**Easterly Government Properties**

**First Quarter 2020 Earnings Conference Call**

**May 5, 2020**

## CORPORATE PARTICIPANTS

**Lindsay Winterhalter,** *Vice President, Investor Relations and Operations*

**Darrell W. Crate,** *Chairman, Board of Directors*

**William C. Trimble,** *President, Chief Executive Officer and Director*

**Meghan Baivier,** *Executive Vice President, Chief Financial Officer and Chief Operating Officer*

## CONFERENCE CALL PARTICIPANTS

**Katy McConnell,** *Citigroup, Inc.*

**Michael Carroll,** *RBC Capital Markets*

**Peter Abramowitz,** *Jefferies*

**Bill Crow,** *Raymond James*

## PRESENTATION

**Operator**

Greetings and welcome to the Easterly Government Properties First Quarter 2020 Earnings Conference Call.

At this time all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. Should anyone require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I will now turn the call over to Lindsay Winterhalter, Vice President, Investor Relations. Please go ahead.

**Lindsay Winterhalter**

Good morning.

Before the call begins, please note the use of forward-looking statements by the Company on this conference call. Statements made on this call may include statements which are not historical facts and are considered forward-looking. The Company intends these forward-looking statements to be covered by the Safe Harbor provisions for forward-looking statements contained in the Private Securities Litigations Act Reform of 1995 and is making this statement for the purpose of complying with those Safe Harbor provisions.

Although the Company believes that its plans, intentions, expectations, strategies, and prospects as reflected in or suggested by those forward-looking statements are reasonable, it can give no assurance that these plans, intentions, expectations, or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond the Company's control, including, without limitation, those contained in Item 1A Risk Factors of its Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 25, 2020, and in its others SEC filings and risks and uncertainties related to the adverse impact of COVID-19 on the U.S. regional and global economies, and the potential adverse impact on the financial condition and results of operations of the Company. The Company assumes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

Additionally on this conference call, the Company may refer to certain non-GAAP financial measures, such as Funds from Operations, Funds from Operations as adjusted, and cash available for distribution. You can find a tabular reconciliation of these non-GAAP financial measures to the most comparable current GAAP numbers in the Company's earnings release and separate supplemental information package on the Investor Relations page of the Company's website at ir.easterlyreit.com.

I would now like to turn the conference call over to Darrell Crate, Chairman of Easterly Government Properties.

**Darrell W. Crate**

Thank you, Lindsay. Good morning everyone, and thank you for joining us for this first quarter conference call. Today, in addition to Lindsay, I am also joined by Bill Trimble, the company's CEO, and Meghan Baivier, the company's CFO and COO.

Before we begin, I want to extend my well wishes for the health and safety of everyone on this call. These are unprecedented times and we all eagerly await the day when we can meet face-to-face once again.

What a quarter it has been. We've witnessed the strength of the company's defensive and differentiated strategy, the virtues of a revenue stream backed by the full faith and credit of the U.S. government are serving investors well. We've spent the last five years as a public company carefully assembling the necessary tools to perform in any business environment, and we have achieved scale in our operations, meaningfully diversified and maintained the average length of our leases. We've also maintained a disciplined investment grade balance sheet that has provided us with the attractive cost of capital that we can then deploy accretively through the acquisition and development of bullseye properties.

We're appreciative of the confidence our investors have placed in the company, which has in turn allowed us to continue to deploy capital in an attractive and consistent manner. At a time when the future feels less transparent than before, it gives me great comfort to serve as Chairman of such a no-drama REIT.

Continue to stay safe, and with that, I'll turn the call over to Bill.

**William C. Trimble**

Thanks, Darrell, and good morning.

Thank you for joining us for our first quarter earnings call. Given this unique backdrop, I will begin with our operations at Easterly in light of the COVID-19 pandemic and then continue with my more traditional discussion of our quarterly activities.

We commenced our work from home protocol for our employees on Friday, March 13, and thanks to our superb Operations and IT staff, we enjoyed a near-seamless transition from in-office operations with efficiency remaining high and morale strong.

With just 40 employees companywide, our Leadership Team is able to maintain our close-knit structure with time to make sure the Easterly team is doing well, their families are staying safe and they have the support they need during these challenging times. I am proud of how Easterly has adapted to this change and I applaud our staff for being so ahead of the curve in terms of planning and preparedness. We continue to monitor the effects of social distancing across the region and the country, and look forward to returning to our offices soon, but only when it is safe to do so.

Our proactive approach extends to our strong commitment toward and partnership with our primary tenant, the U.S. federal government. The operations of many of our tenant agencies are deemed essential and our Asset Management Team has been exceptional in deploying a structured COVID-19 Response Plan across the portfolio, while also meeting the unique needs of certain properties as they combat suspected and confirmed COVID cases. To date, there have been 17 suspected cases and 3 confirmed cases of COVID-19 throughout our entire portfolio. Our team has worked quickly with the government to address these situations as they arise and we'll continue to review our response plan to ensure the health and safety our tenants and our employees. The praise we have received from the GSA and the underlying agencies with respect to our level of service in an expeditious manner is just another example of our differentiated approach towards the U.S. government. These are trying times and Easterly has and will continue to deliver.

Turning towards our first quarter results, the Acquisitions Team started the quarter with an acquisition of a 101,000 square foot Defense Health Agency facility located in Aurora, Colorado. DHA Aurora, a build-to-suit property specifically constructed for the DHA, was originally built in 1998 and underwent a sizeable renovation in 2018 upon the execution of a new 15-year lease. The facility is leased to the GSA for the beneficial use of the DHA with a lease expiration of 2034.

We then announced our second acquisition of the quarter with the purchase of a 203,000 square foot FBI and DEA Joint Federal Justice Center located in El Paso, Texas. This facility is really the tip of the spear in terms of enduring missions for the federal government. Not only does this three-building compound serve as one of the 56 field offices for the FBI, but it is also one of the DEA's 23 domestic division offices, both of which are strategically located throughout the country. This 100% leased facility was constructed in phases between the years of 1998 and 2005 with a lease term that expires in July of 2028.

In April, the Company announced its third acquisition of the year and the first of the second quarter with the purchase of a 79,000 square foot Department of Veterans Affairs outpatient facility in Mobile, Alabama. Like our other outpatient facilities, VA Mobile is a recently completed build-to-suit facility that is subject to an initial 15-year noncancelable lease that expires in December of 2033.

In addition, yesterday we announced our fourth acquisition of the year with the purchase of a VA outpatient facility located in Chico, California. This 52,000 square foot build-to-suit outpatient clinic was recently completed in mid-2019. The state-of-the-art facility was designed to achieve a LEED Healthcare Silver certification and is leased to the VA for an initial noncancelable lease term of 15 years that expires in June of 2034.

I am proud of our Acquisitions Team. Our ability to execute on our pipeline of actionable opportunities is truly exceptional. It is because of the strength of our team, our attractive cost of capital, and our robust pipeline that we continue to feel confident in our ability to deliver on our stated goal of $200 million in acquisitions for 2020.

Mike Ibe and his team continue to make exceptional progress at our FDA Lenexa facility. Construction is progressing at a rapid pace with various trades working in shifts in response to safety measures put in place due to coronavirus, and we remain on track to deliver our brand new, state-of-the-art laboratory facility for the FDA in the fourth quarter of 2020. We have also made significant progress with the FDA and the GSA for the Atlanta laboratory redevelopment project. We have submitted the final design intent drawings to the government and construction drawings are ongoing. We do not expect any delays in our original timeline for FDA Atlanta and we look forward to delivering another state-of-the-art facility for the FDA in 2022.

To summarize, Easterly continues to deliver on all fronts of the business. Our unique ability to operate during a global pandemic centers on the long arc of our business: Our acquisition pipeline, lease durations, re-leasing engagements with the federal government and development opportunities all take a long time to harvest. Because of that, we have the benefit of time on our side. Further, it is this calculated and methodical pace that provides our company with the stability and dependability we are known for, and as a result, we are not feeling any material levels of disruption because of COVID-19.

I thank you again for your partnership and commitment to our investment thesis.

I'll turn the call over to Meghan to discuss the Company's quarterly financial results.

**Meghan Baivier**

Thank you, Bill. Good morning, everyone.

Easterly's unique portfolio of government leased real estate has once again allowed us to predictively post strong expectations-meeting earnings. Like Bill, allow me a moment to discuss Easterly's operations from a financial standpoint.

We are pleased to report the financial impact from COVID-19 on the Easterly rent roll has been de minimis. In the first quarter, uncollected rental income was approximately $1,300 and we do not expect any material rent collection issues for the second quarter and beyond.

Turning to our quarterly results, as you saw in our earnings release, for the first quarter net income per share on a fully diluted basis was $0.02. FFO per share on a fully diluted basis was $0.30; FFO as adjusted per share on a fully diluted basis was $0.29; and our cash available for distribution was $21.8 million.

As of March 31st we owned 72 operating properties, comprising approximately 6.8 million square feet of commercial real estate, with two additional projects totaling approximately 222,000 square feet under development or in design. The weighted average age of our portfolio was 13.1 years.

Turning to the balance sheet, at quarter end the Company had total indebtedness of approximately $943 million with $414 million available on our line of credit for future acquisitions and development-related expenses. As of March 31st, Easterly's net debt to total enterprise value was 30.6% and its adjusted net debt to annualized quarterly pro forma EBITDA ratio was 6.3x.

In the first quarter of 2020, the Company sold and issued 200,000 shares of its common stock through the Company's March 2019 ATM program at a net weighted average price of $24.17 per share, raising net proceeds to the Company of approximately $4.8 million. Further, during and subsequent to the quarter, the Company entered into forward sales transactions under the Company's ATM programs for the sale of an additional 3.8 million shares of our common stock at a weighted average initial forward sales price of $26.75 per share that have not yet been settled. Assuming the Company's total 6.7 million shares bound by forward sales transactions under the Company's ATM programs are physically settled in full, utilizing a weighted average initial forward sales price of $25.06 per share, the Company expects to receive net proceeds of approximately $166 million. With these forward sales, Easterly is very well poised to fund our acquisition and development pipeline at a highly attractive cost of capital with just-in-time funding.

Turning to our earnings guidance, for the 12 months ending December 31, 2020, the Company is maintaining its guidance for FFO per share on a fully diluted basis of $1.22 to $1.24. The midpoint of this guidance is based on the Company completing $200 million of acquisitions and $40 million to $50 million of growth development related investment in the year. While COVID-19 may be a financial disruptor for many companies, we believe at this time our business model can withstand and even grow through this storm. As previously stated, the midpoint of this 2020 guidance represents approximately 2.5% growth from our 2019 results, in line with our long-term goal of delivering 2% to 3% annual earnings growth to investors. Long-term steady growth is this company's objective and we expect our performance in 2020 will meet that goal.

As always, thank you for your time and partnership. We wish you all the best and please stay safe.

With that, I will turn the call back to Sachi.

**Operator**

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

The first question is from Manny Korchman of Citi. Please go ahead.

**Katy McConnell**

Good morning. This is Katy McConnell on for Manny. I'm wondering if you could just provide some color on the pricing of deals completed to date and where you stand versus the $200 million guidance for the year. Then maybe talk about how the competitive landscape has changed as you look for additional opportunities.

**William C. Trimble**

Absolutely. Good morning to you.

Basically, DHA Aurora, our first purchase was $14 million; our FBI/DEA El Paso joint facility was $38.7 million; our VA Mobile was $39.5 million and the VA Chico was $33.1 million, which totals to $124.7 million, which for on our way to $200 million I'd say we're in an awfully good start since last time I checked we are not half way through the year for a couple of months and we continue to see plenty of opportunities.

I think the landscape in our market in many ways remains the same. I think there is an additional opportunity now in that some of the sellers—and we're familiar with absolutely every one of them, and I tell you, hats off to our Acquisitions Team who are really dialing all day long and talking to our friends that own these buildings. There are a number of owners who also have other properties that are not in the government space, including hotel developments and the such, and I think that we're going to see some opportunities as some of these regional developers take advantage of being able to sell those properties to us in an expeditious manner and build cash reserves for other opportunities.

From that standpoint, I think we have a bright pipeline this year and we will continue to execute on it.

**Katy McConnell**

Okay, great. Thanks.

**Operator**

The next question is from Michael Carroll of RBC Capital Markets. Please go ahead.

**Michael Carroll**

Thanks. Bill, just kind of off of those last comments, and I know it seems like there are some opportunities for some more single asset type transactions, what about the portfolios? I know those are harder to predict, but are those owners more willing to sell some of their properties and de-risk during this type of environment? Or are they still holding pat?

**William C. Trimble**

Hey Michael, good morning. I think it's the same there really, but you can be assured that we're calling the owners of the smaller portfolios and the larger portfolios and obviously from an M&A standpoint we think we're in a terrific position with our cost of capital right now to move forward.

Having said that, I think naturally things are not moving quite as quickly today and people are still triaging their own situations. I would say all in all it's pretty much a steady state there, but just my message would be that I have a positive outlook on what we'll be able to accomplish in the pipeline this year.

**Michael Carroll**

Okay, and then on the single assets, how much bigger is the pipeline today given these increased opportunities? Is there a way to kind of quantify that?

**William C. Trimble**

No. I mean I'd tell you we, since 2010, just—silly us, but we've stuck with $700 million out there that we think is a good number to be familiar with, and the $200 million is obviously based on what we're pretty darned sure we can execute on. I will just say that we are busy trying to exceed that number and we have in many years. You can't guarantee that sort of thing but that's certainly our preference is to put the throttle forward when we're looking at the situation with our cost of capital and this particular time.

**Michael Carroll**

Okay. Then on the near-term lease expirations that are coming due, is there, I guess, any delay in those and is there risks that some of those leases go into holdover, or is the government still, I guess, working as typically we would expect and the activity is kind of in line of where it has been historically.

**Meghan Baivier**

Hey Michael, this is Meghan. You know, the GSA has proven to be very efficient from working from home, so we are in touch with lease contracting officers and leasing activity in general. It is progressing and moving forward.

**Michael Carroll**

Okay, great. I guess last question from me is how should we think about the settlement of those forward equity commitments? I know you typically have 12 months to close those. Should we kind of straightline that? Are you going to assume that you close those as more deals kind of come through?

**Meghan Baivier**

Yes, Michael. That's going to be used for, if you will, just-in-time funding around deals being closed.

**Michael Carroll**

Okay, great. Thank you.

**Operator**

The next question is from Peter Abramowitz of Jefferies. Please go ahead.

**Peter Abramowitz**

Hi. Thank you. Just wanted to get your thoughts on kind of long term and in a recessionary environment, obviously, for kind of more traditional real estate assets. You would typically expect some cap rate expansion now being kind of in the niche market that you guys are in. What are your thoughts on kind of how cap rates could potentially move, just given everything that the economy is facing?

**William C. Trimble**

Good morning. I'll tell you, having done this since—started looking at this in 2009, it's been really quite incredible how little cap rates have moved through various events that we have seen since over a decade ago. The scarcity of the buildings, which is an advantage we have because we know all the buildings out there I think is mostly the driving factor and we've been very careful not to, as we said, become the elephant in the swimming pool and start driving pricing up too much in front of us. You will continue to see a really disciplined approach from us for the long term growth.

Having said that, in this market today, we are really seeing the same sorts of cap rates. Last year and into the first quarter, most of those cap rates have been in that sort of low to mid 6 area. Obviously, when you're looking at some of the most pristine properties—let's take a brand new FBI with a 15-year or 20-year lease, or maybe even one of our new FDA laboratories which we were fortunate enough to build ourselves and have over a 7 yield on, those sorts of facilities you're going to be down below 6, maybe 5.9, 5.8, and I think they've always been there. Obviously, with our current cost of capital even they could be attractive for pennies per share for our shareholders, so I think you're going to see us maintain and hold a disciplined approach, but I think you might also see us occasionally go out and get some pristine properties that not only build our average lease term but continue to drive us towards the center of the bullseye in quality for the portfolio, as long, obviously, as it's accretive, and a lot is accretive at our current cost of capital.

**Peter Abramowitz**

Sure. Okay, thank you. That's helpful. Then just one more. Kind of given the shifting priorities for federal spending, do you think that at all impacts kind of the concentration of different agencies that are in the portfolio? Do you see that having any impact on just the mix of tenant exposure from government agencies moving forward?

**William C. Trimble**

No. I think that as the largest employer in the world and the largest office tenant in the United States, the federal government does not seem to be pulling back on their expenditures right now. In fact, I think we might see more opportunities going forward. As government seems to be poised—has grown substantially during this period of time, I think we can only be beneficiaries of that. Obviously our portfolio has really been sort of targeted at about three dozen agencies that we believe whether we have a Republican or a Democrat in office will do just fine and weather any storm, but, you know, I mean I think if you look at our FEMA facilities, you look at these FDA laboratories that we're building—there's 10 more to go—I don't see really the federal government cutting back on the new FDA laboratories. I don't see the federal government cutting back on the VA outpatient clinics that are providing an incredible amount of service right now to our veterans, 22 million men and women. The FBI has certainly got a lot going on.

I think the federal government is going to be a good place to be and is certainly a certain place to be for the foreseeable future, and I think they're leaning in to development projects going forward.

**Peter Abramowitz**

All right. That's it for me. Thank you.

**Operator**

As a reminder, it is star, one to ask a question.

The next question is from Bill Crow of Raymond James. Please go ahead.

**Bill Crow**

Hi. Good morning everybody. Any change in the buyer pool out there that you're competing against? I'm just curious whether this period is knocking folks out or whether it's actually shifting more people into a more defensive mode and looking for this longer term net lease like structure.

**William C. Trimble**

Good morning, Bill. It's hard to tell exactly what's happened. I will tell you that we have won every single building—and some of the obviously off-market—that we've wanted to do this year. So from our standpoint it's been clear sailing.

There were rumors at the beginning of March that others were going to think about getting into the government space because it was such a safe place to be. That has not happened. I think the daunting task of dealing with federal government, if you don't have people that have been trained, you don't have the verticals, you don't have the Government Operations team, and certainly the databases and the knowledge, we've seen that just completely—that was just quick flash and did not occur. So I think from that standpoint, certainly from a cost of capital, our friends who are in the private area of the GSA acquisitions I think do not have as strong a cost of capital right now, so from our standpoint we've got the green light. We're going to be prudent and we're going to execute, but we have not seen a big change in the landscape.

**Bill Crow**

I appreciate that. What are you seeing on re-leasing spreads?

**Meghan Baivier**

Hey Bill, this is Meghan. The dynamic around how we approach re-leasing and what drives our re-leasing spreads really has not been impacted by this pandemic, and so the dynamic around the fact that the replacement cost of the asset remains the high water mark for these conversations really hasn't shifted, and our re-leasing, if you will, processes stay on track, in line with that expectation.

**Bill Crow**

All right. Thanks, Meghan. One more for you.

**Meghan Baivier**

Sure.

**Bill Crow**

Given the cost of capital today, do you find yourself leaning more into equity on a relative basis, or are you trying to maintain your debt/equity balance as it has been historically? What are your thoughts there?

**Meghan Baivier**

Obviously like the way we're positioned today, but as we continue to build into the year and lean in to the $200 million-plus type goal in terms of acquisitions, that is absolutely an opportunity for us to continue to use equity to de-lever the balance sheet while still delivering on our earnings expectations. That is a dynamic you can expect us to take advantage of as we move through the year.

**Bill Crow**

Okay, thank you. Appreciate it.

**Meghan Baivier**

Thank you.

**Operator**

This concludes the question-and-answer session. I would like to turn the floor back over to Darrell Crate for a closing comment.

**Darrell W. Crate**

Great. Thank you everyone for joining the Easterly Government Properties First Quarter 2020 Conference Call. While the Company will not miss a beat because of COVID, we all look forward to the end of quarantine and being together with colleagues and investors soon, and we wish everybody good health.

**Operator**

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.