EDITED TRANSCRIPT

Agree Realty Corporation's
Fourth Quarter 2018 Earnings Conference Call
Friday, February 22, 2019; 9:00AM ET

Edited transcript as provided by by MultiVu, PR Newswire's multimedia and broadcast services division.

NYSE: ADC

CORPORATE PARTICIPANTS

Joey Agree, *Agree Realty Corporation - President & CEO*
Clay Thelen, *Agree Realty Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Collin Mings*; Raymond*
Christy McElroy*; Citigroup*
Ki Bin Kim*; SunTrust*
Todd Stender*; Wells Fargo Securities*
John Massocca*; Ladenburg Thalmann*
Tayo Okusanya*; Jefferies*

PRESENTATION

Operator
Good morning, everyone, and welcome to the Agree Realty Third Quarter 2018 Conference Call.

[Operator Instructions]

And please note that today's event is being recorded.

I would now like to turn the conference over to Joey Agree, President and CEO. Please go ahead, Joey.

Joey Agree - *Agree Realty Corporation - President & CEO*
Thank you, Operator. Good morning everyone and thank you for joining us for Agree Realty's Fourth Quarter and Full-Year 2018 Earnings Call. Joining me this morning is Clay Thelen, our Chief Financial Officer.

2018 was an exceptional year for our growing company as we made tremendous progress further transforming Agree Realty into a leader of retail ownership.

We achieved several significant milestones during the past year, among them:

- we exceeded $3 billion in enterprise value;
- we added a record of over 230 high quality properties to our growing portfolio;
- we increased our exposure to leading investment grade retailers by approximately 800 basis points from 43% to 51% via leading tenants such as Sherwin-Williams, TJX, Tractor Supply, and Home Depot;
- we further improved the diversification of our portfolio by investing across 38 states and 22 retail sectors;
- we received an investment-grade credit rating from Moody's Investors Service;
- we solidified our balance sheet by raising over $750 million in permanent capital;
- and we increased our well-covered dividend by 6.4%.

While these metrics are quantifiable and visible to our shareholders, we simultaneously invested significantly in our very bright future, expanding our organization to 36 team members and counting, as well as embarking on an expansion of our headquarters to accommodate our growing Company.

During the past year, we invested $629 million, of which a record $607 million was through our record acquisition platform activity. The 225 properties acquired during the year span 22 diverse retail sectors.

Over 61% of annualized base rents acquired during the year are derived from retailers that carry an investment grade credit rating.

While we achieved another record year of acquisition volume in 2018, we continue to adhere to our rigorous underwriting standards that pair an emphasis on retail real estate fundamentals with a top-down focus on leading omni-channel retailers. Our robust and growing pipeline similarly represents best-in-class retailers in our targeted retail sectors.

We closed out this past year with a very busy final quarter, investing a record amount across our three external growth platforms while executing several capital markets transactions that served to fortify our balance sheet for additional growth.

During the 4th quarter, we invested nearly $263 million in 139 high-quality retail net lease properties. 129 of these investments were originated through our acquisition platform, representing total acquisition volume of a record $256 million for the quarter. A record 84% of annualized base rents acquired during the fourth quarter are derived from investment grade retailers; not solely because of their rating; but rather the combination of their market positioning in an omni-channel retail world and their superior risk adjusted real estate.

Most notable during the quarter was the completion of the Sherwin-Williams sale leaseback transaction, the world’s largest paint and coatings retailer which carries investment-grade credit ratings from all major rating agencies. This was a unique transaction that demonstrated a differentiated capability from our traditional focus on granular sourcing activities. Since this transaction, we have seen increased opportunities to continue to partner with leading retailers such as Sherwin Williams.

Pursuant to the sale-leaseback transaction with Sherwin, we acquired 98 properties across 29 states for a purchase price of approximately $142 million. The properties are subject to long-term, triple-net leases and have very fungible boxes averaging 5,800 square feet. The portfolio has extremely strong demographics, with an average five-mile population of 180,000 people, an average five-mile household income of $72,000, with daily traffic counts averaging almost 30,000 vehicles.

Inclusive of the Sherwin-Williams transaction, the properties acquired during the fourth quarter are leased to 28 sector-leading retail tenants operating in 15 diverse sectors, including: home improvement, off-price retail, auto parts, tire & auto service, discount grocery and convenience stores. Notable other retailers acquired during the quarter include Home Depot, Ross Dress for Less, AutoZone, O’Reilly Auto Parts, Bridgestone Firestone and Sheetz convenience stores.

The properties were acquired at a weighted-average cap rate of 6.7% and had a weighted-average remaining lease term of approximately 12.5 years. Excluding the Sherwin-Williams sale-leaseback transaction, the Company’s fourth quarter acquisitions were completed at a weighted-average cap rate of 7.2% and had a weighted-average remaining lease term of approximately 13.0 years.

Our top tenant roster continues to be a list of the strongest retailers in their respective sectors in what we continue to view as a dynamically changing omni-channel retail world. During 2018, we added Sherwin-Williams, O’Reilly Auto Parts, Best Buy, and Burlington Coat Factory as top tenants. Simultaneously, we eliminated Smart & Final, Michaels, Academy Sports, Rite Aid, 24 Hour Fitness and PetSmart from our top tenant list during the year. You will see us continue to evolve our portfolio as we proactively embrace today’s changing omni-channel retail environment.

In addition to our roster of leading top tenants, our ground lease portfolio continues to expand, evidenced by the more than 100 basis points year-over-year increase to now over 9% of our annualized base rents. During the quarter we added eight ground leased assets, most notably a Walmart Supercenter in Franklin, Ohio and a Home Depot in Forked River, New Jersey.

Our ground lease portfolio derives 89% of rents from investment grade tenants and is comprised of leading retailers including Walmart, Home Depot, Lowe's, Wawa, ALDI, AutoZone, Chick-Fil-A, McDonald's and Starbucks. We continue to see a number of high-quality opportunities to add assets to this portfolio and look forward to updating you in the coming quarters.

Subsequent to year-end, we announced 2019 acquisition guidance of $350 to $400 million and disposition guidance of $25 to $75 million. I am very pleased with both the volume as well as the composition of our current pipeline. It contains several unique opportunities that are anticipated to close in the upcoming months.

Moving on to our development and Partner Capital Solutions platforms…

I am pleased to announce that we commenced three new development and PCS projects during the fourth quarter, with total anticipated costs of approximately $15 million. The projects consist of our first development with Gerber Collision in Round Lake, Illinois and our third project with Sunbelt Rentals in Georgetown, Kentucky.

During the quarter, we also commenced the redevelopment of the former Kmart space in Frankfort, Kentucky. We recently commenced demolition of the former Kmart building and are very pleased to announce that ALDI, Big Lots and Harbor Freight Tools have executed new 10-year leases for the project. Our development team has been working diligently on this project for over a year, and as you might recall, we recently added a Chick-Fil-A on a recently created outlot.

During the fourth quarter, we also made considerable progress on our five previously announced development and PCS projects which represent committed capital of approximately $14 million. The projects include our third and fourth developments with Mister Car Wash in Orlando and Tavares, Florida; our first two projects with Sunbelt Rentals in Batavia and Maumee, Ohio; and the redevelopment of the former Kmart space in Mount Pleasant, Michigan for Hobby Lobby.

For the full-year 2018, we had 16 development and PCS projects either completed or under construction that represent total spent or committed capital of approximately $74 million. Eight of those projects were completed during this past year, representing total investment volume of approximately $46 million. I'm pleased with our progress during the year as we continue to focus on providing full-service real estate solutions to leading omni-channel retailers. The relationships we've built with these retailers have served to significantly expand our investment opportunities across all three of our external growth platforms.

During this past year, we also strengthened and diversified our portfolio through proactive asset management and disposition efforts. We were again active on the disposition front during the fourth quarter, selling four assets for gross proceeds of approximately $6 million.

For the full-year, we disposed of 21 properties for approximately $68 million in gross proceeds. Included in our 2018 disposition activity was the sale of three Walgreens assets, reducing our exposure to 5.4% at year-end 2018, down from 7.7% at the end of 2017. Similarly, the Company decreased its pharmacy exposure significantly during the year, reducing it approximately 380 basis points from 12.3% to 8.5%. We would anticipate further reduction in our pharmacy and specifically our Walgreens exposure from additional asset sales that are forthcoming.

Our asset management team has also been diligently focused on addressing our upcoming lease maturities. At year-end, we had only 11 remaining lease maturities in 2019 representing just 1.6% of annualized base rents. During the fourth quarter, we executed new leases, extensions or options on approximately 90,000 square feet of gross leasable area throughout the existing portfolio. This included our TJ Maxx in Logan, Utah, which extended their lease to 2029. And, for the full-year 2018, we executed new leases, extensions or options on approximately 331,000 square feet of gross leasable space. Other notable leases, extensions or options included Old Navy in Grand Chute, Wisconsin and Harbor Freight Tools in Cedar Park, Texas.

As of December 31st, our rapidly growing retail portfolio consisted of 645 properties across 46 states. Our tenants are comprised primarily of industry-leading retailers operating in more than 28 distinct retail sectors, and again with more than 51% of annualized base rents coming from investment grade tenants. Occupancy ticked up slightly during the fourth quarter to 99.8%, and the portfolio had a weighted-average remaining lease term of 10.2 years. Overall, our portfolio is in the strongest shape in the history of our company.

I would like to take this opportunity to thank all of our loyal shareholders for their continued support during another fantastic year for our Company. With that said, I want to be clear that we are focused on creating the highest quality retail portfolio in the country and our past success only sets the bar higher as we look forward to our bright future.

With that, I'll turn it over to Clay to discuss our financial results.

Clay Thelen - *Agree Realty Corporation - CFO*
Thank you, Joey. Good morning, everyone. I'll begin by quickly running through the cautionary language.

As a reminder, please note that during this call, we will make certain statements that may be considered forward-looking under federal securities law. Our actual results may differ significantly from the matters discussed in any forward-looking statements. In addition, we discuss non-GAAP financial measures including Funds from Operations, or FFO, and Adjusted Funds from Operations, or AFFO. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in our earnings release.

As announced in yesterday's press release, total rental revenue, including percentage rents, for the fourth quarter, was $36.4 million, an increase of 27.1% compared to the same period last year. For the full-year 2018, total rental revenue increased 26.4% to $133.1 million.

General and administrative expenses in the fourth quarter totaled $3.2 million, or 7.8% of total revenue. For the full-year 2018, G&A expenses totaled $12.2 million, or 8.2% of total revenues. For 2019, we anticipate G&A expenses to contract roughly 50 basis points and be closer to 7.7% of total revenue.

Income tax expense for the fourth quarter was $125,000. For the full-year 2018, income tax expense was approximately $516,000. For 2019, We anticipate total income tax expense for the year to be in the range of $525,000 to $575,000.

Funds from Operations for the fourth quarter was $25.6 million, representing an increase of 20% over the fourth quarter of 2017. On a per share basis, FFO increased to $0.72 per share, a 1.2% year-over-year increase.

Funds from Operations for the full-year was $93.4 million, representing an annual increase of 22.5%. On a per share basis, FFO increased to $2.85 per share, a 4.9% annual increase.

Adjusted Funds from Operations for the fourth quarter was $25.4 million, a 21.2% increase over the comparable period of 2017. On a per share basis, AFFO was $0.71, an increase of 2.2% year-over-year.

Adjusted Funds from Operations for the full-year 2018 was $92.7 million, a 22.4% annual increase. On a per share basis, AFFO of $2.83 per share represented a 4.9% increase over 2017.

On a quarterly and full-year basis, FFO per share and AFFO per share were impacted by dilution required under GAAP related to the forward equity offerings we completed in March and September of 2018. Treasury stock is to be included within our diluted share count in the event that, prior to settlement, our stock trades above the deal price from the offerings. The aggregate dilutive impact related to these offerings was roughly a penny to both FFO and AFFO per share for the three-month and three cents for the full-year periods. In 2019, there will be no treasury stock dilution related to the March forward equity offering given we settled the transaction in 2018. To the extent that, prior to settlement, our stock continues to trade above the deal price of the September forward offering, we will continue to record treasury stock dilution related to that offering. To date, we have not settled any of the 3.5 million shares from our September forward and view this as a meaningful equity backstop to fund our future growth.

As a reminder, beginning in the first quarter, we will modify our calculation of Nareit FFO to exclude the add back of the amortization of above and below market lease intangibles and introduce Core FFO which will include the add back of this non-cash item. Core FFO will be consistent with our historic reporting of FFO and we believe the introduction of Core FFO will more accurately compare our performance to our peers.

As Joey already mentioned, we had an active year on the capital markets front, raising a Company record of $750 million dollars to continue to fund our dynamic growth as well as position our Company for 2019 and beyond. This capital raising is in addition to the almost $90 million generated through our disposition activity and free cash flow after dividend.

In May, we were very pleased to receive an investment-grade credit rating of Baa2 with a stable outlook from Moody's Investors Service. The receipt of an investment-grade credit rating not only demonstrates the strength of our balance sheet and our conservative and disciplined approach to capital markets decisions, but also the strength of our real estate portfolio. The Baa2 credit rating improved the cost of borrowing on our revolving credit facility and unsecured term loans and will further enhance our long-term access to capital.

As previously mentioned, we also completed two forward equity offerings during the year. In March, we completed a follow-on public offering of 3.45 million shares of common stock in connection with a forward sale agreement. We settled the entirety of the March forward equity offering in September and received net proceeds of roughly $160 million.

In conjunction with the settlement of our March forward offering, we completed another follow-on public offering of 3.5 million shares of common stock in connection with a forward sale agreement. Upon settlement, the September forward is anticipated to raise net proceeds of approximately $190 million after deducting the underwriting discount. To date, the Company has not received any proceeds from the sale of shares of its common stock in connection with the September offering. We retain the ability to settle the transaction, in whole or in tranches, at any time between now and September 3rd of 2019.

Most recently, during the fourth quarter, we raised gross proceeds of approximately $181 million through our ATM issuance of 3.1 million shares at an average price of $59.28.

Including the September forward offering, total common equity raised in 2018 totaled approximately $525 million. While we efficiently accessed the equity markets in 2018, we were also very active in the debt capital markets.

In July, we exercised the accordion option on our unsecured revolving credit facility, securing increased commitments of $75 million and increasing our total revolver capacity to $325 million. The increased capacity on our revolving credit facility reflects the continued growth of the Company since our credit facility was last amended in December 2016.

In September, we completed a private placement of $125 million in senior unsecured notes. The notes bear interest at a fixed rate of 4.32% and have a 12-year term, maturing in September 2030.

In December, we closed on a $100 million unsecured term loan. The term loan has a seven-year term maturing in January 2026 and has an interest rate that is effectively fixed at 4.26% and is based on the Company's credit rating.

At December 31st, we had just $19 million outstanding on our unsecured revolving credit facility, reflecting additional capacity of $306 million. Our capital markets activities are emblematic of our disciplined approach to opportunistically accessing attractively priced capital and positioning our balance sheet for continued growth.

As of December 31st, our net debt to recurring EBITDA was approximately 4.7 times, well below our stated range. Proforma for the settlement of the September forward equity offering, our net debt to recurring EBITDA is approximately 3.3 times. Total debt to total enterprise value was approximately 24.4% and our fixed charge coverage ratio, which includes principal amortization, remains at a very healthy level of 4.0 times. Our balance sheet is in the strongest position it has been in the Company's history. Pro-forma for the full settlement of the September forward, we have capacity to acquire up to $600 million in acquisitions without raising additional equity and staying within our stated leverage range of 5 to 6 times net debt to recurring EBITDA.

The Company paid a dividend of $0.555 per share on January 4th to stockholders of record on December 21st, 2018, representing a 6.7% year-over-year increase. This was the Company's 99th consecutive cash dividend since its IPO in 1994.

For the full-year 2018, the Company declared dividends of $2.155 per share, a 6.4% year-over-year increase.

Our quarterly payout ratios for the fourth quarter were a conservative 77% of FFO per share and 78% AFFO per share. For the full-year 2018, our per share payout ratios were 76% of FFO and AFFO. These payout ratios are at the low end of the Company's targeted ranges and continue to reflect a well-covered dividend.

With that, I'd like to turn the call back over to Joey.

Joey Agree - *Agree Realty Corporation - President & CEO*
Thank you, Clay.

To conclude, I'm very pleased with our record performance during the year. We're in excellent position for 2019 and I look forward to seeing many of you in the upcoming weeks.

At this time, operator, we will open it up for questions.

QUESTIONS AND ANSWERS

Operator
Thank you. (Operator Instructions) The first question comes from Collin Mings with Raymond James. Please go ahead.

Collin Mings – *Raymond James - Analyst*
Good morning, Joey. Good morning, Clay. First question for me, just going back to the prepared remarks on the Sherwin-Williams deal is, as you look at your current deal pipeline, do you have any other sizable sale leaseback portfolio opportunities you're actively pursuing? And just along those lines, do you expect these types of larger transactions will be an increasing share of your deal flow?

Joey Agree - *Agree Realty Corporation - President & CEO*
Yes. The Sherwin-Williams deal was a unique transaction. There's nothing in our pipeline of that nature, of that size. As we mentioned in the prepared remarks, we've seen a significant flow of opportunities with our retail partners, smaller opportunities, but nothing of size of Sherwin-Williams. That was really an atypical opportunity for us. But we continue to assess both the typical granular sourcing activities as well as larger opportunities as well.

Collin Mings – *Raymond James - Analyst*
Okay. And then moving to the JV and PCS business, just as you think about the opportunity set with Gerber Collision, looks like they have over 400 locations already. Just moving forward, do you think there's a runway there for more development opportunities? Just how are you thinking about that relationship?

Joey Agree - *Agree Realty Corporation - President & CEO*
Yes. We're very pleased to have commenced the -- our first project with Gerber in Round Lake. We're working on a number of opportunities with a number of retailers inclusive of Gerber. Gerber, of course, is owned by The Boyd Group of Canada. We think they're the premier auto collision operator in the United States. Very conservative company, very conservative balance sheet. We'll continue to work with them on all types of opportunities through all 3 external growth platforms, Partner Capital Solutions, acquisitions, and hopefully we're able to also layer in more development activity in the future.

Collin Mings – *Raymond James - Analyst*
Okay. I'll turn it over. Thank you, Joey.

Joey Agree - *Agree Realty Corporation - President & CEO*
Thanks, Collin.

Operator

The next question comes from Christy McElroy with Citi. Please go ahead.

Christy McElroy *– Citi - Analyst*
Hi. Good morning, everyone. Joey, just going back to your comment about those several unique opportunities anticipated to close in coming months, do you have anything under contract today? And as we sort of think about that guidance range of $350 million to $400 million, which is unchanged from 6 weeks ago, what does this kind of visibility mean for how frontloaded you expect that level of volume could be?

Joey Agree - *Agree Realty Corporation – President & CEO*
Yes. Good morning, Christy, it's a good question. Yes, I referenced some unique opportunities. I tell you we're working on everything. Some are under contract, going through different diligence, have different unique attributes of them, everything from urban condos that we're working on in core city center locations, to smaller sale leaseback transactions with our retail partners, to our typical granular sourcing activity, inclusive of early extensions, or what we call blend and extends. And so, the timing on a number of those transactions, because of the complexities of them, can be a little bit more difficult to pin down than our typical 71 days from LOI execution to closing. But at the same time, we're seeing more and more of those unique real estate opportunities to fit into our pipeline.

In terms of timing between frontend or backend loaded, it's hard to pin down. I'll tell you, our pipeline is of a similar quality and a similar nature as we executed in Q4, albeit most likely not as big, given the Sherwin-Williams transaction. But we think it's a robust pipeline in a fragmented market, and we see tremendous opportunity.

Christy McElroy *– Citi - Analyst*
Okay. And then just going back to Collin's question, you don't do a lot of sale leasebacks. So, when you think about the potential for doing more, just philosophically, how do you think about the balance of paying a lower cap rate for an investment-grade tenant versus moving your tenant mix in the direction that you want? And just given where your stock trades today at that lower implied cap rate, does that enable you to do more of these deals?

Joey Agree - *Agree Realty Corporation – President & CEO*
Well, I think to your last point, sure, it enables us. But I'll tell you, our discipline from a 30,000-foot perspective and our perspective on an omnichannel retail world and our bottoms-up underwriting analysis are really the drivers of our asset-level or portfolio-level transactions. And so, we are very selective in terms of granular. I'll tell you we're even more selective in terms of sale leaseback transactions. I wouldn't want anybody to think that we're the provider of finance for corporate America. That's just not our business model.

There are a handful of tenants where we have unique relationships, they're industry leaders, such as Sherwin-Williams, where we will look at sale leaseback transactions. But if and when we do look at those transactions, I think it's fair to assume we're also looking at granularly sourcing one-off opportunities, potentially developing for them, or deploying our PCS capability simultaneously.

Christy McElroy *– Citi - Analyst*
Thank you.

Joey Agree - *Agree Realty Corporation – President & CEO*
Thanks, Christy.

Operator
The next question comes from Ki Bin Kim with SunTrust. Please go ahead.

Ki Bin Kim – *SunTrust - Analyst*
Thanks. Good morning, guys. Can you talk about the replacement cost versus the price you pay for some of your deals and how that's trended over the past year?

Joey Agree - *Agree Realty Corporation - President & CEO*
Yes. I'll tell you, just given the growth of our ground lease portfolio up to 9%, I mean, we're paying significantly below replacement cost, because of course we're not actually purchasing a building. And so, the reversionary interest in the ground lease portfolio, again, adding another Walmart Supercenter, another Home Depot opportunity there, is pretty unique. And so, I would tell you the same is for some of the junior boxes that we've acquired, most notably the TJ Maxx's and the Ross's and, of course, the Burlington's here, one of which we developed, of course. But I think from a replacement cost perspective, we're able to find the opportunities given our relationships with tenants and also the unique transactional structure in the ground lease portfolio, which is fairly significantly below replacement cost.

Ki Bin Kim – *SunTrust - Analyst*
And the one kind of deal that caught my eye was the Big Lots construction deal. Is a retailer like that and a deal like that, is that something that you want to hold on in your balance sheet -- hold on in your balance sheet for a long period of time, or is that more of a kind of shorter-term opportunity?

Joey Agree - *Agree Realty Corporation - President & CEO*
Yes. So, the Big Lots you're referencing is the redevelopment of the former Kmart in Capital Plaza, or Frankfort, Kentucky. And so, demolition is almost complete. The team was onsite yesterday. Demolition of the former Kmart box, the 80,000-foot box is almost complete. We're building a 3-tenant, all on net leases 3-tenant, 3 juniors lined up, Aldi, which we're very excited to add, Harbor Freight Tools as well as Big Lots. Big Lots is an investment-grade operator. The overall asset upon completion will be comprised of those 3 tenants, the recently created Chick-fil-A out lot, a freestanding Walgreens, and a Family Dollar, which potentially will be converted to Dollar Tree. And so, we're really pleased to be able to actually harvest the value. We were very pleased to get the Kmart box back. They were paying $2 net. And there's some true incremental upside there.

In terms of holding it long term, I think we'll get it complete, we'll get it open and operating. We anticipate rent commencing in 2020, and then we'll make a decision whether or not it's a core asset for us to hold in the portfolio.

Ki Bin Kim – *SunTrust - Analyst*
Okay. And if I think about Agree over the past couple years, your cost of capital is in a very enviable position. Multiple is great. The market is actually giving you a green light to invest in smaller cities, nontypical, of like the core urban area that we are used to, like Maumee, Ohio; Chickasha, Oklahoma. So I'm just curious. How do you balance locational quality versus tenant quality and the safety in a contract and things like that?

Joey Agree - *Agree Realty Corporation – President & CEO*
Every asset is unique. Obviously, credit quality, real estate, term, store performance, replacement cost, residual value, synergy access, visibility are all critical. I think our job, I should say, is to articulate better throughout the course of this year is to understand the different sub-portfolios in context of the overall portfolio, which today spans over 650 assets.

We talk a lot about our ground lease portfolio over 9%. We now have some additional ground lease assets we'll be adding, which are frankly, very compelling. We have a number of, as I mentioned earlier with Christy, a number of urban condos which are very interesting in our portfolio as well as our pipeline.

We have a hard corner portfolio in dominant intersections. We have junior boxes adjacent to Target's and Costco's and dominant retailers positioned within their market. And we also have out lots to dominant power and grocery anchored centers. And so I think people are going to see -- and we're going to do a better job of it, it's one of our goals this year -- the high-quality nature of the portfolio, and frankly, the diversified nature of this portfolio, because we believe it's the best retail portfolio not only from a credit perspective, but from a real estate quality perspective in the country today.

Ki Bin Kim – *SunTrust - Analyst*
All right. Thanks, guys.

Joey Agree - *Agree Realty Corporation – President & CEO*
Thank you, Ki Bin.

Operator
The next question comes from Todd Stender with Wells Fargo. Please go ahead.

Todd Stender – *Wells Fargo - Analyst*
Thanks, guys. I just wanted to hear more details on the two ground leases you acquired. You got a Walmart, a Home Depot. So, can we hear cost and cap rate and lease term? Thanks.

Joey Agree - *Agree Realty Corporation – President & CEO*
Sure. Good morning, Todd. So, the -- specifically on the Walmart, that Walmart has approximately 10 years remaining, high performing store, really, a high-quality asset. Great, fantastic underlying real estate. The Home Depot in Forked River, New Jersey I believe has 19 years of remaining term, so that's a long-term Home Depot ground lease in New Jersey, so they'll be there for a while. With that Home Depot ground lease, we also acquired an out lot, which was Taco Bell ground lease in Forked River, as well as an Aldi on a turnkey basis. And so again, we're looking at high-quality real estate here with best in breed tenants, and we'll continue to look for those opportunities and we see them in our pipeline.

Todd Stender – *Wells Fargo - Analyst*
Is this stuff that's sub-5 cap rate? Is this in that zip code?

Joey Agree - *Agree Realty Corporation – President & CEO*
Oh, no, no. No, no. But both of those transactions are in the mid-6s.

Todd Stender – *Wells Fargo - Analyst*
Okay. And just as a reminder, how do you capitalize these? You can traditionally get pretty high LTV, long-term secured debt, but that's certainly not your traditional balance sheet method. More on the unsecured side. How do you guys look at that stuff?

Joey Agree - *Agree Realty Corporation – President & CEO*
I'll leave it to Clay, but you can expect us to continue to be an unsecured borrower using -- leveraging a debt private placement market. Anything to add, Clay?

Clay Thelen - *Agree Realty Corporation – CFO*
No, that's right. That's right. We'll continue to be an unsecured borrower.

Todd Stender – *Wells Fargo - Analyst*
Thanks. And, Clay, just to stick with you, the debt to EBITDA you still sub-5x. You kind of mentioned if you include the September forward equity agreement you're getting into the 3s. How does that factor into

the timing decision to settle those shares? Could we expect a delay potentially, just because you're so low levered right now?

Clay Thelen - *Agree Realty Corporation – CFO*
Sure. So, where we ended the year really allows us to be opportunistic from a balance sheet perspective. As you said, we ended at 4.7x. The forward -- the settlement of the forward's roughly a turn-and-a-half. So, the settlement of the forward will really be dependent on the uses of capital, the timing of the uses of capital, and we'll continue to be strategic in settling those shares. But we'll always remain focused on maintaining our leverage within our stated range of 5x to 6x times and even operating below that range when opportunistic and when prudent to do so.

Todd Stender *– Wells Fargo - Analyst*
Okay, thank you. And then just finally, just to stick with you, Clay, you received these pricing amendments on your term loans on the fourth quarter. Was that triggered due to your better credit rating, or is that something you guys proactively seek out?

Clay Thelen - *Agree Realty Corporation – CFO*
So we proactively sought that out and the pricing amendments were enhanced by our credit rating as well as just the timing of having some additional term burned off of what was originally a 7-year loan remodified to 5-year notes. So really, 2 factors there. But certainly, the investment-grade credit rating was a significant boost to us.

Todd Stender *– Wells Fargo - Analyst*
Okay, thank you.

Operator
Okay. The next question comes from John Massocca with Ladenburg Thalmann. Please go ahead.

John Massocca *– Ladenburg Thalmann - Analyst*
So ABR from general merchandise tenants came up by about $830,000 in the quarter. What drove that? And then is there a possibility, maybe, for kind of a contrarian investment opportunity in that segment, given we've kind of heard things about cap rates expanding for more traditional retail tenants?

Joey Agree - *Agree Realty Corporation – President & CEO*
Well, the general merchandise, the driver there is the Walmart ground leases. So that is the driver in terms of general merchandise. To your second question in terms of contrarian, we just don't, investment opportunities, we just don't see that, and I personally don't see that as a driver for our growth on a go-forward basis. Now, if we find something with real estate fundamentals that has a tenant that doesn't fit within our proverbial sandbox, below market rents or an opportunity or we have a backfill candidate, we'll look at it. But I'll tell you that we see tremendous opportunity based just in the fragmentation of the market that's in front of us and all of the opportunities that the team here is uncovering through the 3 external growth platforms. So I think you can expect more of the same from us, consistency, stability. But we are real estate opportunists at our heart, and we'll look at opportunities such as that.

John Massocca *– Ladenburg Thalmann - Analyst*
Understood. And then as you have continued to reduce your pharmacy exposure and seem to look to reduce your pharmacy exposure, how have cap rates drifted for that property type maybe over the course of last year and then as you look out?

Joey Agree - *Agree Realty Corporation – President & CEO*
Yes. They really have not drifted. And so, we've sold effectively long-term Walgreens, medium-term Walgreens. We really haven't seen any drift. And just to give you an example, we have a couple Walgreens right now that are under contract still subject to basic diligence requirements that are in the upper 5s and low 6 caps. So, we haven't seen any cap rate drift and we continue to look to prudently redeploy those proceeds and diversify the portfolio.

John Massocca – *Ladenburg Thalmann - Analyst*
And then kind of a quick detail question, are there any additional portions of the Sherwin-Williams transaction that you plan to close or close subsequent to quarter end? I know the original press release contemplated over 100 assets and over $150 million of investment.

Joey Agree - *Agree Realty Corporation – President & CEO*
Correct. So, we've closed 98. There are -- I would tell you there are 10 plus or minus that are still going through diligence, title survey, environmental, or have some miscellaneous. The exact amount of the transaction in terms of purchase price and number of assets that we will end up closing in the first quarter is still a little bit open in the air. I would anticipate plus or minus 10.

John Massocca – *Ladenburg Thalmann - Analyst*
Makes sense. That's it for me. Thank you very much.

Joey Agree - *Agree Realty Corporation – President & CEO*
Great. Thanks, John.

Operator
The next question comes from Tayo Okusanya with Jefferies. Please go ahead.

Tayo Okusanya – *Jefferies - Analyst*
Hi, yes. Good morning. When I think about your acquisition outlook, I remember in the past we talked about you weren't seeing a lot of competition for deals. The nontraded REITs were not actively participating. Would you kind of say that's still the same environment you're in today or whether you're facing more competition?

Joey Agree, *Agree Realty Corporation - President & CEO*
No. It's a great question, and it holds true today. Blackstone, obviously with their nontraded vehicle, has led to fundraising efforts and proportionally has generated the majority, if not vast majority, of fundraising. We don't see them playing in the $4 million to $5 million space, which is our typical granular activity, or really, in retail in their nontraded vehicle. And so, the competition, the institutional competition, that we face is fairly de minimis. Our typical competitors are private individuals, 1031 buyers, and we don't run into the same competitor regularly or even 2 times. And so again, the fragmentation of the market, our positioning, our cost of capital, our balance sheet, and most importantly I'd tell you, our relationships and the quality of the team here continues just to ramp our pipeline and uncover opportunities that we think are really unique.

Tayo Okusanya – *Jefferies - Analyst*
Okay. That's helpful. So just to follow up on that, then, so given that backdrop, again, you have an acquisition guidance $350 million to $400 million. You did over $600 million in 2018. I'm just kind of curious a little bit about how did you come up with a guidance number that's about a third lower versus what you did in '18? Or is it just ex-Sherwin-Williams you're doing a similar number this year versus last

year?

Joey Agree, *Agree Realty Corporation - President & CEO*
Yes. Look, I think that is the starting point, ex-Sherwin-Williams. That transaction effectively materialized in 30 days at the end of last year. And then we start every year clean. I mean, we have 60 to 70 days of visibility. We put a number out there to start the year that frankly we're fairly confident that we'll be able to achieve. We don't want to set the bar too high or the bar too low. Again, we're opportunistic in a huge space in a fragmented market. And so, I will tell you, as the year progresses, we get more visibility. Right now, we have visibility where Q1 is based -- generally going to end up, and we're working into Q2 and Q3. And I wouldn't preclude raising that as we progress through the year and get increased visibility, that acquisition target play.

Tayo Okusanya – *Jefferies - Analyst*
Okay. Fair enough. Thank you, sir.

Joey Agree, *Agree Realty Corporation - President & CEO*
Thank you, Tayo.

Operator
The next question is a follow-up from Ki Bin Kim with SunTrust. Please go ahead.

Ki Bin Kim – *SunTrust - Analyst*
Thanks. So, in 2018 you guys finished the year, I know, 4.9% higher AFFO per share. If I think about the parameters you gave for 2019 guidance, and in terms of acquisitions and dispositions and the run rate you're at already, it feels like you should reaccelerate earnings growth in 2019. And because a lot of the equity needs are prefunded already, does that sound right to you, or is there something that we should expect in 2019? Maybe it's more forward equity or early funding that could hamper that growth rate from reaccelerating.

Joey Agree - *Agree Realty Corporation - President & CEO*
No. I think that's generally a fair proposition, and I would tell you that the 4.9% earnings growth that you quoted was post-treasury impact from the treasury impact required by the forward equity offerings. The opportunistic capital markets transactions, the March and the September forward, and then the ATM activity puts us in a position to continue to ramp and accelerate that growth in 2019.

Our stated goal was to provide double-digit, growing shareholder returns. That's comprised of two pieces in my mind, AFFO, as well as a growing and well-covered dividend. And so, I think the premise of your question is true.

That being said, when there's opportunities for access long-term capital at attractive pricing, we'll execute on those opportunities, or at least assess them. And we never want to be caught up thinking quarter-to-quarter over year-over-year. But the company, the investment spreads that we have, the smaller base that we have, the high-quality assets that we're looking at and acquiring through all 3 platforms provides for meaningful, and we think on a relative basis significantly meaningful, risk-adjusted returns for our shareholders that are outstretched from our peers.

Ki Bin Kim – *SunTrust - Analyst*
All right. Thanks, Joey.

Operator
Okay. This concludes our question-and-answer session. I would like to turn the conference back over to Joey Agree for any closing remarks.

Joey Agree, *Agree Realty Corporation - President & CEO*
Well, I thank you, everybody, for your patience and for joining us today. We look forward to seeing hopefully many of you in the upcoming conference season. Thanks again.

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