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RMR.OQ - Q3 2026 RMR Group Inc Earnings Call

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PRESENTATION

Operator

Good day, and welcome to The RMR Group fiscal third quarter 2026 earnings call. (Operator Instructions) And please note this event is being recorded.

I would now like to turn the conference over to Bryan Maher, Senior Vice President. Please go ahead.

Bryan Maher - *The RMR Group Inc. - Senior Vice President*

Thank you. Good morning. Thank you for joining RMR's Fiscal third quarter 2026 conference call. With me on today's call are President and CEO, Adam Portnoy; Chief Operating Officer, Matt Jordan; and Chief Financial Officer, Matt Brown.

In just a moment, they will provide details about our business and quarterly results, followed by a question-and-answer session. I would also like to note that the recording and retransmission of today's conference call is prohibited without the prior written consent of the company. Today's conference call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other securities laws.

These forward-looking statements are based on RMR's beliefs and expectations as of today, August 6, 2026, and actual results may differ materially from those that we project. The company undertakes no obligation to revise or publicly release the results of any revision to forward-looking statements made in today's conference call.

Additional information concerning factors that could cause those differences is contained in our filings with the Securities and Exchange Commission, which can be found on our website at rmrgroup.com. Investors are cautioned not to place undue reliance upon any forward-looking statements.

In addition, we may discuss non-GAAP numbers during this call, including distributable earnings and adjusted EBITDA. A reconciliation of net income determined in accordance with US generally accepted accounting principles to these non-GAAP figures can be found in our financial results.

I'll now turn the call over to Adam.

Adam Portnoy - *The RMR Group Inc. - Chairman of the Board, President, Chief Executive Officer, Managing Director*

Thanks, Bryan, and thank you all for joining us this morning. Yesterday, we reported third quarter financial results that were in line with our expectations, despite broad economic and geopolitical uncertainty. Our quarterly results were highlighted by distributable earnings of $0.48 per share and adjusted EBITDA of $19.7 million. Our results continue to reflect the organization's focus on our two primary strategic objectives. First, we are focused on driving continued improvements in the share prices of our managed REITs through strong business execution.

And second, we are focused on growing our private capital business. While Matt will talk more about private capital, as it relates to our managed REITs, over the past two years, we have actively assisted the REITs in deleveraging efforts through strategic asset sales, refinancing debt on more attractive terms, and driving property NOI growth through increased occupancy, rent roll-ups, and disciplined expense management. These efforts continue to resonate with the investment community, as both DHC and ILPT remain among the best-performing REITs in the US over the past three years.

As a result of this continued outperformance, we have seen sequential quarter growth in management fees, and we are on pace to generate over $40 million in incentive fees this calendar year. Now turning to our managed REITs. At DHC, the REIT continues to experience significant operating improvement within its senior housing segment, following the transition of 116 communities to new operators over the past year.

DHC has also materially improved its balance sheet metrics, following over $600 million in non-core asset sales since the beginning of last year, resulting in net debt-to-adjusted EBITDA declining to 7.1 times as of June 30. In the second quarter, DHC generated normalized FFO of $0.16 per share and adjusted EBITDA of $82 million, both exceeding consensus estimates. Same property SHOP NOI grew 37% over last year, and same property SHOP margins improved 390 basis points to 17.3%. Importantly, we continue to believe that DHC is in the early innings of a multi-year acceleration in cash flow growth, because of the demographic-driven demand for its SHOP communities and limited supply growth, which are amplified by the operational improvements we are implementing across the portfolio.

ILPT had a very successful quarter with its results highlighted by a record 5.4 million square feet of leasing and a weighted average rent roll-up of more than 35%, marking its seventh consecutive quarter of double-digit rent growth. Additionally, RMR recently assisted ILPT with the refinancing of $1.6 billion of new debt for its consolidated Mountain joint venture, which replaced floating-rate debt with interest-only fixed-rate debt and an attractive 5.7% interest rate. Given a materially improved debt profile and strong organic cash flow growth, ILPT recently doubled its quarterly dividend to $0.10 per share, while maintaining significant dividend coverage.

SVC continues to make progress strengthening its balance sheet, while improving its portfolio composition through a combination of capital recycling and over $900 million in non-core asset sales since the beginning of last year. Management's primary focus remains on working with Sonesta's new leadership team to drive hotel EBITDA margins higher, while also looking to realize the anticipated benefits from nearly $650 million in capital improvements made to its retained hotel portfolio over the past three years. For the quarter, SVC's retained hotels saw RevPAR increase 6.6% and hotel EBITDA grow 4.2%, reflecting the early benefits of the recently completed renovations. Normalized FFO per share came in at $0.43 and adjusted EBITDA was $146 million.

RMR was instrumental in helping SVC improve its balance sheet during the quarter using the net proceeds from its recent $575 million equity offering to redeem $550 million of unsecured notes due in 2027. As a result, SVC has meaningfully reduced near-term refinancing risk, while creating runway to optimize its hotel performance and advance its broader transformation into a net lease-focused REIT. Lastly, OPI recently emerged from bankruptcy and its newly issued shares trade on the NASDAQ. As we previously highlighted, RMR will continue managing OPI for an initial five year term, with RMR receiving a flat business management fee during the first two years of $14 million per year.

To conclude, we are pleased with the significant progress RMR has made improving the financial positions of our Managed REITs. We are particularly encouraged by the total shareholder returns that have been delivered by DHC and ILPT over the past three years, and we are working hard to deliver similar results across all of our clients.

With that, I'll now turn the call over to Matt Jordan.

Matthew Jordan - *The RMR Group Inc. - Chief Operating Officer, Managing Director*

Thanks, Adam. While our publicly traded perpetual capital clients provide RMR and its shareholders with a stable foundation of recurring cash flows, we continue to pursue growth strategies in our private capital business, which as a reminder, has grown from nearly zero assets under management in 2020 to over $12 billion today.

To further this initiative, over the past year we have built a global in-house sales and marketing team that continues to spend significant time increasing RMR's brand awareness. Given our expertise across most real estate sectors, we are in an excellent position to tailor the opportunities we are seeing in the market to potential partners' capital allocation strategies. While investor meetings continue to be constructive and have helped establish our organization in a manner that will benefit us in the long term, the ongoing conflict in the Middle East continues to be a headwind, with global real estate fundraising in the first half of the calendar year coming in at a nine-year low.

While we continue to make longer-term investments to build our brand and expand our investor universe, our residential business recently closed a joint venture acquisition in Greenwich, Connecticut for approximately $350 million. This venture involving RMR -- involved RMR partnering with new institutional investors that represent 95% of the equity in the venture, with RMR retaining a 5% general partner interest.

Our multi-year plan for this asset is to modernize the community, enhance the resident experience, and unlock embedded operating efficiencies. As general partner, RMR earned an acquisition fee at closing and will earn asset management and property management fees of approximately $750,000 annually from this venture. As a reminder, the RMR Residential platform we acquired in 2023 was historically built completing joint ventures like the Greenwich transaction with large institutional partners.

To that end, while we continue to fundraise for our Residential Enhanced Growth Venture, we expect to continue executing one-off joint ventures with RMR acting as the general partner. Further, as tailwinds continue to improve for multifamily real estate, whether it be continued strengthening of fundamentals or the continued slowdown in multifamily construction, we expect transaction activity to rebound over time. Our residential platform regularly exceeded $1 billion in transactions a year prior to the headwinds the sector has recently experienced.

Beyond our general partner interest, RMR wholly owns three multifamily communities encompassing 781 units that are almost 92% occupied. This quarter's earnings presentation includes expanded color on these assets, all of which are performing in line with their value-add business plans and collectively are seeing operating fundamental improvements as supply eases. This is most notably starting to show in a continued trend of rental rate improvements and the easing of tenant concessions.

In closing, as investors may recall, last quarter we added a slide to our investor presentation that highlighted the material discount at which RMR shares trade relative to our peers. As an update, if one were to back out the carrying value of our investments, as well as the net carrying value of our wholly owned real estate and JV interests, RMR shares are trading at just over 5 times the EBITDA generated primarily by the 20-year evergreen management contracts associated with some of our managed equity REITs. This is significantly below the 16.5 times average multiple at which our peers trade and highlights the attractiveness of our shares at current levels.

With that, I'll now turn the call over to Matt Brown.

Matthew Brown - *The RMR Group Inc. - Chief Financial Officer, Executive Vice President*

Thanks, Matt, and good morning, everyone. For our fiscal third quarter, we reported adjusted EBITDA of $19.7 million and distributable earnings of $0.48 per share, both of which met our guidance. Recurring service revenues were $45.5 million, a sequential quarter increase of approximately $3.5 million, driven primarily by increases in the enterprise values of DHC and SVC, seasonal improvements in Sonesta revenues, and acquisition fees earned from our Greenwich joint venture acquisition.

Next quarter, we expect recurring service revenues to remain consistent at approximately $45 million as enterprise values at our Managed Equity REITs continue to improve, offset by acquisition fees recognized in the current quarter. Turning to expenses, recurring cash compensation was $39.6 million, a sequential quarter increase of approximately $2 million, largely driven by year-to-date adjustments recognized in the current quarter and changes in headcount mix. Our reimbursement rate in the quarter was approximately 42%, which we view as a good run rate moving forward based on our current headcount mix and strategic asset sales at certain of our Managed Equity REITs.

Looking ahead to next quarter, we expect recurring cash compensation to decrease to approximately $38.5 million. As it relates to equity-based compensation, with our fiscal year-end approaching, RMR share awards to employees are expected to occur in September. Based on historical grants, we expect approximately $600,000 in incremental equity compensation next quarter.

Recurring G&A this quarter was $10.7 million, which is a modest sequential quarter increase driven primarily by normal course legal and professional fees, including third-party construction management fees. We expect recurring G&A to decrease slightly next quarter.

As noted in last quarter's call, our quarterly tax rate during the year is subject to fluctuation. However, these fluctuations are not expected to materially impact our full year estimated tax rate of 17% to 18%. This quarter, our tax rate remained elevated at 20.4% as adjustments such as unrealized gains on our investments in SVC and Seven impacted the timing of tax expense recognition.

As Adam highlighted earlier, OPI emerged from bankruptcy in June and we entered into amended and restated management agreements with OPI. As a result, we wrote off a contract asset associated with the previous management agreements, which was partially offset by RMR receiving 2% of the equity in the new entity to compensate us for our efforts through the bankruptcy process.

The net impact of these non-cash related items resulted in a net impairment charge of $19 million. Our investment in SVC generated approximately $420,000 in dividends in the quarter, which contributed to adjusted EBITDA and distributable earnings and serves as a good run rate moving forward. Aggregating these collective assumptions, next quarter we expect adjusted EBITDA to be approximately $19 million to $21 million and distributable earnings to be between $0.48 and $0.50 per share. We expect full year adjusted EBITDA to be approximately $76.5 million to $78.5 million, which excludes the $23.6 million of incentive fees earned for calendar year 2025 and the possible more than $40 million of incentive fees for calendar year 2026.

We ended the quarter with over $130 million of total liquidity, including over $55 million in cash and $75 million of capacity on our revolving credit facility. We remain well positioned to execute on our strategic objectives and pursue growth opportunities that strengthen our competitive position and support future performance.

That concludes our prepared remarks. Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Tyler Batory, Oppenheimer.

Tyler Batory - *Oppenheimer & Co Inc - Analyst*

First one is just on the private capital side of things, in particular the Enhanced Growth Venture. It sounds like it's just the macro that's impacting some of the fundraising, but just wanted to double click on that. I'm not sure if maybe some of the potential investors out there are looking for something different in terms of this sort of an investment. But just any updates on kind of how you think fundraising might progress over the next couple of quarters.

Matthew Jordan - *The RMR Group Inc. - Chief Operating Officer, Managing Director*

Tyler, it's Matt Jordan. I guess there's a couple of things at play here. The fundraising cycle in general has really extended. You're looking at 18 to 24 months and we're still about nine months in and we've had a series of global meetings and interest levels. So I would say the fundraising process is still very much underway. I think you also -- what's impacting it is two things. You have the Middle East conflicts and the related market volatility that's causing a lot of people to pause. And a lot of the capital that is most actively deploying in real estate is Middle Eastern money. So it's further compounding the issue.

You also have a second issue of a lot of investments made in the peak years when interest rates were 0 or near 0. Those investors haven't got that money back, so they don't have new money to deploy. So we just need to work through that. We're in this for the long game. Some of the effort we're doing as we market EGV and market RMR broadly is what we believe going to pay dividends in the long term when things stabilize and people start redeploying again.

Tyler Batory - *Oppenheimer & Co Inc - Analyst*

Okay, thank you for that. And then another big picture question, I'm just trying to think about offering leverage, potential margin improvement in the business. There's, I think, a lot of momentum, a lot of potential on the top line in terms of revenue. So any guideposts you could provide in terms of flow-through or EBITDA margin, what that might look like in the medium term?

Matthew Brown - *The RMR Group Inc. - Chief Financial Officer, Executive Vice President*

Sure. So our current EBITDA margin is in the low 40% range. Historically, that number was trending at or above 50%. Our goal is to get there. And the way we're going to get there is continue growing revenues. And we'll see that flow-through all the way down to the bottom line. So the goal is to get back towards that 50%-ish margin.

Tyler Batory - *Oppenheimer & Co Inc - Analyst*

Okay. And then a couple of housekeeping questions. So the $40 million potential incentive fees, I guess, I want to be clear. I think, I know, but I just want to be clear exactly which REITs are driving that? I don't know if there's any help in terms of potential sensitivity. I mean, it sounds like the $40 million is kind of a point in time from right now. So maybe there's even more upside depending how the rest of the year plays out.

Matthew Brown - *The RMR Group Inc. - Chief Financial Officer, Executive Vice President*

Sure. So the 2 REITs that are currently in the money for incentive fees right now are DHC and ILPT, with DHC representing about 75% of that total $40-ish million as of June 30. Yes, the fee is volatile, but both of those REITs are outperforming significantly, and as a result of it are hitting the cap of the incentive fee, which is 1.5% of equity market cap for each of them. So we feel really good about incentive fees for 2026. And even looking forward into 2027, we also expect a similar trend to what we're seeing currently.

Tyler Batory - *Oppenheimer & Co Inc - Analyst*

Okay, great. And then the last one, so the SVC investment that you've made, do you have an ideal holding period for that? Is that capital down the line that could be freed up and maybe an opportunity to monetize that at a gain?

Adam Portnoy - *The RMR Group Inc. - Chairman of the Board, President, Chief Executive Officer, Managing Director*

Hi, Tyler, it's Adam. I think you should think about that investment as a long-term investment. You know, we really are bullish about the prospects of SVC, which is what has partially led us to make that investment. And the business at SVC is going to -- the improvements that we are starting to see in the portfolio, we expect to continue. But it is going to be measured in years, not quarters or months. And I think from your perspective, to answer it directly, we expect to be long-term holders of SVC.

Operator

Christopher Nolan, Ladenburg Thalmann.

Christopher Nolan - *Ladenberg Thalmann - Analyst*

Adam, was the $40 million incentive fee for calendar year or fiscal year?

Adam Portnoy - *The RMR Group Inc. - Chairman of the Board, President, Chief Executive Officer, Managing Director*

It's a calendar year calculation. So it would be calculated at the end of December and typically paid, I believe, in January.

Christopher Nolan - *Ladenberg Thalmann - Analyst*

Okay. And then, what was the driver for the $21 million investment gain? I might have missed it in the comments.

Matthew Brown - *The RMR Group Inc. - Chief Financial Officer, Executive Vice President*

That's really just the change in share price of our investments in SVC and Seven from where they were at March 31 to where those shares ended at June 30.

Christopher Nolan - *Ladenberg Thalmann - Analyst*

Great. And then I guess following up on the comments on the slowdown in commercial real estate. Is it -- I presume it's across sectors. It's not sector-specific. And has this sort of impacted valuations for commercial real estate, equity valuations for properties and so forth?

Adam Portnoy - *The RMR Group Inc. - Chairman of the Board, President, Chief Executive Officer, Managing Director*

So it is broad-based generally in terms of capital flowing into commercial real estate. For sure there's a slowdown. Transaction volumes are down. Capital deployments are down. Capital raising is down, both in the private markets and public markets.

There are some exceptions, the obvious one data centers. The other exception within the sectors we operate in, I would say that senior living is a sector that continues to see flows. There are sectors performing better than others in terms of transaction activity and capital flows. Another area that seems to have some pretty good capital flows and transaction activity is industrial, which we have a large presence in. And sort of an up-and-coming area that's been up-and-coming now for a couple years and continues to accelerate is retail.

There's more capital flows coming into retail. So the whole sector is down, but there are some sectors doing better compared to others. In terms of pricing, pricing has not moved much in the last year or so for commercial real estate with the exception of maybe a couple of the sectors I just mentioned. I think cap rates are compressing in the senior living space. I think cap rates are starting to compress a little bit in the retail space. They're probably even coming down in the office sector, but they're coming down off a very high point in the office sector. So there hasn't been a big move in valuations, but the transaction volume is way down.

We're running like at 50% of, let's say, what normal transaction volumes would be. And so because you're not seeing as much capital flows and transactions volumes, that has not led to a deterioration in asset values significantly.

Operator

John Massocca, B. Riley.

John Massocca, could you please start your question over? I had -- I didn't quite get you on the queue or on the podium as fast as I thought.

John Massocca - *B. Riley Securities, Inc - Equity Analyst*

No problem. I'm a fast speaker. So maybe sticking with the theme of kind of on-balance -- starting with the theme of on-balance sheet real estate, how are you thinking about additional investments today? Does that need to see kind of a ramp-up in that private capital fundraising before you would feel comfortable putting more investments on balance sheet? Or given the capacity you have with some of the debt availability for RMR proper, you'd feel comfortable continuing to seed things as you see attractive opportunities in the multifamily space or other real estate sectors?

Adam Portnoy - *The RMR Group Inc. - Chairman of the Board, President, Chief Executive Officer, Managing Director*

All right, John. I think there, until you're sort of onto it, and we're thinking about similar ways, until there is a sort of an uptick in, let's say, fundraising around EGV or multifamily, I don't think you'll see us put another wholly-owned asset on the balance sheet for, let's say, multifamily.

The only area that we are actively thinking about putting a wholly-owned investment on the balance sheet would be maybe retail. We have one retail asset on the balance sheet. It's possible we could put another one or two there. We feel pretty bullish about that sector. We're not the only ones that feel bullish about that sector, but we feel pretty good about our ability to execute a value-add strategy in and around some, for lack of a better word, shopping centers.

And we've got one on balance sheet that's actually performing pretty well. We're hopeful we'll have a very good return on that investment. And so we could see that in retail. And again, that falls sort of the theme you've talked about, which is we're not really thinking about putting more money to work in multifamily, because we sort of have three assets. We're waiting to see if we can get the capital deployed or raise capital in a private format around that.

We haven't really built out a strong track record in value-add retail investing. And so that's the precipitous for us to use the balance sheet capital for that. But the goal is through the prism of, we're doing this to help accelerate private capital raising so we can generate more fees and fees for the organization. And so that's sort of the way we think about it.

John Massocca - *B. Riley Securities, Inc - Equity Analyst*

Okay. In terms of the public vehicles, OPI now back in the public markets. Can you maybe provide a little more disclosure on how you get to some of the potential fees there, and maybe how you're thinking about or how maybe you have to treat the 2% ownership stake you received as part of that transaction?

Adam Portnoy - *The RMR Group Inc. - Chairman of the Board, President, Chief Executive Officer, Managing Director*

Sure. So we're likely to be a long-term holder of that 2% stake as well. OPI is sort of in the early innings of its emergence from bankruptcy and sort of executing on its business plan. It's in the process of selling some real estate today. But everything about OPI is being thought about through the prism of how do we increase free cash flow for the business?

How do we optimize the portfolio? How do we delever even further the balance sheet, even though we significantly have delevered it? So those are sort of the themes that the board and management is focused on at OPI.

And I think in the coming quarters, you'll become clearer, sort of exactly, precisely what we'll be focused on in terms of additional asset sales, if there are any refinancing or cleaning up maybe the balance sheet as part of that. Those are things that I think we're focused on over the next couple of quarters. But we feel confident the company is in strong footing and we are focused on increasing free cash flow, deleveraging, portfolio optimization. Those are the things we're focused on.

John Massocca - *B. Riley Securities, Inc - Equity Analyst*

In the potential 8% additional ownership stake, I mean, is that kind of contingent on more kind of going concern type of targets? Or would that be kind of more of a liquidation type scenario? Just kind of curious, broad strokes, how do you maybe get to at least some of that potential ownership upside?

Adam Portnoy - *The RMR Group Inc. - Chairman of the Board, President, Chief Executive Officer, Managing Director*

So it's a great question, John. We have not entered into the agreement yet on that what's called the management incentive plan. We are currently in discussions regarding that and all those things are sort of on the table. Once we get that finalized, we'll be happy to disclose details and how it's set up, but we just don't have it in place yet.

Operator

Mitch Germain, Citizens Bank.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Great. Your legacy investments, the first couple that you made on balance sheet, a couple multifamily, one retail. I'm curious, it's -- I don't know, it's been a year plus or so with some of them, how they're performing relative to your original underwriting?

Matthew Jordan - *The RMR Group Inc. - Chief Operating Officer, Managing Director*

Mitch, as a reminder, we've got three wholly-owned multi-deals. Research Triangle, Florida, and Denver on the multi-side, and then Adam touched on our Chicago retail deal. As it relates to the multifamily, those are four to five year business plans, so we're still somewhat in the early innings. But so far, again, they're almost 92% occupied. We're seeing respectable 3% to 4% rent growth on renewals.

We're almost break-even on new leasing, which these are -- those are phenomenal numbers versus where we were a year ago in terms of the supply overhang. And on the renovations we're doing to the apartments, which is part of the business plan in terms of turning classic units into upgraded units. Thus far, we are seeing high-teen ROIs that are being generated on those renovations in terms of realization of rent. So we feel really good.

These are obviously generating recurring fees through property management and asset management, but the big goal is generating promote income for the organization when we realize these transactions in four to five years in terms of their life cycle. And as of now, those are all trending on track with their business plan.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Adam, you've got shares in now three of your five public vehicles. Is there any consideration to maybe grow a stake in the other two remaining? I know that you have incentives that are coming from there. Can you trade some cash for stock? I mean, is this some sort of strategy that you're going to embark on in the future?

Adam Portnoy - *The RMR Group Inc. - Chairman of the Board, President, Chief Executive Officer, Managing Director*

Thanks, Mitch. It's an interesting question. It's something we have thought about. You're right, there's not just RMR. RMR has interests, large interests in SVC and Seven Hills. I personally have a large interest in DHC. So collectively between RMR and myself, you're right, in three of the REITs.

I think it's an open question. What we -- we're open to it. There's no imminent plan to do so in terms to invest in those companies. But under the right circumstances, if they presented themselves, and we felt good about the valuation and it would help sort of accelerate the business plan at those companies, I can see a scenario where it could present itself, but there's nothing currently planned to do so.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Last one for me, and I apologize. I missed some of your comments. You have a distributable earnings bridge in your presentation and you have some higher compensation this quarter that impacts earnings. Is that -- is there a recurring nature to that, or is this one-time expenses?

Matthew Brown - *The RMR Group Inc. - Chief Financial Officer, Executive Vice President*

The majority of that is one-time in nature. We do have slight change in headcount mix, which is a slight factor, but more importantly, our bonus at RMR, which get paid to employees in September, is performance-based based off of EBITDA. And we've seen our EBITDA target grow as of June 30 for the balance of the fiscal year as compared to where it was in March. So the majority of the adjustment was driven based off that.

Operator

This concludes the question-and-answer session. I'd like to turn the conference back over to Adam Portnoy, President and CEO, for any closing remarks.

Adam Portnoy - *The RMR Group Inc. - Chairman of the Board, President, Chief Executive Officer, Managing Director*

Thank you all for joining our call today. Operator, that concludes our call.

Operator

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

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