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RMR.OQ - Q2 2026 RMR Group Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and welcome to the RMR Group fiscal second quarter 2026 earnings conference call. (Operator Instructions) Please note, today's 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, Senior Vice President, Investor Relations*

Good afternoon, and thank you for joining RMR's fiscal second 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, May 7, 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 the forward-looking statements made in today's conference call.

Additional information concerning factors that could cause differences is contained in our filing with the SEC 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'll now turn the call over to Adam.

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

Thanks, Bryan, and thank you all for joining us this afternoon. Yesterday, we reported second quarter results reflecting distributable earnings and adjusted EBITDA at the high end of our expectations, despite operating in what remains an unsettled economic environment.

Our second quarter results were highlighted by distributable earnings of $0.44 per share and adjusted EBITDA of $18.5 million. Although we continue to navigate market volatility and geopolitical uncertainty, RMR has been very active this year executing on our clients' strategic initiatives. The markets continue to recognize our efforts as both DHC and ILPT remain among the best-performing REITs in 2026 from a total shareholder return standpoint, extending the significant outperformance they each achieved in 2025.

As a result, RMR earned incentive fees for 2025 of $23.6 million, and we are on track to earn incentive fees again this year as both DHC and ILPT accrued incentive fees this quarter. I would now like to go over some recent highlights at our managed REITs before turning the call over to Matt Jordan to provide an update on our private capital initiatives.

At DHC, following the successful transition of 116 senior living communities to new operators in the back half of 2025, it has continued to focus on improving shop operating performance while also strengthening its balance sheet. In the first quarter, DHC generated normalized FFO of $33 million or $0.14 per share and adjusted EBITDA of $74 million, both exceeding analysts' consensus estimates. Shop performance showed positive momentum with year-over-year same property NOI growth of 13.5% and occupancy increasing by 110 basis points.

In March, DHC completed the sale of 13 unencumbered non-core communities for gross proceeds of approximately $23 million. Following an active 2025 in which DHC completed approximately $605 million of asset sales, we expect asset sales to decelerate in 2026 with management focused on improving NOI across the retained portfolio. Lastly, in April, Moody's upgraded DHC's debt ratings and revised its outlook to positive from stable, underscoring the company's improving operating performance and balance sheet.

At SVC, we recently made significant progress improving its balance sheet and covenant ratios. RMR was instrumental in helping SVC complete a $575 million equity offering, which accelerated its deleveraging strategy, eliminated near-term refinancing risk, and provided SVC additional flexibility to optimize its hotel performance and execute further asset sales. With the net proceeds, SVC eliminated all of its unsecured debt maturities until 2028.

As it relates to SVC's equity offering, I would highlight that RMR participated with a $50 million anchor investment, further aligning our interest with shareholders and demonstrating our confidence in SVC's business plan. Following several years of strategic capital investments to reposition the retained hotel portfolio, SVC is now transitioning toward an earnings recovery phase, supported by new hotel leadership at Sonesta that is focused on improving operating performance.

ILPT continues to deliver strong results with first quarter normalized FFO of $0.33 per share and adjusted EBITDA of $87 million, both exceeding the high end of management's guidance. ILPT also executed approximately 862,000 square feet of leasing during the quarter at rental rates 26% higher than prior rents. Additionally, RMR recently assisted ILPT with the refinancing of $1.6 billion of new debt for its consolidated mountain joint venture, which replaces floating rate and amortizing debt with interest-only fixed rate and an attractive 5.7% interest rate, while also extending ILPT's debt maturity profile.

Seven Hills, our mortgage REIT, has been actively deploying capital from its December rights offering. During the quarter, Seven Hills originated three loans totaling $67.5 million and generated distributable earnings of $0.24 per share. Total loan commitments increased to approximately $776 million in the first quarter, achieving a record high for the portfolio. Originations thus far in 2026 are at the highest net interest margins achieved over the past four years, which reflects the benefits of our focus on middle-market lending where there tends to be less competition for high-quality loans.

Lastly, OPI recently received court approval for its plan of reorganization. And we expect it to emerge from bankruptcy by the end of the second quarter and for its shares to be publicly traded. We also expect RMR's contract with OPI to be consistent with our previously disclosed terms. More specifically, RMR will continue managing OPI for a five-year term with RMR receiving a flat business management fee during the first two years of $14 million per year and our property management agreement economics will remain unchanged.

To conclude, we are pleased with the progress RMR has made assisting our clients with their financial and strategic objectives. While there remains more work to do, we are encouraged that the markets recognize the significant improvements at both DHC and ILPT.

It is important to remember that our publicly traded perpetual capital clients provide RMR with stable cash flows, which we are using to pursue new growth initiatives in the private capital space. The private capital segment of our business has grown from essentially 0 AUM in 2020 to nearly $12 billion today, and we anticipate this segment will be a key driver of our future revenue and earnings growth.

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

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

Thanks, Adam. As it relates to our private capital initiatives, with a global in-house sales team firmly in place, we are spending the necessary time building RMR brand awareness. As an example, I recently had the privilege of joining Peter Welch, who leads our international fundraising efforts in Southeast Asia, meeting with potential partners and participating in events where RMR stood side-by-side with larger, more well-established international brands.

In aggregate, our international outreach has resulted in our leaders meeting with almost 200 global investors representing almost $7 trillion in AUM. With that said, the ongoing conflict in the Middle East has disrupted fundraising. This disruption has played out in the global fundraising data as fundraising in the first quarter of 2026 dropped 50% from the same time last year. The positive news for RMR is that North American real estate still garnered 65% of all dollars raised and value-add strategies represented 56% of all fundraising.

Within our residential business, which today represents over $4.7 billion in value-add residential real estate across 18,500 owned and managed units, in April, we closed on the acquisition of a multifamily portfolio in Greenwich, Connecticut, for almost $350 million. The transaction was sourced off-market and marks our entry into one of the most supply-constrained and affluent housing markets in the country.

RMR Residential will assume property management and will execute a multi-year strategy focused on modernizing the communities, enhancing the resident experience, and unlocking embedded efficiencies. The acquisition is part of a joint venture where RMR is a co-general partner and in that capacity made a $6 million investment for a 5% ownership interest.

The remaining equity of approximately $120 million was raised from two institutional partners. RMR will recognize revenues from this transaction of $600,000 in our third fiscal quarter, and as general partner, we will earn ongoing operating fees of approximately $750,000 annually. Longer-term, the venture is expected to generate annual cash-on-cash returns of approximately 7.5%. And we expect to receive carried interest from the venture as certain investment hurdles are met.

Finally, the venture will not be consolidated, given our ownership is limited to 5%, and a portion of our GP interest may become part of RMR's enhanced growth venture. As it relates to the enhanced growth venture, which was launched last fall with the goal of raising approximately $250 million of third-party equity, there remains significant interest in both US value-add multifamily real estate and our seeded portfolio of assets. This interest has resulted in ongoing diligence with a number of potential investors with the hope that we can provide a more meaningful update on our next earnings call.

As it relates to the operating performance within our residential business, we along with our joint venture partners remain pleased as occupancy approaches 94% with resident retention currently over 70% and retained residents absorbing rental rate increases of over 3%. Operating performance at these levels will continue to help with the fundraising in the highly competitive residential space.

I'd like to also highlight a new disclosure we've made in our investor presentation that emphasizes the discount our shares trade at when looking at our business from a some of the parts perspective. As we illustrate, if one were to back out the cash and investments held by RMR, our shares are currently trading in only 5 times the EBITDA generated from the durable cash flows associated with our 20-year evergreen management contracts from our perpetual capital vehicles. This is materially below EBITDA multiples at which our peers trade. We are hopeful this new slide illustrates the significant upside embedded in our shares.

In closing, it remains an active time for our organization as we continue to invest in our people, technology, and brand awareness. We are leveraging these investments to reinvent our operating structure, materially increase productivity, and ultimately drive down operating costs to deliver meaningful EBITDA growth.

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

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

Thanks, Matt, and good afternoon, everyone. For our fiscal second quarter, we reported adjusted EBITDA of $18.5 million and distributable earnings of $0.44 per share, which exceeded or at the high end of our guidance. I'd also like to note that we reported adjusted net income of $0.11 per share, which fell $0.01 short of our guidance.

Going forward, we will no longer provide guidance on adjusted net income as our investments in leveraged real estate have significantly reduced the usefulness of this metric as we incurred depreciation and interest expense on these investments. Recurring service revenues were $42 million, a sequential quarter decrease of approximately $1 million, driven primarily by hotel sales, a decrease in the enterprise values of SVC and DHC as they strategically paid off debt, and the wind-down of AlerisLife business.

Next quarter, we expect recurring service revenues to increase to approximately $44 million, driven by approximately $600,000 of revenue from the multifamily portfolio acquisition in Greenwich, Connecticut, that Matt discussed; increased construction management fees; and enterprise value improvements at certain of our managed REITs.

Turning to expenses, recurring cash compensation was $37.7 million, a modest sequential quarter increase driven by calendar 2026 payroll tax and benefit resets. Looking ahead to next quarter, we expect recurring cash compensation to remain consistent with the second quarter.

Recurring G&A this quarter was $10.1 million after excluding $600,000 in annual director share grants, which is a slight sequential quarter decrease driven by a reduction in normal course legal and professional fees. We expect recurring G&A to remain at these levels for the remainder of the fiscal year.

It is also worth noting that this quarter's income tax rate was elevated at 22%, driven by the impact of certain fair value adjustments that we recognized during the quarter, mainly our investment in Seven Hills, that are subject to different statutory rates than our ordinary income.

For modeling purposes, we may continue to see fluctuations in our income tax rate each quarter as these adjustments impact the timing of tax expense recognition. However, these fluctuations are not expected to materially impact our full-year estimated tax rate of 17% to 18%.

Aggregating the collective assumptions I've outlined, 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.

As Adam and Matt highlighted earlier, subsequent to quarter end, we participated in SVC's equity offering by acquiring nearly 42 million shares for $50 million and acquired a $6 million co-GP equity interest in the Greenwich, Connecticut multifamily joint venture. Our investment in SVC will result in approximately $420,000 of incremental quarterly dividends.

Accounting for these transactions, our current liquidity is approximately $133 million, including $75 million of capacity on a revolving credit facility. We continue to be well capitalized with a strong dividend and look forward to executing on our strategic objectives and taking advantage of opportunistic investments as they arise.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mitch Germaine, Citizens Bank.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Thank you for taking my question. Adam, there's a whole bunch of multifamily assets that are owned in different syndication. I'm curious, is the expectation of one transaction, if you can lock in a larger fund, is the expectation that this all kind of cleans up with that? Or is there the potential for some of these to just continue to remain as one-off investments?

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

Hi, Mitch. Thank you for that question. So it's a good question. I think you got to keep in mind, part of the way you answer that question is how we put together the portfolio that is our multifamily portfolio. It's the only asset class that we manage that's 100% private.

We don't have a public vehicle around multifamily (technical difficulty) over two years ago. Most of those investments are in joint ventures, one-off joint ventures per investment. A few of them are small portfolios. And that's how that whole business has been structured similar to the way we bought it.

I expect that we will continue to have many of those joint ventures be the form of the investments we make, especially over the short-term. But I think what you're seeing in terms of the enhanced growth fund, that Matt Jordan talked about and we've talked about on many calls, is we're starting to try to put together a portfolio among that $4.7 billion, which is mostly joint ventures of, let's say, a fund that we can raise money around.

So we're trying to do both. I don't think you will see a transaction that will suddenly, let's say, roll up all $4.7 billion into a new public vehicle. I'm not sure if that was your question, but that's not where we're going with that. It's likely to all stay private, likely to continue to be joint ventures, one-offs, small portfolio joint ventures. And our hope is that we can start to build a more dedicated fund around that strategy as well.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Taking that a little bit further, I think last couple of quarters, you seemed a little bit more positive on potential venture in, I guess, we'll call it commercial mortgage, as well as I think you've mentioned development. Are those two products just a little bit behind multifamily right now with regards to your priorities?

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

They're all top priorities. I will tell you, I just think it's -- and we are continuing to talk to investors and partners about development projects. I think in the current market environment the returns required for development projects are pretty high. And development is always difficult when you have a lot of uncertainty, and it's hard to predict the next quarter, let alone 18 months from now, which is typically what you have to do to sign off on development projects.

So we are continuing to work on those. I expect we will, in the course of the year or so have some joint venture development projects underway. It's just that today in the multifamily space with the portfolio that we've assembled, we are generating the highest amount of interest around that. One comment on the credit that you mentioned, Mitch, we are also very active in talking to investors around credit as well.

We are not -- I wouldn't say it's a less of a priority, but we have a lot of money to put out in our Seven Hills mortgage REIT right now and new money coming into that vehicle and expected loan payoffs. So we have a pretty good pipeline and capacity with our existing vehicles there, but we are still talking to investors around credit. There's been a general pullback around credit given what's gone on in the marketplace around some other funds that are in the credit space, especially retail-oriented funds.

And so there's been some hesitancy among investors to take those conversations further at the moment. But that's okay from our perspective because we have a lot -- we can do a lot of work there anyways. We can put a lot of AUM to work otherwise.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Got you. Last one for me, I think at one point, you might have had close to $300 million or so of cash on hand. I think that obviously that balance has come down a bit as you're buying some of these assets and warehousing them on balance sheet in anticipation of some of your fundraising.

Where -- and I know you're getting some benefit of these incentive fees, which is kind of renewed to the story more recently. But where are you with regards to kind of how much sort of cash do you want to keep on hand for some sort of rainy day basically? So I mean, are we getting close to an amount where you're starting to become a little bit more conservative with allocating capital or are you still all systems go if the right opportunities are presented?

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

More the all systems go if the right opportunities present ourselves. We have about over $100 million of liquidity between cash on hand and undrawn capacity on our revolver. We also -- we are also fairly optimistic that we will be getting some cash back, especially as we are hopefully successful in syndicating the enhanced growth value, the fund that we have built up around the multifamily strategy.

We have $100 million of capital committed to that venture or just under $100 million. And if we are successful in syndicating that and getting that fund launched, which we are optimistic that we will get it done, that will be a lot of cash will also be coming back to us, we think.

Mitch Germain - *Citizens JMP Securities LLC - Analyst*

Thank you.

Operator

(Operator Instructions) Christopher Nolan, Ladenburg Thalmann.

Christopher Nolan - *Ladenburg Thalmann & Co Inc - Equity Analyst*

Hi, guys. Adam, is the Seven Hills participating in this Greenwich project providing debt financing?

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

Hi, Chris. No, Seven Hills is not providing any sort of financing with the multifamily acquisition in Greenwich, no.

Christopher Nolan - *Ladenburg Thalmann & Co Inc - Equity Analyst*

Okay. And then, I guess, Matt Brown, did you say adjusted net income in the next quarter will be $19 million to $21 million, or did I mishear you?

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

Adjusted EBITDA in the fiscal third quarter, $19 million to $21 million.

Christopher Nolan - *Ladenburg Thalmann & Co Inc - Equity Analyst*

I guess as a follow-up in the general, Adam, how would you characterize the market for raising equity for commercial real estate as opposed to raising debt for commercial real estate?

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

It's a great question. First, I'm going to let Matt Jordan answer that question. Go ahead, Matt.

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

Well, in terms of the debt, there is a lot of debt available to lend against real estate. We have no lack of interest just having done this on the Greenwich asset. Adam touched on fundraising around credit, which is very challenging right now for a number of reasons, including a lot of supply in the market in terms of organizations like ours going out with credit vehicles.

Fundraising for equity is a very challenging effort right now. The volatility in the Middle East has taken a large number of folks that were putting a lot of money out and put them on the sidelines. Volatility is not a good thing for those that are fiduciaries of deploying capital. The money and the allocations to real estate will be there in the long-term, but right now, a lot of the conversations we've had are continuing, but have slowed significantly.

And to Adam's point on the enhanced growth venture, I just think it's elongating the fundraising cycle for what we're doing, but there continues to be significant allocations. As we highlighted, we've met with a significant number of global LPs.

RMR itself is still a new brand, so we're spending a lot of time getting our name out there. And people are amazed at the capabilities we bring and the breadth of our organization. But things are just going to take longer until the Middle East settles down.

Christopher Nolan - *Ladenburg Thalmann & Co Inc - Equity Analyst*

Okay. And then I guess there's a final question. You're seeing with some private equity shops, they're setting up distressed commercial real estate funds. Is that a potential strategy that you would consider? And in my view, that tends to be the preparing for some sort of down cycle.

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

Chris, it's not something we're actively pursuing at the moment in terms of setting up a distressed real estate fund. We have limited pockets within RMR and the different funds that we manage in groups that I think have a really attractive distressed opportunity presented itself to us. We could seriously consider about consider executing on it. But we are not building out a strategy around that today.

Operator

John Massocca, B. Riley.

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

Maybe kind of sticking with the big picture kind of fundraising theme, you've seen some pullback and some other types of kind of credit funds, right, private lending being the most notable. Are you seeing any indications of that capital potentially being reallocated to things that are a little more tangible, like real estate? Or is that just an unrelated phenomenon in your mind?

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

Yeah, I don't think it's unrelated. I don't think they're related. We actually -- it's interesting when you meet with LPs. Lending may not even sit in the real estate bucket. It may be in fixed income and other pockets within these large organizations. So we have not yet experienced where credit allocations have been redeployed in a way that's benefited us on the equity side.

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

And maybe switching gears a little bit, going back to a little bit to Mitch's last question. What's the appetite today for more kind of wholly owned assets or at least consolidated assets on balance sheet to help kind of create the base for funding either the multifamily-focused fund or even maybe a retail fund going forward? Just kind of curious if you think you're at a good point in terms of the wholly owned assets you have today or there's more capacity to continue to add to that?

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

Yeah, I think there's a little more capacity to add to it. I don't think we'll be adding until we are successful syndicating the enhanced growth venture to add wholly owned multifamily assets on the balance sheet. But you mentioned retail. Retail is an area that we could maybe add a couple more assets to the balance sheet if it was the right type of asset. So that's an area that you could see us do some more asset level acquisitions on the RMR balance sheet to help sort of get that retail strategy further along.

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

And then thinking about kind of the quarterly financials, kind of you predicted a little bit, but construction to revision revenues were down pretty big, certainly quarter over quarter, but even year over year. And just kind of trying to think of how much of that is just the new normal? How much of that is maybe one-offs? How much of that is seasonality? Just kind of any color on how you would expect that to kind of trend over the remainder of the year?

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

Yeah, so I think when you look at our construction management fee revenue sequentially, it's really just driven by the start of the year is generally a little bit slower for us as budgets are just reset. As we look year over year, the decline, at some of our managed public vehicles, we had some pretty extensive capital improvement projects going on, mainly within DHC and SVC that have largely wound down.

Those REITs are now forecasting less capital spend in '26 than they were. But we will see a little bit of a ramp expected. It's going to be a benefit to us for the next quarter as we just start to progress throughout the year.

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

But maybe it's kind of the year-over-year decline as you think about comparing it to the comparable quarter in '25 kind of a good way to think about it going forward?

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

Yes, I think that's a good run rate.

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

That's it for me. Thank you very much.

Operator

Thank you. And that does conclude our question-and-answer session. I'd like to turn the conference back over to President and CEO, Adam Portnoy, wait 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. We look forward to seeing many of you at our upcoming industry conferences, including Nareit in June. And we encourage institutional investors to contact RMR Investor Relations if you would like to schedule a meeting with management.

Operator, that concludes our call.

Operator

Yes, sir. Thank you very much. And we thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.