

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

CaliberCos Inc. (NASDAQ:CWD)



CHRIS LOEFFLER has served as the CEO and Chairman of CaliberCos Inc.'s board of directors since its inception. Prior to forming Caliber, Mr. Loeffler served as an Assurance Associate at PwC in Phoenix, Arizona. Mr. Loeffler earned a bachelor of science degree in business administration with a concentration in accounting from California Polytechnic State University, San Luis Obispo. Mr. Loeffler also attended Universidad Complutense de Madrid (University of Madrid) in Madrid, Spain. In addition, Mr. Loeffler is the Co-Founder and former Board Director for Qwick, Inc., a venture-funded hospitality staffing marketplace, a Board Director for ZenniHome, Inc., a housing-tech startup and a Board Director and Treasurer for the Mesa Police Foundation.

SECTOR — FINANCIAL SERVICES

TWST: As this is the first time you've spoken with The Wall Street Transcript, can you provide some background on your company?

Mr. Loeffler: Caliber is a 15-year-old company, started in late 2008. We manage, develop, and invest in real estate. We help investors to do that in the southwest region, primarily in Arizona, Colorado, and Texas. The company offers a full-service platform. An investor can come seeking to invest in real estate. We can assess their needs and help them invest in a variety of different projects and funds.

The company is technically a real estate asset manager, so a financial services business that creates private real estate funds, raises capital in those funds, manages the funds, invests the funds on behalf of the clients and the investors, and generates a variety of sources of fee income, both recurring revenues and profit-sharing interests, and service fees.

A unique component to our business model is that we are a vertically integrated real estate asset manager, which means that we have an in-house services group to handle real estate development, construction management, and property management.

We don't just raise and manage capital. We actually execute on the strategies to acquire those assets and further develop them, turn them around, etc. That allows us to build smaller funds that we call middle-market funds.

Our fund sizes are typically \$100 million to \$200 million, to invest in smaller assets, such as \$5 million to \$50 million projects — middle-market assets — sometimes in secondary and tertiary markets that are harder to access for our institutional competitors.

TWST: Certainly the smaller properties, I suspect, are something that larger institutional competitors probably would be a little shy of because they still have to do all the work, but they can't put as much money in.

Mr. Loeffler: That's right.

TWST: It's like venture capital. There's a limit to how little money they'll lend to somebody.

Mr. Loeffler: Exactly. And we do interact with them because they lend to us or in some cases invest with us, but they're reliant on us as a middle-market aggregator to find projects, build a portfolio, and then give them something to buy.

TWST: And also, if you're familiar to them, it's easier to extend some more financing, some more investment, because it's not like they have to do the due diligence on every investment.

Mr. Loeffler: That's right. They look for what we offer, and that is one of our unique competitive advantages, that we're offering an institutional quality investment management platform combined with more of an entrepreneurial real estate investment and asset platform.

They need a company to work with that has a similar level of infrastructure and institutional quality as they have but that helps them access these smaller assets.

TWST: Also, smaller assets have taken less of a hit in the percentage of transactions lost — less than larger properties. So it's an area where if you are small enough, and if you don't have the huge infrastructure, you can do more deals, because there are more deals happening at that level right now. And there's probably less risk, I'm guessing.

Mr. Loeffler: Risk is one of those things that manifests in many ways. There's less competition to do what I do, because the assets are large enough that they're hard for an entrepreneur or a group of doctors putting money into an LLC to execute on. But they're small enough that I don't have to regularly compete with the institutions that manage tens of billions of dollars.

And that lack of competition creates an opportunity for us to buy assets at a better basis, on a per-foot or per-door basis, which just gives us a bigger spread to be able to execute on the strategy and generate a profit.

So there's still a failure rate in any real estate investment. There are still issues and risks that come along with it. But if you can buy at a lower basis, then you have more flexibility to find a profit for your investors as you work through the project.

TWST: Can you also talk just a bit about yourself, your background?

Mr. Loeffler: Sure. I started my career in retail banking at Washington Mutual Bank all the way from high school through college. I then went into public accounting at PricewaterhouseCoopers, and was at PwC for a short period of time between 2006 and 2009. And in late 2008, I started what became Caliber, along with some co-founding partners, to start acquiring foreclosure properties at auctions in Phoenix, Arizona.

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TWST: You got into distressed real estate at a good time, given the amount that was available.

Mr. Loeffler: If only we weren't three 20-year-olds with no track record and no capital, we would have had an even better run. But our first year in business, we flipped 150 homes, raised \$18 million in private capital from about 35 investors, and that was how Caliber got started — with one investor and one house.

TWST: Let's look at your focus right now in commercial real estate, including whether you're currently holding it or not, multifamily, hospitality, medical office and hospital, office, mixed use, and land. Why did you go the commercial real estate route in the first place?

Mr. Loeffler: For us, it was following where we thought the opportunity was and trying to stay ahead of the curve for our investors.

The first couple of years were all single-family foreclosures. When we saw that market get overcrowded as Invitation Homes came in and started buying everything here, we moved to buying multifamily, primarily distressed multifamily through non-performing notes and other forms of distressed acquisitions.

As we got better and better at developing multifamily, investors started to flood the zone in multifamily, so we ended up shifting into hospitality and acquired our first hotel in late 2013.

And then we spent the 2014 to 2019 era buying hotels and land for land development. We felt that we were going to go back into a development cycle, and I think we were right.

Then we started developing some specialty real estate asset classes, like a behavioral health hospital, a private school, just things to stay ahead of the competition and do projects that we felt could generate a really good profit related to the risk that we were taking.

I think the common thread in all of those activities was seeking out projects that because of either a layer of complexity or difficulty to execute or complex tax incentives, all of those things boxed out the competition and gave us a competitive advantage to invest. That's the common denominator.

Then in 2020, we went into COVID with about 50% of our assets in hotel, so we ended up having to really turn inside and shelter our portfolio from the negative effects of COVID. We injected a lot of capital into our hotels. We kept all of our debt current, kept all of our assets. We were able to weather the storm there.

That did a couple things for Caliber. First, we were selling assets primarily between 2020 and 2022 like our multifamily assets while the values were at all-time highs. Two, we didn't spend much time raising new capital and buying new assets. The only things that we bought were mostly cheap land for development.

When we saw in early 2022 that interest rates were going up, we decided to delay the launch of new investments. We created three new funds but waited to launch those until late 2023.

We took the time while we were waiting outside the market to build a wholesale infrastructure. For the first 13 years of our history or so, most of our money was raised directly from high-net-worth investors. For the last two years, we've put a lot of time and money and effort into building an infrastructure to support the fee-based registered investment advisory community and the broker/dealer community.

Caliber presents today with new funds, little exposure to assets purchased between 2020 and 2022, all the necessary infrastructure to support an investment adviser to allocate their client capital to our funds, and a distressed asset platform that is prepared for what's coming next.

TWST: So, you largely avoided getting in when money was really cheap and leverage was high.

Mr. Loeffler: Yeah.

TWST: Did you think that interest rates were going to go up? Because that was bound to make problems for anybody trying to refinance. It was, what, three- to five-year refinance, pay interest only, and suddenly face a balloon payment when refinancing became challenging.

Mr. Loeffler: I would not give ourselves credit for predicting the future at that level. I would say, we had an inkling that at some point in time rates would have to go up. But the main reason we were out of the market was structural, because we were taking care of our existing assets and we were preparing our business for another round of growth.

Once we were ready to launch that, we realized what rising interest rates were going to do to the market. So, we were smart enough to not launch full bore and raise a bunch of money because we believed there would be a drop in values.

There has been. Commercial real estate's down around 21.5% across the country from peak to trough.

We immediately saw that we were going to go from a development cycle into a disrupted cycle, maybe a distressed cycle. So let's hold ourselves out of the market. Let's just prepare. And now we think it's time to start raising money again and really go after it.

TWST: Is there a particular mix you favor or is it mostly sort of an opportunistic chance to get into different distressed? Because it sounds like distressed is really where you've been all along.

Mr. Loeffler: Yes, it's always been something like that. After 15 years, we have about a third of our activities in hospitality, about a third in land development — which is really an any-season type of activity — and about a third are focused on other commercial real estate with the majority being multifamily.

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TWST: Looking at data from S&P Global Market Intelligence, as of the end of 2023, you had \$990.8 million in real estate funds and \$188 million in other funds. I wondered what the other funds were.

Mr. Loeffler: At the end of 2023, we had approximately \$750 million in what we call AUM, assets under management, and then about \$2.2 billion in what we call assets under development, which is AUD. The definition of AUM is the value of the existing real estate assets in our funds that we manage and control. The AUD is the value at cost of the developments we're currently working on.

So, as an example, if we own a \$5 million piece of land and we're going to build a \$50 million behavioral health hospital on it, then the \$5 million land number would be in the AUM balance, and the \$50 million cost of construction for the behavioral health hospital that we're in the process of developing would be in the AUD balance.

TWST: Got it. It's still basically the same thing.

Mr. Loeffler: Yeah. It's sort of like built or not built. Then there's about \$450 million of what we call managed capital, which is the actual cash invested from investors, and the delta between the \$450 million in managed capital and the rest is debt or future cost to construct.

TWST: What are your typical investment horizons?

Mr. Loeffler: In the opportunistic strategy, it's five to seven years, and in the opportunity zone strategy, 10 to 13 years. And then we do quite a few single asset deals and other types of investments that are in the one- to three-year range.

TWST: Since 2017, in your public years, you've shown a profit in only two years, in 2019 and 2022. Why is that?

Mr. Loeffler: So, the early era of our business was really about growing AUM to a point where we moved from what I would

consider to be more of a lifestyle business into a real operating platform. That was really the operating losses around hiring ahead of our needs and preparing the company for what I would call an institutional infrastructure.

Even back to 2015, we were a PCAOB-audited company. We had infrastructure well beyond our needs for the AUM balance we had at the time.

2019 was one of our best years. We did about \$25 million in revenue, about \$8 million to \$10 million in EBITDA, depending on whether you would adjust it for certain expenses, and around \$6.5 million in profit. That was driven by us starting to realize the investments we had put in to grow the platform.

If you think about our deal cycle, five to seven years is the cycle. We didn't start doing larger deals until 2014. So, 2019 was the five-year mark when we could start to harvest our deals.

Going into 2020, we obviously didn't anticipate COVID was going to happen, and we sheltered the business. We stopped buying and selling. We didn't want to invest investor capital or raise capital.

We didn't know where the world was going to go. So, we were very focused on protecting what we had, and part of that was protecting our people and keeping our best people paid, even though we were going to lose some money, which we did.

We returned to a break-even EBITDA in 2021, became profitable again in 2022.

Then Caliber launched several initiatives all at the same time in 2023, which pushed our operating costs up by about 75% year over year. The first initiative was the launch of these three new funds that I mentioned to you.

The second was the creation of the Caliber Hospitality Trust, which is an Up-REIT transaction we're building as a private REIT in the Caliber platform that we expect to grow beyond \$1 billion in assets, and it will be the second company we will take public and manage the REIT.

And then, of course, the IPO for Caliber was in May of 2023. Last but not least, we entered the wholesale channel and hired an entirely new sales team to start fundraising.

All of those initiatives cost money on the front end, and you don't start to realize the revenues from them until sometime down the road. And so, this year is really what we think is our transition year to go back towards positive EBITDA. And as we've announced publicly, we expect to be growing profitably into the future.

TWST: Can you describe your typical investors and the range of investments they put into your funds?

Mr. Loeffler: We have our private client group, which is about 1,500 households, about 3,000 investors, and those investors have an average net worth around \$5 million to \$10 million. They typically invest about 10% of their net worth with us over time, so \$500,000 to \$1 million, and that's usually in two to four positions. If

they've invested \$500,000 with us, they probably have \$100,000 to \$250,000 per investment.

On the wholesale side, we are just getting into the market. We signed our first selling agreement with a broker/dealer in December of 2023. We're now up to about 25 or so selling agreements representing around 500 reps across the country who can distribute our products.

We believe that we will be a phenomenal partner for small, medium, and boutique registered investment advisers and broker/dealers who are looking to offer something unique and different to their customers.

Last but not least, we have done some business with institutional investors, namely family offices and what I would call more of a boutique institution. For example, we did a \$50 million deal with a \$3 billion bank in Texas.

We think there is a lot of opportunity for Caliber in what we call middle-market investors who are underserved by the largest institutions because they're just smaller and they have less access, but certainly are a sophisticated crowd of people who clearly understand their investments.

TWST: In your last earnings call, you said your goal was to bring Caliber back to profitability as soon as possible and also do more fundraising. What kind of timescale do you see getting back to profitability?

Mr. Loeffler: We have not set a target quarter or a target date, but what we've said is we think we can get back to profitability in the near term. We did cut about \$6 million in operating costs on an annualized basis recently, so that'll help accelerate our progress. And to the extent we need to cut more costs, we can.

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But we think the investments we've made in 2023 through the first half of this year are going to drive the revenues we're expecting. And that will get us back to profitability in the near term.

We think investors rightly expect a business like ours to grow profitably. I think that the lack of profitability last year was a unique confluence of events.

TWST: The market has seen a lot of perturbation around liquidity in real estate funds. Your cash and cash equivalents have been steadily dropping from fiscal year 2019. As of March 31st, 2024, they were down \$2.1 million. How would you handle a rush of investors wanting to get out?

Mr. Loeffler: It's a very cogent question considering what's going on in the market right now. I think investors across private real estate investment funds have been trying to find ways to get some liquidity, oftentimes because they're invested in multiple different funds with multiple different sponsors, and they're getting capital calls. We have not issued a capital call on any of our main funds.

I just had an interesting conversation with an investor who said, “I need to get out. I need to sell my position because I've got to fulfill my capital call with this other guy.” And I said, “Maybe you should not sell your position with us.”

Except for our Core+ Fund, Caliber has designed its funds with the same feature. Investors can't cause a run on the bank because they're not allowed to force a redemption under any circumstances. But we're not in the business of upsetting our investors. So when they do ask for redemption, we do everything we can to accommodate their request.

TWST: Yes, “Our business is to make our customers feel miserable” is not a good model.

Mr. Loeffler: We definitely will and do try our best to fulfill redemption requests, but there's no ability for them to force it and put our business or the rest of the investors in the fund at risk.

Our Core+ Fund, which is designed to be like a very miniaturized version of BREIT — Blackstone REIT — or SREIT — Starwood REIT. It has an interval fund-like structure. It's not an actual interval fund. It's still a private fund, but it does have a 5% redemption per quarter feature.

The reason we launched it is we love the product. We think if it's executed on a boutique size, and especially in light of the fact that many institutions are selling some high-quality assets at a nice price right now, we think we can be on the right side of the trade for that.

So, we do have one fund that has a liquidity feature that's similar to others, but doesn't seem to have that same risk.

As far as liquidity goes for the operating company, Caliber has a pretty sizable AR balance or short-term loan balance between the company and our investments and funds, meaning we've invested corporate capital in short-term loans or in receivables to those funds.

One way we've capitalized the operating losses or funded anything else we need for the business is just collecting those receivables over time.

TWST: I'm guessing because of the close nature of that, accounting wouldn't let you call that cash equivalents.

Mr. Loeffler: That's right. They won't let us call it that.

TWST: Speaking of accounting, you had also mentioned some changes in accounting in the last earnings call. What were they and what does that mean going forward?

Mr. Loeffler: So, there were two and I'll start with the objectives of the changes and then I'll tell you what they were. The objective is simplicity and we understand that investors need to be able to see the simple picture of Caliber as an asset manager that we see, which is a relatively asset-light balance sheet, relatively debt-light, and a fee-based financial services business.

Unfortunately, because of the nature of consolidation accounting and GAAP rules, what they see when they look at our balance sheet and P&L is much more complicated. And so, we are striving for simplicity while following proper accounting guidance to get there.

There are two things we did recently. At the end of 2023, we adjusted our segments to reflect how we look at the business on a

going-forward basis. That resulted in Caliber going from three segments into a single segment. It didn't change much inside of our business, but it gives investors a cleaner and simpler view into what we are and what we aren't.

The second thing we did involved the Caliber Hospitality Trust, CHT. Last year, we closed on the contribution of six of our hotels to CHT. But at the beginning of this year, we were able to justifiably remove the consolidation accounting around those six hotels. It takes their balance sheet, their debt, their results off of our books.

If you looked at our debt-to-equity ratio before, it was like 300%. This change took our debt-to-equity ratio down to about 100%. It still shows that we have about \$110 million in debt at Caliber when the real number is around \$50 million. So we're continuing to look for opportunities to deconsolidate assets so that investors can purely see the balance sheet and the P&L of the operating business.

TWST: What are your biggest opportunities and challenges in the coming year? I'm including in that macroeconomic obstacles.

Mr. Loeffler: I'm an optimistic guy, so I'll try to start with the challenges because, otherwise, I have a hard time thinking of them. The challenges that we face are that we're a small public company with an illiquid stock and a story that is somewhat hard to understand for investors.

It is a real challenge to get our story out there, help investors understand what we are and what we aren't, and the opportunity that is in our stock and the value that can be created for them over time.

Understandably, our share price performance since we went public has also affected us because investors who would normally just invest in our funds without thinking twice as a private company are now looking at our share price and saying, "What's wrong with Caliber? Their share price is down."

First and foremost, for us as a management team, it's executing this plan to return to profitability and clean up the balance sheet and show investors that we have a sustainable, profitable, growing business. That's what we are focused on from a challenge perspective.

Macroeconomically, I think the biggest challenge that we face is ongoing, consistent disruption in the minds of investors that causes them not to want to move forward.

TWST: Them hoping for cuts, cuts, cuts while the Fed is saying R-star or the neutral rate may actually have increased and we don't really see getting back to really low interest days at any point.

Mr. Loeffler: That doesn't affect us as much. Whatever makes an investor feel uncomfortable, like, they feel that there's a recession coming, or they feel that there's not going to be a soft landing.

I think we've been through a period of about 12 to 18 months of a lot of discomfort. And I think at some point in time, investors are going to say, "OK, it's just time to make moves." I think that we're probably in a good position right now for that.

Since we don't have a lot of exposure to paying for overpriced assets in the last cycle, we are the guys on the other side of that trade that

can buy these assets at a really nice discount to their inherent value. We have the team, the experience, the know-how to do it, as well as the access.

We're in some of the best markets in the country in Arizona, Colorado, and Texas. That's a huge opportunity.

The second thing is that Caliber's AUM growth is not just reliant on raising capital. Because of our up-REIT strategy, we have hotel owners rolling in hundreds of millions of dollars of their hotel assets into the trust with a relatively small amount of cash that we need to close on those deals. That allows us to grow our AUM significantly.

We've announced \$1 billion in assets in CHT as the target. That would double our AUM balance and our annual recurring revenues and our annual fees just by closing this one transaction we've been working on.

I think the big catalysts are really fundraising and buying high-quality distressed assets and closing up the CHT transaction.

TWST: Anything we haven't discussed that you think the audience might find of interest?

Mr. Loeffler: I think that the most interesting thing I can probably say on where the world is and where I think we're going to go is that the same phenomenon happened in 2009 that I think is happening right now.

In May of 2009, we knew that we had found the floor as to what an asset was worth, how far it was going to fall. We saw over the course of the next two to three years, headline after headline after headline about foreclosures and how horrible real estate was and how values were coming down. The reality was that those headlines were creating the opportunity for us to buy assets at or around the floor price.

So I think the same thing's happening now. I think we know exactly how far an office building's value can fall and how far a multifamily building can fall and how far many of these asset classes can fall. We now know if we buy around this price or at a discount to that price, that we made a good deal.

I think what's going to happen in the next 12 to 18 months is that the headlines are going to get pretty bad and there's going to be a lot of assets going back to the bank and investors are going to think they should be waiting when they shouldn't be.

TWST: Thank you. (EBS)

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