units, Class CLP units, cash on hand, draws on the REIT's credit facility and our proceeds of new debt financing.

The second quarter press release also provides details on the development pipeline. At a high level, projects are running on time and in total on budget. We refer you to our quarterly disclosures for the details.

Work in Amprior, Ontario continues to make good progress with a new Canadian Tire store slated to open this fall. Based on leasing to date we expect the mall to be close to or fully leased by the end of the year. In Martinsville, Saskatchewan we have completed a lease with Dollarama for a new pad comprising 11,000 square feet which is under construction and will be completed in the Fall and we have commenced the re-development of Antigonish Mall in Antigonish, Nova Scotia.

Finally, during Q2 we completed the acquisition and lease back of the Canadian Tire Distribution Centre nearing completion in Bolton, Ontario. The 1.4 million square foot facility with 81 acres of improved trailer parking remains on track for completion in the fourth quarter of this year with rent to commence in the first quarter of 2017.

You will note in our disclosures that our portfolio occupancy rate declined from 99.9 percent to 99.7 percent in the quarter. This is the result of the addition of the mall in Winkler, Manitoba, which is about 23 percent vacant. We are currently assessing our re-development options in Winkler and view dealing with this vacancy as an opportunity for us.

With that, I will turn it over to Louis for a review of our financial results.



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Louis Forbes, Chief Financial Officer, CT REIT

Thanks Ken. Our second quarter results represent solid growth in AFFO per unit over the reported results for Q2 2015. In Q2 2016 we reported FFO per unit of \$0.26.03 as compared to \$0.25.06 per unit in Q2 of 2015. AFFO per unit was \$0.21.0 as compared to \$0.19.09 in the comparable period representing a 5.5 percent growth rate.

Net operating income was \$71.5 million, a 9.5 percent increase over the \$65.3 million of NOI reported in Q2 2015. Our MD&A breaks this headline growth into its components, 2 percent growth on a same store basis, 2.5 percent growth on the same property basis and the balance as a result of acquisition and its development activity.

The same store growth is the result of the annual 1.5 percent average increase in minimum rent on January 1st of this year as well as the contribution earned from the growth in operating and capital expense recoveries together with interest earned thereon with a partial offset from an increase in Property Management Service expenses. The same property growth layers in the effect of intensification on our results.

G&A expenses as a percentage of property revenue were relatively flat at 2.4 percent versus 2.3 percent in Q2 2015. G&A expenses increased 13.7 percent versus Q2 2015, primarily due to increased payroll costs and other compensation from a higher number of CT REIT employees and due to higher Trustee fees, both in part because of the fair value adjustment from unit compensation. This was partially offset by a lower income tax expense and lower costs under the Services Agreement due to the internalization of services.

With respect to the balance sheet, the financial position is strong and liquid. At June 30th, the REIT's indebtedness ratio was 46.9 percent. During Q2 we exercised the 100 million accordion feature on our credit facility and at the same time extended its term to April 2021 bring the credit facility to a total of \$300 million.

During the second quarter, the REIT completed a second public unsecured debenture offering. The proceeds were used to pay down certain amounts outstanding under its credit facility and the balance of the proceeds were retained for general business purposes. Two series of

debentures were issued, a five-year \$150 million series bearing interest at 2.159 percent and a 10-year \$200 million series bearing interest at 3.289 percent.

Also during the second quarter, on May 31st, the outstanding Series 2, Class C LP units were redeemed and Canadian Tire was issued \$200 million of Class B LP units in consideration for the redemption. As a result of this and other disclosed transactions, at the end of Q2, Canadian Tire's ownership has increased to an 85.2 percent effective interest in the REIT.

Debt as compared to Earnings before Interest, Taxes and fair value adjustment was a solid 7.80 times. This ratio should improve as debt raised late in the quarter starts to positively impact earnings in Q3 of 2016. Two hundred and ninety-six of the REIT's assets are not encumbered, representing in excess of \$4.7 billion of assets or said another way, approximately 97 percent of our assets. In addition, interest coverage for the quarter continues to be strong at 3.3 times. Our AFFO payout ratio was a solid 81 percent, 2 percent lower than the second quarter of 2015 reflecting the benefits of our investing activity on operating results.

On an operating basis, our portfolio is 99.7 percent occupied, a slight decrease over prior quarters and as mentioned by Ken, driven by the recent acquisition of an enclosed mall in Winkler, Manitoba.

Canadian Tire represents 92 percent of our annualized base minimum rent and when combined with other CTC banners, represents 94.5 percent of our annualized based minimum rents. All metrics are largely unchanged from a year ago.

Again, I would like to take a minute to speak to the transient book value per unit. At June 30, 2016, the book value per unit was \$12.20 representing 7.4 percent growth over the book value of \$11.36 a year ago. A number of factors contribute to this growth to book value, a higher value for the income producing property due to ongoing growth and cash flow resulting from the annual rent increases. Again, I would remind you that the valuation metrics have not changed. Also retained cash flow contributes to this growth. A higher receivable balance due to the recoverable Capex spend and finally accretive investing activity financed in part by equity issuance that is accretive to this book value per unit. The largest contributor to book value growth this quarter was



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the issuance on May 31st of the \$200 million of Class B LP units at a price of \$15 per unit.

On a trailing basis, combining distributions and book value per unit growth, CT REIT has consistently delivered since IPO a total annual return in excess of 10 percent.

With that, I will turn it back to Ken.

Ken Silver, Chief Executive Officer, CT REIT

Thanks Louis. When we went public in October 2013, it was our intention to hit the ground running in executing our growth strategy. In less than three years, we have added or committed to additions to our portfolio of 6 million square feet representing just over 30 percent growth in the portfolio.

While we remain committed to a lean cost structure, we have also begun to add talent and depth to our team, welcoming Kevin Salsberg to CT REIT, a Senior Vice President in Real Estate, joining us from Plaza Retail REIT and Clint Elenko who has moved from CTC to the REIT in a full time role as Vice President, Western Canada.

Louis and I are delighted to have Kevin and Clint on board and we're excited about what our expanding team is capable of accomplishing. I'm very pleased by our reported results and with the execution of our on-going investment strategy. The REIT's prospects are bright and enhance our promises of delivering long-term value for our unit holders.

Now Operator, I'll turn the call back to you for any questions from our listeners.

QUESTION AND ANSWER SESSION

Operator

Thank you Mr. Silver. At this time, I would like to remind everyone in order to ask a question, please press star, then the number one on your telephone keypad. We ask that you please pick up your handset or step closer to your speakerphone system when asking your question to

provide maximum audio clarity. We'll pause for just a moment to compile the Q&A roster.

Our first question is from Pammi Bir with Scotia Capital. Please go ahead.

Pammi Bir, Scotia Capital

Thanks. Good morning. With respect to the recent change in leadership at CTC, has there been any discussion around the relationship with the REIT or perhaps if you could provide some colour around any possible implications that you might see going forward?

Ken Silver, Chief Executive Officer, CT REIT

Well Pammi, I'll just remind everybody that Stephen Wetmore was the CEO of Canadian Tire Corporation when the REIT went public in 2013 and he has been a Trustee of the REIT since the IPO and remains a Trustee of the REIT. So from the REIT's perspective, I think I could say quite simply that we see no implications for our direction going forward.

Pammi Bir, Scotia Capital

Okay and then maybe when I look at the Canadian Tire's online strategy. Do you have an updated view or thoughts, with respect to any possible changes within the portfolio for the REIT or maybe some in the future growth coming down from Canadian Tire?

Ken Silver, Chief Executive Officer, CT REIT

Of course I'll have to leave it to Canadian Tire Corporation to talk about their online strategy. Suffice it to say I see no negative implications of anything that Canadian Tire might execute from a multi-channel strategy.



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Pammi Bir, Scotia Capital

Okay. Maybe one last one. Looking at the investment activity that was done in Q2, what was the estimated yield on those investments if you exclude the Sears DC?

Louis Forbes, Chief Financial Officer, CT REIT

We don't have that data quite handy, but just make sure I understand the question, Pammi, it's Q2, everything finance, so not tying it to our announcements, excluding Sears? Is that the question?

Pammi Bir, Scotia Capital

Yes.

Louis Forbes, Chief Financial Officer, CT REIT

I'd like to take that offline and be sure of our answer, but we do not have that at our fingertips.

Pammi Bir, Scotia Capital

Just referring to your schedule in the MD&A on page 8 but I mean we know what the Sears asset was acquired for but it's just sort of working out the balance

That's it for me. Thanks.

Operator

Thank you. Our next question is from Mike Markidis with Desjardin Capital Markets. Please go ahead.

Michael Markidis, Desjardin Capital Markets

Hi good morning. Just a quick one from me. On the Bolton, DC, can you just remind us when exactly that was acquired?

Louis Forbes, Chief Financial Officer, CT REIT

It was around third week of June, the 21st I'll say, Mike.

Michael Markidis, Desjardin Capital Markets

Can you remind us, is there going to be—are you going to be capitalizing interest associated with that?

Louis Forbes, Chief Financial Officer, CT REIT

We expect that for a very small portion of Q2 but then for full quarters Q3 and Q4 with rent expected to start January 1st and capitalization to stop on that date.

Michael Markidis, Desjardin Capital Markets

Okay and then can you just briefly for us remind us of the—I think the actual annual NOI was somewhat variable based on the total cost. Just remind us of that mechanism.

Louis Forbes, Chief Financial Officer, CT REIT

Now your memory is good. Once the final purchase price is known, we'll know what the NOI is because we will apply the cap rate to that then known cost. Are you asking what's driving the variability in the investment cost? Is that part of your question?

Michael Markidis, Desjardin Capital Markets

No, no, no. Sorry. I was just making sure I had the facts straight on that and then if you could just remind us what the cap rate is once the cost is finalized.

Louis Forbes, Chief Financial Officer, CT REIT

It's 5.20 I believe.



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Michael Markidis, Desjardin Capital Markets

Five, twenty. Okay, that's great. That's it for me. Thank you.

Operator

Thank you. Our next question is from Alex Avery with CIBC. Please go ahead.

Alex Avery, CIBC Capital Markets

Thank you. On the Class B units issued for the Class C units you see the leverage took down again this quarter. You don't have any of the large tranches coming due until 2020 but in 2017 you've got about \$70 million Class C units. Should we expect that there might be the same election made to receive, I guess, Class B units instead of Class C units.

Louis Forbes, Chief Financial Officer, CT REIT

No Alex. While it's a possibility, I would not guide you to expect that—there could be a variety of ways that the redemption or reset is dealt with at that time.

Alex Avery, CIBC Capital Markets

Whose election is it that?

Louis Forbes, Chief Financial Officer, CT REIT

Well if you read the LP Agreement, I believe you'll see the REIT—the first election is made by the REIT and so the REIT declares what it would like to do and then the holder of the C units then responds and says what they would like to do.

Alex Avery, CIBC Capital Markets

Your election is to redeem or roll?

Louis Forbes, Chief Financial Officer, CT REIT

Right. So the REIT in the past has in both cases of Series 1 and 2, the REIT has sent a notice to Canadian Tire saying "We would like to redeem". In the one case, the response was "Yes, let's redeem, we'll take cash". Then in the second series case it was "Yes let's redeem, we'll take these".

Alex Avery, CIBC Capital Markets

Okay. On the distribution centre when Canadian Tire takes occupancy there, I guess this will be replacing their Steeles and Bramalea location and I think at some point you mentioned that CT REIT was assuming responsibility for the process of, I guess, undertaking a re-development to that property?

Ken Silver, Chief Executive Officer, CT REIT

Yes, that's correct, Alex.

Alex Avery, CIBC Capital Markets

What's the status there and what's the prospect for CT having an ownership stake in that property?

Ken Silver, Chief Executive Officer, CT REIT

Well I would say that the probability of CT REIT having an ownership stake is relatively high. We'd be happy to have that asset in the portfolio and we're doing the work to prepare to submit a planning application.



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Alex Avery, CIBC Capital Markets

That would presumably not involve Canadian Tire as a tenant? This would be a third party development?

Ken Silver, Chief Executive Officer, CT REIT

Well we don't have a lease commitment from Canadian Tire. It's quite possible that it could be third party tenants.

Alex Avery, CIBC Capital Markets

That would be the distribution centre that's being replaced by the Bolton one, correct?

Ken Silver, Chief Executive Officer, CT REIT

Yes, that's the one. That's the distribution centre at Steeles and Bramalea Road in Brampton.

Alex Avery, CIBC Capital Markets

So is it a possibility that it could be re-developed into a retail store or is it...?

Ken Silver, Chief Executive Officer, CT REIT

Well I think part of what our application might contemplate is adding some uses to the site. So there might be a retail commercial component. It's a 90-acre site so there is room to do a number of different things. So I would anticipate that we might see retail uses, perhaps some suburban office uses and continuing industrial use.

Alex Avery, CIBC Capital Markets

Okay, that's great. Thank you.

Ken Silver, Chief Executive Officer, CT REIT

Thank you.

Operator

Thank you. Our next question is from Sam Damiani from TD Securities. Please go ahead.

Sam Damiani, TD Securities

Thanks and good morning. Just on the Class C's coming up 2020 and 2024. Is there any thought to early redeeming those? Any provision to do that? Would there be a cost?

Louis Forbes, Chief Financial Officer, CT REIT

Louis speaking Sam. No there's no thoughts about dealing with the 2020's or 2024's or any other series early. If we were to consider that, I think it would just be a negotiation between the parties because we would be operating outside the written agreements at that point.

Sam Damiani, TD Securities

Clearly some substantial interest cost savings to be achieved but not being contemplated at this point?

Louis Forbes, Chief Financial Officer, CT REIT

No, there is nothing underway on that front and if we refinanced for like terms then I agree with your statement that there would be substantial interest savings.

Sam Damiani, TD Securities

So the leverage tick down this quarter. Do you see the REIT sort of staying down at this level or going back up toward 48% going forward?



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Louis Forbes, Chief Financial Officer, CT REIT

Well it depends how you measure leverage, Sam, to the extent that leverage ticked down because of a higher unit price as kind of head fake, I wouldn't put a lot of weight in that. The REIT has been around 48 percent for a while and we're happy with that. If we have a bias, I would suggest it would be to take it lower not to take it higher but again there's nothing firm on that.

Sam Damiani, TD Securities

Finally, with the Bolton DC coming online next year, how do you see the payout ratio evolving, given the stuff up in rents?

Louis Forbes, Chief Financial Officer, CT REIT

Well as we reported, the payout ratio for Q2 was 81 percent and we've indicated in past Investor Meetings that we're sort of working on a path to 80 and then we would rethink things and I would say that remains true. Distribution changes are at the pleasure of the Board so we will need conversation with the Board to elaborate.

Sam Damiani, TD Securities

Good, that's it for me. Thank you.

Operator

Thank you. Once again, please press star one at this time if you have a question.

Our next question is from Michael Smith with RBC Capital Markets. Please go ahead.

Michael Smith, RBC Capital Markets

Thank you. Just on your properties, Winkler Manitoba. Is that Southland Mall?

Ken Silver, Chief Executive Officer, CT REIT

Yes, that's right, Michael.

Michael Smith, RBC Capital Markets

Are there any plans, I guess you're thinking through the re-development of that property or the refurbishment. Is there room for other Canadian Tire banners or is there any thoughts of de-malling it or...?

Ken Silver, Chief Executive Officer, CT REIT

Michael you've pretty much checked the boxes on all the things we're contemplating for the future of the mall. Currently there's a Canadian Tire store there, a Mark's store and a gas bar. So the only banner that's missing is Sport Check. So we've had some discussions with them as well as with the other retail banners but as far as what their long-term plans and requirements are. I think the first step is the way we work with Canadian Tire is to assess what the Canadian Tire retail banners requirements are and then we'll plan the rest of the development around that.

Michael Smith, RBC Capital Markets

Okay. Thank you.

Operator

Thank you. Our next question is from Jenny Ma, with Canaccord Genuity. Please go ahead.

Jenny Ma, Canaccord Genuity

Thanks. Good morning everyone.



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Ken Silver, Chief Executive Officer, CT REIT

Good morning.

Jenny Ma, Canaccord Genuity

Just a quick question on the internalization of services under the agreement. Can you elaborate on exactly what was internalized and whether there would be a material, going forward, impact on G&A and if there's any other functions that could be internalized down the road?

Louis Forbes, Chief Financial Officer, CT REIT

Sure Jenny. We started this internalization and it wasn't an all at once thing but starting January 1st, certain people in the legal group moved over to the REIT and I would say at the end of the third quarter there will be three people related to that and so the REIT has been incurring almost its run rate with respect to the legal group in its own G&A and we achieved a reduction in the legal component of the Services Agreement with Canadian Tire as result of internalizing those people. I would say that the full reduction has not yet been realized because there was some overlap as people were being trained to take on task but I would say by Q4 of this year, we'll be at a run rate in that respect with the Services Agreement, barring any other changes internalizing services.

Jenny Ma, Canaccord Genuity

So the second part of my question was, was there anything else that you can look to internalize as you've grown or is this all that's been contemplated at this point?

Louis Forbes, Chief Financial Officer, CT REIT

I would say there's nothing else that we're talking about yet but I would say that as we grow we'll constantly re-evaluate the location of services whether they're internal or within Canadian Tire.

Ken Silver, Chief Executive Officer, CT REIT.

Jenny its Ken. As we mentioned, we've moved Clint Elenko from the CTC Real Estate Team into REIT, but the net effect of that is neutral.

Jenny Ma, Canaccord Genuity

So is it fair to assume that if you look over the medium term, I guess, in terms of these services, that when you make these decisions, I guess, the immediate economic impact would be neutral and that would trigger a decision and maybe there'd be savings down the road? Is that fair to say?

Ken Silver, Chief Executive Officer, CT REIT

Yes, I think the net effect is—the primary driver it's not so much the potential G&A savings as we really are swapping internal costs versus what we're being billed by Canadian Tire. I think the real benefit is as we grow and as we develop a pipeline of activities or new activities, is really we're generating a direct accountability to the REIT that I think will be valuable in the long run.

Jenny Ma, Canaccord Genuity

Great. That's helpful. Thanks.

Operator

Thank you. As there are no further questions at this time, I will turn the call over to Ken Silver, CEO for any closing remarks.

Ken Silver, Chief Executive Officer, CT REIT

Thank you Operator and thank you all for joining us today. We expect our third quarter results will be released the first week of November. We look forward to speaking with you then. Thank you.



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Operator

Thank you gentlemen. Conference has now ended.
Please disconnect your lines at this time and thank you
for your participation.