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RMR.OQ - Q4 2025 RMR Group Inc Earnings Call

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PRESENTATION

Operator

Good morning and welcome to the RMR Group fiscal 4th quarter 2025 earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing, then 0 on your telephone keypad. 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 - *RMR Group Inc - Senior Vice President*

Thank you and good morning.

Thank you for joining our March fiscal 4th quarter 2025 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 1,995 and other securities laws. These forward-looking statements are based on AR's beliefs and expectations as of today, November 13th, 2025, 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 the 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 adjusted net income per share, 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 will now turn the call over to Adam.

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

Thanks, Brian, and thank you all for joining us this morning.

Yesterday we reported fourth quarter results that were in line with our expectations, highlighted by distributable earnings of \$0.44 per share, adjusted net income of \$0.22 per share, and adjusted EBITA of \$20.5 million. Despite a continued unsettled economic environment, RMR was active this past quarter, executing on our clients' strategic initiatives. The majority of these activities took place in our managed equity BRL, where we completed nearly \$2 billion of accretive debt financings at attractive rates, and we completed over \$300 million in asset sales.

We believe these efforts are being recognized in the public markets as demonstrated by the share price improvements at both DHC and ILPT. These share price improvements have resulted in DHC and ILPT both accruing potential incentive fees for RMR, which highlights the alignment of interest RMR has with the shareholders of our managed equity rates. While subject to change, these potential incentive fees could be approximately \$22 million in 2025.

Turning to a few notable updates and our perpetual capital clients, DHC posted solid quarterly results led by strong sector tailwinds benefiting DHC's senior housing segment, as well as the significant capital that has been invested in DHC's communities.

Consolidated Sho NOI increased 8% year over year to \$29.6 million led by a 210 basis point increase in occupancy to 81.5% and a 5.3% increase in average monthly rates. Beyond its continued focus on shop operations, GHC has also been executing on its strategic transformation. More specifically, GHC announced the successful sale of non-core assets and attractive valuations as it further de-leverages its balance sheet.

During the quarter, DHC also began executing on its announced transition of 116 shop communities from Alaris Life to new operators that have proven track records and well established regional footprints. The transition of ALL116 communities is expected to occur by year-end 2025.

SVC continues to make significant progress selling non-core hotels to de-lever its balance sheet. During the quarter, SVC completed the sale of 40 hotels for over \$292 million and is on pace to sell a total of 121 hotels in 2025 for \$959 million. SVC also successfully completed a zero coupon bond offering that raised \$490 million in net proceeds that were used to repay SVC's revolving credit facility and retire the remainder of SVC's 2026 debt maturities. Beyond the de-leveraging efforts, we remain focused on helping SVC drive EBITDA growth across its hotel portfolio, despite softening demand and ongoing revenue displacement from renovation activity. Further, our organization continues to keep SVC's triple net lease portfolio, which is anchored by the travel centers leased to investment grade rated BP, well leased to ensure SVC benefits from the stable cash flows these assets generate.

Seven Hills, our mortgage rate, delivered another solid quarter supported by a fully performing \$642 million loan portfolio. Seven Hills has been exploring ways to generate new equity capital to ensure the REIT can continue to capitalize on the robust pipeline of investment opportunities our Tremont commercial lending team generates. To that end, Seven Hills recently announced a rights offering to raise approximately \$65 million in new equity, which should allow for over \$200 million in gross new loan investments.

The rights offering is structured so that shareholders of record on November 10th were given a transferable right to buy one new share for every two shares they currently own. Importantly, RMR, which is Seven Hills' largest shareholder, has agreed to backstop this offering, essentially acquiring any unexercised rights as a demonstration of our confidence in Seven Hills business prospects going forward.

Lastly, in late October, OPI, after exploring all possible strategies to address its capital structure, entered into a restructuring support agreement or RSA with certain holders of its senior secured notes to restructure its corporate debt. As part of the RSA, OPI voluntarily initiated a court-supervised process under Chapter 11 of the US Bankruptcy Code. This agreement will meaningfully strengthen OPI's financial position and de-lever the balance sheet.

As part of the RSA, RMR has agreed to continue managing OPI for a 5-year term that starts upon OPI's emergence from bankruptcy. RMR will receive a flat business management fee during the first 2 years of \$14 million per year. And our property management agreement will remain unchanged. To support OPI's operations during this process, OPI entered into a debtor in possession financing of \$125 million. We remain committed to supporting the assets, vendors, and tenants of OPI throughout this process and look forward to updating you as new information becomes available in the future.

To conclude, we are pleased with the progress RMR has made over the past quarter, assisting our public company clients with their financial and strategic objectives. Our perpetual capital clients also provide RMR with stable cash flows, which we can use to pursue new growth initiatives in the private capital space to drive future revenue and earnings growth.

With that, I'll now turn the call over to Matt Jordan, executive Vice President and Chief Operating Officer, to provide added insights on our platform and private capital growth initiatives.

Matthew Jordan - RMR Group Inc - Chief Financial Officer, Executive Vice President, Treasurer

Thanks, Adam. Good morning, everyone. As Adam mentioned, this past quarter was active on a number of fronts across the Armar platform.

From a non-residential leasing perspective, despite continued headwinds, this past quarter, Armar arranged almost 1.4 million square feet of leases, and for the full fiscal year, almost 8 million square feet of leases at rental rates approximately 14% higher than previous rents for the same space.

We believe these results speak to the hard work of our people proactively engaging both tenants and the brokerage community. Beyond leasing, the platform continues to invest in our people, technology, and brand building to ensure we stand out in a competitive fundraising environment.

While fundraising remains challenging, we believe 2026 will be a better year for institutional investments in real estate, as recent conversations our capital formation team is having with potential partners have reinforced commitments to the United States and many of the sectors we operate in.

Further, while many private capital investors are limiting how many new manager relationships they form, given the effort associated with underwriting a new manager. The breadth and scale of our platform remains an attractive differentiator.

Our current fundraising efforts remain focused on residential credit and select development opportunities, though, as I noted, the diversity and scale of our platform will allow us to pivot quickly based on investor feedback. As it relates to Armar Residential, which currently manages almost \$5 billion in value-add residential real estate.

We formally launched fundraising for the Enhanced Growth Venture in early September. Our efforts are focused on finding up to 3 large investors to invest approximately \$250 million in multi-family real estate. This venture is targeting value add returns and provides investors the ability to share in property level and general partner economics.

Armar's commitment via almost \$100 million in seed investments provides investors certainty that committed monies can be immediately put to work as well as providing them a portfolio they can readily underwrite. The seed investments include the two acquisitions closed this quarter for a gross aggregate cost of \$143.4 million.

One is a 266-unit property near Raleigh, North Carolina, and the other is a 275 unit property near Orlando, Florida. We expect there to be a meaningful, to be meaningful updates regarding the enhanced growth venture by early spring.

Within the retail sector, we continue to source investment opportunities as we build a portfolio of value-add multi-tenant retail properties as part of establishing a track record in this sector. Our first investment, a \$21 million community shopping center outside of Chicago, closed earlier this year and is executing on its underwritten business plan.

We are currently assessing market opportunities with the goal of adding at least 2 more similarly sized deals. As it relates to our credit strategy, although we expect to close on the sale of two loans that are on our balance sheet later this month, we continue to explore opportunities to form a strategic venture with institutional capital. Real estate credit remains a high conviction strategy, and we believe Tremont's track record, middle market focus, and strong underwriting and asset management teams are attractive differentiators. With that, I'll now turn the call over to Matt Brown, executive Vice President and our Chief Financial Officer.

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

Thanks, Matt, and good morning everyone.

As Adam highlighted this quarter, we reported adjusted EPITA of \$20.5 million distributable earnings of \$0.44 per share, and adjusted net income of \$0.22 per share, all of which were in line with our expectations. Recurring service revenues were approximately \$45.5 million a sequential quarter increase of approximately \$1.5 million driven primarily by increases in enterprise values at DHC, ILPT, and SVC and higher construction supervision fees.

Next quarter we expect recurring service revenues to decrease to approximately \$42.5 million driven by lost fee revenue from the announced sale of Olaris Life's business and decreases in certain of our managed BRL enterprise values from accretive debt financings and asset sales as we strategically manage their debt levels.

Turning to expenses, recurring cash compensation was \$38.5 million this quarter, which was consistent with the prior quarter. Looking ahead to next quarter, we expect cash compensation to decline to approximately \$37 million as recent cost containment measures continue to positively impact earnings. We expect our cash compensation reimbursement rate to be between 46% and 47% going forward.

Recurring G&A this quarter was \$10.1 million a modest sequential quarter increase driven by costs associated with our ongoing private capital fundraising efforts. We expect recurring G&A to remain at these levels over the next couple of quarters. Interest expense this quarter increased to \$1.7 million following the acquisitions of two leveraged residential properties that Matt highlighted. Interest expense next quarter is expected to increase to approximately \$2.6 million as we incur a full quarter of interest on these new mortgages.

It is also worth noting that this quarter's income tax rate of 21.4% reflects year-end adjustments primarily related to stock-based compensation. For modeling purposes, we expect our tax rate to decline to approximately 15% in Q1 based on our current forecast for incentive fees we may earn for calendar year 2025 and to approximately 18% for Q2 to Q4.

As Matt mentioned on the call last quarter, we believe cash flow measures such as adjusted EBITA and distributable earnings per share are becoming more relevant when comparing our results to prior periods and other alternative asset managers. Our private capital business is accretive to our cash flow, but as we continue to use RMR's strong balance sheet for strategic growth initiatives, expenses such as depreciation and interest will have an adverse impact on certain financial metrics such as adjusted net income per share.

Aggregating the collective assumptions I've outlined, next quarter we expect adjusted EBITA to be between 18 to \$20 million distributable earnings to be between \$42.44 per share, and adjusted net income to be between \$16.18 per share. This expected decline in quarterly results is mainly due to the sale of Elaris Life's business. For the fiscal fourth quarter and full year, we earned 1.4 and \$5.7 million respectively of fee revenue on the Alaris Life contract.

We expect to offset this lost revenue with increases in DHC's enterprise value as new operators that have well established regional footprints and proven track records should help drive NOI growth. We ended the quarter with \$162 million of total liquidity, including \$62 million in cash and \$100 million of capacity on our undrawn revolving credit facility.

Finally, as Adam mentioned, if September 30th was the end of the measurement period, we would earn incentive fees from DHC and ILPT of approximately \$22 million in the aggregate.

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions)

The first question comes from Mitch Germaine with Citizens Bank. Please go ahead.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Hi, good morning. I'm curious about OPI's fee. It does it in effect go up quarter to quarter?

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

Hi, Mitch. I think your question, you broke up for me is about OPI's fees. It effectively it is pretty much flat. We were earning just under \$14 million just under \$14 million a year on a business management basis. It was like \$13 and change, over the last 12 months, give or take, and so we have a contract that we will be earning \$14 million fixed fee. For the 1st 2 years per year, \$14 million on the property management agreement, nothing's changed. All the economics are the exact same as they were prior to the filing. During the, just to be very clear, during the pendency of the bankruptcy itself, we are operating under the existing contract, so we probably will earn a little bit less than a \$14 million run rate during the pendency of the bankruptcy. But upon emergence from the bankruptcy, that's when the clock starts and that's when the 14 million per year goes into effect. Par, I'll just say what, it might be a correlated to your question. Look, the fact that we entered into what we call a restructuring support agreement, we think, leads to hopefully a much faster bankruptcy process and allows us to get out of bankruptcy, hopefully. Faster than if we had not entered with an RSA. So, it's a little unclear exactly when we'll emerge, but I think roughly speaking, it's first half of 2026 will emerge.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Got you. Thank you. I think, Adam, you mentioned Where your focus is on the private capital side in terms of fundraising. I maybe I missed it, but I didn't hear you mention shopping centers as a competency that you're raising capital for yet you guys are obviously you own one and you're looking to allocate capital to others, so maybe just kind of go over where that sits with regards to your private capital strategy.

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

Sure, Mitch. So, it's a great question. Matt touched a little bit on this in his prepared remarks, but you're right, we have it on our balance sheet. We think we have a lot of core competency in retail. We run a very large multi-billion dollar existing retail portfolio. Today, we have a very large, very competent, retail asset management team on staff. We, it's not front and center, but already in parts of our organization, given the size and breadth of the different portfolios, we do actually run shopping centers in different parts of the business. Let's say buried within some other asset classes or buried within some of the portfolios. So, we do have experience there.

We think, a lot for a lot of reasons, investing in neighborhood and grocery anchorage specifically. Shopping centers is a great thing to be doing right now. Retail has really gone through transformation over the last 10 to 15 years, and we really have a pretty good supply-demand dynamic going on where there's not a lot of new supply and demand is sort of finally caught up with the existing. Supply and so we see a lot of interesting opportunities to basically put money to work and through either capital improvements or retenanting a center, we can generate outsized returns and we're doing that first on our balance sheet, but we think we're pretty confident that we're going to be successful with that. And that we'll be able to then take that, demonstrate that track record and raise more capital around that going forward. Matt, do you want to add anything to that?

Matthew Jordan - RMR Group Inc - Chief Financial Officer, Executive Vice President, Treasurer

No, I think Mitch, we have the one asset outside of Chicago and the point we're making in the prepared remarks is we're hoping to at least add a couple more of similar size scale to build a whole a fulsome track record that we can go out and fundraise around, and hopefully a couple of years from now.

Mitch Germain - Citizens JMP Securities LLC - Analyst

Got you. And then did I hear that you guys have a couple of additional loan investments that are under agreement? Did I mishear that?

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

We don't have new RMR itself, we do not have any new loan investments. We are, I don't think we discussed in our prepared remarks, but in our public disclosures, we are selling or have an agreement to sell, the two loans that we have on our balance sheet. Those are being sold. There's currently no plan, to put more loans on RMR's balance sheet. What I did mention in my prepared remarks is we have a rights offering that we're in the middle of occurring at Seven Hills, and we expect as a result of that we'll have about \$65 million of equity which provides for about \$200 million in additional loan investments that we plan to deploy over the following, call it 6 months. To get that money out, if your average loan size is \$25 million, that's call it, 8 loans, 8 to 10 loans, give or take. There will be new loans that we will be putting money out at Seven Hills.

Mitch Germain - Citizens JMP Securities LLC - Analyst

Thank you. Last one for me, Matt, maybe just kind of go through the puts and takes to get you to your forecast in the 1st quarter. Maybe a bridge from where you ended, the fiscal 4th quarter to how you get to the 1st quarter in terms of your guidance, please.

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

Sure, I'll focus on Adjusted EBITDA For that. So, fiscal fourth quarter was \$20.5 million. Our forecast for fiscal Q1 is \$18 to \$20 million. The major impact of that is the sale of Olaris Life's business and the wind down of that. Today, we earn 60 basis points on the revenue of our senior living communities. And as that winds down, we're expecting revenues to decrease about a million dollars for that alone. So that's the major headline, from the decrease from fiscal Q4 to fiscal Q1.

Mitch Germain - Citizens JMP Securities LLC - Analyst

Thank you.

Operator

Again, if you have a question, please press star, then one.

The next question comes from John Massocca with B Reilly. Please go ahead.

John Massocca - B. Riley Securities Holdings Inc - Equity Analyst

Good morning. Maybe just sticking with that question quickly, is there any expected additional negative flow through from the loss of, managing Olari's life as we think beyond the next quarter?

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

So, the full wind down should happen by the end of this year. So, while we're expecting about a million dollars decrease in fee revenue this coming quarter, we will, we did earn \$1.4 million in fiscal Q4. So there'll be another kind of \$400,000 deduct when we roll forward the fiscal Q2.

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

And then we'll be moving on to OPI, can you just walk through what the advisory agreement looks like after 2 years if you're still managing that portfolio.

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

Sure, so it's a, it's a term sheet we entered into with the what will like what will be likely the new equity owners of OPI upon emergence. It's a 5-year term. The 1st 2 years are set at \$14 million per year in a business management fees. The property management stays unchanged. And during the first two years, if now that 14 million stays the same, whether the portfolio shrinks or grows, it doesn't matter what the size of the portfolio is, that sort of stays in place at 14 million per year. After 2 years, we, there's a negotiation, and I think, look, the reason it was set up that way is with the new owners of OPI. I think there's a little bit of a hesitancy about how to structure the fee in terms of what it should be based on. Because we're not quite sure exactly the size and the makeup of OPI let's say over the next couple of years.

We're confident and I think the new investors or new owners of OPI are confident that we will still be managing it over the next 2 to 3 years. But, as part of that, I think they just want to see how the next couple of years play out, what's the size of the company. It's, it could shrink from the size it is today. It could also grow from the size it is today. I mean, part of what we've had discussions with the new owners about is that this vehicle might be used, and I'm not saying this will be used. I'm saying it might be used as a vehicle to roll up other distressed office or office portfolios in the marketplace. I mean, we're pretty encouraged that we found. Group of investors that currently own the debt.

They wanted to equitize their debt. They really want to go long on office because they really see there's a great opportunity both from a macro perspective and I think they also feel pretty good about the portfolio itself, meaning there's a lot of pain that the OPI portfolio has gone through. But the vast majority of that pain is behind us. Looking forward, it looks much better than what we've gone through over the last 2 or 3 years in terms of leasing prospects and cash flow or NOI that's going to be coming out from the property. The other thing I'll mention in the term sheet that's on file and it's public. It also contemplates a significant incentive fee to be structured for R&R as well.

It's anticipated that upfront, we will be getting 2% of the reorganized company and then another 8% that's a little bit more ambiguous, but it will be benchmarked to sort of Outperforming benchmarks, basically, think about it as sort of structured like a classic promote that you might see in a private equity type investment. That's what I think the other 8% will be structured like. So I think there's going to also be a higher degree of alignment between the manager and the new equity owners in terms of performing, doing a good job in managing the portfolio and generating a healthy return for those equity holders.

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

Kind of a longer-term question given, you have the two year contract, locked in contract in place, but, how kind of flexible is your G&A spending to, managing OPI, I guess how much could you potentially bring down G&A if for whatever reason.

At the end of 2 years post emerging from bankruptcy, the portfolio goes in a different direction or the owners want to go a different way, like, is there a kind of a high amount of leverage into how you can kind of pull down G&A if you're not managing OPI here in a couple of years?

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

The short answer is we spent a lot of time thinking about that is as John, we don't, have P&Ls by business line, right? That's one of the advantages of the economies of scale for our clients that they basically manage with RMR and we get those economies because we get to spread costs across the entire structure. So we don't have P&Ls, let's say by business line or client, but I can tell you this much, Office as an asset class.

Is probably the most management intensive asset class that we manage at RMR and so while I don't believe this will be the case, if we were to not be managing, let's say, a large office portfolio at the company, I do think there would be significant cost cuts that we could take. I don't believe that even go even further. We're not quite sure where it would happen to margins, but. There's a scenario where we might have less cash flow but higher margins if you can follow me because we just know intuitively there's a lot of people that work on the office portfolio versus other portfolios we run. So I think we would be able to, in the unlike what I believe is unlikely. Situation where we are no longer managing a large office portfolio, I think we would be able to correspondingly reduce costs of the organization.

John Massocca - B. Riley Securities Holdings Inc - Equity Analyst

You touched on it a little bit with Mitch's question, but, thinking about kind of Seven Hills and selling kind of the loans that were on RMR's balance sheet to Seven Hills, what was kind of the logic there? Maybe I'm misremembering past calls, but it felt like there might have been an opportunity to grow the loan book within on the RMR balance sheet. Is there some kind of change strategically where you're no longer seeing that as attractive? Just kind of curious the the thought process, behind that transaction.

Matthew Jordan - RMR Group Inc - Chief Financial Officer, Executive Vice President, Treasurer

Yeah, John, it's Matt. So if we go back in time about a year ago when we put these loans on our balance sheet, the goal was for them to be part of a seed portfolio to help us with the fundraising process. and they've been well performing, incredibly strong loans, that have contributed to RMR's earnings, quite frankly, in a significant way. But it's now been, 12 to 18 months since those loans were initiated, and as we fundraise in a very competitive environment, I think it's fair to say one of the loans actually matures next July, I believe. So, their attractiveness from a seed perspective, had fallen off. And at the same time, you have 7 Hills that's raising this significant money. We want to make sure they can quickly deploy those proceeds and by selling these loans at par to Seven Hills, it allows them to start quickly deploying, secure their dividend, which is also critical to these rights offering, and it just was a successful transaction for both sides.

John Massocca - B. Riley Securities Holdings Inc - Equity Analyst

Okay. With Seven Hills in mind, any updates you can provide on how the rights offering is looking at this moment? I know it's obviously there's moving pieces and things you might not be able to talk about, but, this was kind of curious if there was any outlook on the amount of the rights offering you expect RMR to, participate in.

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

Sure, John. So, you mentioned it is sort of early, and the way these rights, way rights offerings typically work, not just this company, but the way they always do, is, unfortunately, you really don't, everyone sort of waits till the last minute, which, you have to keep the rights out, you have to have the about a month outstanding before people have a deadline to exercise the right. And so, for whatever reason, and I guess it's, people like to keep their options open to the very last minute. You just don't know till the very end how many people are going to be exercising their rights.

What I can tell you is that, as part of the rights offering, we retained UBS Investment Bank as the dealer manager. And part of their job, and one of their jobs is to basically Solicit interest from outside investors that might want to buy the rights that other shareholders want to sell,

meaning shareholders that don't want to exercise. And while there's been very little trading, it's only been a few days in the rights themselves. What has been encouraging. Is that we have had quite a bit of interactions with new shareholders that are interested in perhaps buying rights from other shareholders that don't want to buy, don't want to exercise them. Existing shareholders decide they don't want to exercise them, so they want to sell them, and we are working with UBS to TRY to help identify.

Potential buyers of those. And what I'm saying is, it's too early to tell, but we're having lots of meetings, right? And so there is interest out there. To get to the heart of your question, which is, well, how much is RMR going to have to spend here? Or do we have to spend any? I think our base case assumption is that we don't expect that we're going to have to drop basically pull on the backstop beyond our 11% ownership, meaning we own 11% today,

We expect to exercise up to that 11%. It could be that we end up exercising some amount. I think it would be less than, let's say half. If I had to guess, and so there's a possibility somewhere between 11% and 50% of the offering itself, we might have to backstop. But again, it's very early. I mean, I do not believe it would be more than half the offering. I think that's, pretty, I don't want to say locked in stone, but it's hard to imagine that scenario. And I think it's, our base case is that we will just be exercising, just exercising up to the 11%.

Could we end up exercising a little bit over that to fill out the backstop? Yes, but it's very hard to know for sure where the numbers are going to shake out.

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

Okay, I appreciate all the detail. That's it for me. Thank you.

Operator

We now have a follow-up from Mitch Germain with Citizens Bank. Please go ahead.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Thank you very much. Just quickly on the, I know that Matt, you talked about a bit of a true up on interest expense because you've got a, had it, in place for a sub-quarter. Do we have a similar true up for the, what's the true for the, rental income associated with the two residential assets, that were acquired mid-quarter? How should we think about that?

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

Yeah, I think the best way to think about our wholly owned portfolio, which includes the two residential acquisitions from the quarter, is we're expecting about 3.2 million of NOI to be contributed on a quarterly basis for those while they remain on the balance sheet.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

So that's aligned with this quarter. Is that the way to think about it? I think we're at 3.2 million right now.

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

The owned real estate contributed about 650,000 of EBITA in Q4, so that'll grow to just over 3 million on a run rate basis.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Oh, okay. and then how should we think about You guys are pretty flush with cash, but obviously with the rights offering and some acquisitions that you're making, so how should we think about that balance on a go for a basis?

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

So, you're right to point out the rights offering. I think it's hard for us to put a stake in the ground to say exactly where we think things will be. As we sit today, we don't believe based on all the actions we have underway that we will be drawing on the revolver. That's not something we think, but it could be that we use more cash obviously than we have on the balance sheet today. We will be getting proceeds from the sale of the of the loans themselves, there will be a liquidity event we hope and think as we get into 2026 as we, sell the enhanced.

Growth fund, what plus incentive fees that we'll be getting hopefully at the end of the year, so we don't think we'll be drawing on the revolver, if that's maybe the question. It's hard to know exactly where the cash balance will be. I will say that we're not, we don't feel cash constrained, we're still very active in terms of all of our initiatives in terms of. Continuing to look at other retail properties, we continue to look at sort of JV investments, GP investments on the residential side, so I think we feel that we're not constrained in our ability to continue to do things, but we are waiting to see where the rights offering shakes out, and where the incentive fees actually shake out for the year.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Adam Portnoy, President and Chief Executive Officer, for any closing remarks.

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

Thank you all for joining our call today. Institutional investors should contact RMR Investor Relations if you would like to schedule a meeting with management operator, that concludes our call.

Operator

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

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