EDITED TRANSCRIPT

Agree Realty Corporation's
Fourth Quarter 2017 Earnings Conference Call
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PRESENTATION

Operator
Good morning, and welcome to the Agree Realty fourth-quarter and full-year 2017 conference call. (Operator Instructions) Please note this 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 2017 earnings call.

I'm very pleased to have Clay Thelen, our Chief Financial Officer, joining me this morning for his first call with our company. Clay has made an immediate impact on our organization and has been a fantastic fit with our team. I'm looking forward to everyone getting to know him in the near future.

This past year was yet another record year for Agree Realty as we continued on our journey to be considered among the premier retail real estate investment trusts. Opportunistic investment activity and proactive portfolio management have strengthened our best-in-class portfolio, while several strategic capital market transactions position our company for continued growth.

The Company's record year was capped off with a fourth quarter during which we reinforced our high-quality portfolio with superior assets and fortified our best-in-class balance sheet.

In 2017 we delivered nearly 8% AFFO per share growth in addition to increasing our well covered dividend by 5.5%. These per-share results were accomplished while maintaining our balance sheet at an average of 4.6x net debt to recurring EBITDA and prudently accessing 12-year unsecured fixed rate debt. When combined with the quality of our real estate portfolio and tenant base, we believe these risk-adjusted returns are even more impressive.

On prior calls I have commented on the dynamically changing retail environment and our desire to pursue only best-in-class retailers and high-quality properties that we believe will thrive in an omnichannel retail world. The changes we have undertaken in the composition of our portfolio throughout the past year reflect our execution of the strategy.

As you've hopefully seen in our earnings release, during 2017 we executed on several transactions that materially altered our top tenant base. Most notably, the TJX Companies, comprised of TJ Maxx, Marshalls and HomeGoods, is now our number 5 tenant. We have a strong bias towards off-price retail and the experience and value proposition that it provides for consumers. We enjoy a strong working relationship with TJX and we are very pleased to have the world's foremost off-price retailer as an important tenant and partner for our growing company.

In addition to TJX Companies, AutoZone and Dave & Busters are now both listed as top tenants for us. Both partners are leaders in their respective sectors and have strong management teams which we enjoy great relationships.

While we added several retailers to our Top 10 in 2017, several retailers were eliminated as top tenants through a combination of portfolio growth and opportunistic dispositions. Notably, Burger King Franchisee Meridian Restaurants, BJ's Wholesale, 24 Hour Fitness, AMC and Taco Bell franchisee Charter Foods are no longer material concentrations in our portfolio.

These changes are aligned with our goal of partnering with leading retailers that have successfully implemented a 21st century omnichannel strategy or have a significant impediment to the disruptive power of e-commerce.

During the fourth quarter of 2017 we invested $114 million in 25 high quality retail net lease properties. Of those 25 investments, 18 assets were sourced through our acquisitions platform, representing total acquisition volume of $98.1 million for the quarter. The properties were acquired at a weighted average cap rate of 7.1% and had a weighted average remaining lease term of approximately 8.8 years.

The acquired properties are located across 14 states and are leased to 12 sector-leading tenants. These tenants operate in 10 diverse sectors, including off-price retail, auto parts, convenience stores, tire and auto service, health and fitness, and crafts and novelties. More than 46% of annualized base rent acquired during the quarter comes from investment-grade tenants including TJ Maxx, HomeGoods, Marshalls, AutoZone, O'Reilly Auto Parts and National Tire and Battery.

During the quarter we acquired an irreplaceable asset in Secaucus, New Jersey for $43 million. The property is located across the Lincoln Tunnel, less than 4 miles from Manhattan, and is part of a 3.5 million square foot mixed-use project. It is leased to a very high performing HomeGoods/Marshalls combo store, a Michaels and PetSmart. TJX represents more than half of the annualized base rent derived from the asset and the property is located at the intersection of the New Jersey Turnpike and the Secaucus Bypass, with over 230,000 vehicles per day and a 5-mile daytime population density of almost 1.8 million people. In connection with this transaction, the Company assumed a $21.5 million fixed rate mortgage that matures in October of 2019 and carries an interest rate of 3.2%.

Excluding the impact of this unique transaction in Secaucus, the Company's fourth-quarter acquisitions were purchased at a weighted average cap rate of 7.6% and had a weighted average remaining lease term of approximately 10.3 years.

For the full year 2017 we invested in 90 properties in 30 states, representing record investment volume of $394 million. Of the $394 million invested in 2017 we originated a record $337 million through our acquisition platform. The 79 properties acquired in 2017 are leased to 49 leading retail tenants operating in 22 distinct sectors, and 47% of annualized base rents are derived from retailers with an investment grade credit rating.

While we were able to achieve record acquisition volume in 2017, we continued to adhere to our rigorous underwriting standards that focus on retail real estate funding fundamentals. I'll speak to these underwriting standards and how they materialize in terms of our portfolio composition in a few minutes.

Subsequent to year end we announced 2018 acquisition guidance of $250 million to $300 million, as well as disposition guidance of $25 million to $50 million. We are excited about our origination, as well as disposition pipelines and look forward to updating you on these opportunities later this year.

Turning to our development and Partner Capital Solutions platforms, we are pleased to announce that we commenced construction on two additional ground-up developments for Mr. Car Wash during this quarter. The projects, located in Orlando and Tavares, Florida, are both subject to new 20-year net leases. Both projects are on schedule for a Q3 2018 delivery and aggregate total project costs are anticipated to be approximately $5.5 million.

During the fourth quarter we also made considerable progress on our five previously announced development and PCS projects.

The Company's first project with Art Van Furniture, home to their new flagship store located across from Michigan's only IKEA in Canton, was completed after the first of the year, with Art Van successfully celebrating their grand opening on February 1.

Our first two Mr. Car Wash developments in Urbandale, Iowa and Bernalillo, New Mexico both celebrated their grand opening in the first quarter as well. These projects are subject to 20-year net leases and rent will commence on both projects this quarter.

Construction is ongoing at our third Camping World project in Grand Rapids, Michigan. Anticipated total project costs are approximately $9.6 million. The project is subject to a new 20-year net lease and we anticipate rent to commence in full by the end of the second quarter.

Finally, our project with a leading Burger King franchisee, TOMS King, in North Ridgeville, Ohio also progressed on schedule in the fourth quarter. We anticipate rent to commence this quarter.

For the full year 2017 we either completed or had under construction 11 development and PCS projects that represent almost $63 million of total committed capital. Four of those projects were completed during this past year, representing total investment volume of $21.4 million. I'm very pleased with our progress during the year, and we continue to be focused on providing full-service net lease real estate solutions to growing retailers that fit within our investment strategy.

During this past year we also solidified and diversified our portfolio through proactive asset management and disposition efforts. In the fourth quarter we sold 8 properties for gross proceeds of $15.4 million. For the full year 2017 we disposed of 15 assets for $45.8 million in gross proceeds.

Our 2017 disposition activity included the sale of 4 Walgreens, thereby reducing our exposure to 7.7% as of 12/31 of '17, down from 11.6% at the end of 2016. Similarly, the Company decreased its pharmacy exposure during the year, realizing a roughly 390 basis point reduction from 16.2% to 12.3%.

In addition to reducing our Walgreens and pharmacy concentrations during this past year the Company also opportunistically sold 6 Burger King franchised restaurants.

We will continue to opportunistically divest of assets and redeploy capital, as well as cull the portfolio of lower-tier assets that aren't representative of our high-quality portfolio.

Subsequent to year end we are pleased to have received notice from Walgreens that they have completed the purchase of 2 of our stores previously leased to Rite Aid. Both stores, located in Albion and Webster, New York, are now owned and operated by Walgreens.

Following these store transfers, Rite Aid is no longer a top tenant in our portfolio. I'd also note that our Rite Aid store in North Cape May, New Jersey is subleased to Fresenius for the remainder of the primary term of the lease. Inclusive of this sublease, our effective Rite Aid exposure is currently 0.8%, or 4 stores, which is half of our reported exposure at year end 2017.

We currently have a Walgreens under contract for sale and anticipated to close in the next couple of weeks. Post the closing of this disposition and the Rite Aid store transfers, our Walgreens concentrations will remain at approximately 7.7%.

Moving on to asset management activities, as of today I am pleased to report that the Company's 2018 lease maturities represent only 0.8% of annualized base rents.

During the fourth quarter we executed new leases, extensions or options on approximately 203,000 square feet of gross leasable area. This includes our Sam's Club in Brooklyn, Ohio, which exercised their 5-year contractual option. For the full year 2017 we completed new leases, extensions or options on approximately 683,000 square feet of gross leasable space.

As of December 31, our growing retail portfolio consisted of 436 properties in 43 states. Our tenants are comprised primarily of industry-leading retailers operating in more than 28 distinct retail sectors, with 44% of annualized base rents coming from tenants with an investment grade credit rating. The portfolio remains effectively fully occupied at 99.7% and has a weighted average lease term of 10.2 years.

In addition to these metrics, the quality of our portfolio is further demonstrated by our ground lease portfolio, which accounts for 8% of total annualized base rent, and of which 85% of rents are leased to leading retailers that carry an investment-grade credit rating. During 2017 we were able to add a number of assets to this unique portfolio, including Starbucks, CVS, Lowe's and National Tire and Battery.

A closer examination of our ground lease portfolio demonstrates the unique nature of the asset composition and quality of the underlying real estate. For example, today Lowe's is our fourth largest tenant. Taking a deeper dive is even more compelling. We have a grand total of 5 properties leased to Lowe's, 3 of which are full-size prototypical stores. All 3 of these prototypical stores are owned in fee simple by Agree Realty and ground leased to Lowe's, who have constructed the improvements and built their building on our property at their expense. Conversely, the remaining 2 turnkey properties leased to Lowe's are both small-format Orchard Supply Hardware Stores, one located in the heart of Silicon Valley and the other in Southeast Florida.

Lowe's is a good example of a thoughtful portfolio construction and bottoms-up real estate analysis that we undertake in order to mitigate risk and maximize quality. The same exercise can be performed for our Walmart, Wawa and other exposures.

I'd like to thank you for your patience. And with that, I'll turn it over to Clay to discuss our financial results for the fourth quarter and full year. Clay?

Clay Thelen - *Agree Realty Corporation - CFO*

Thank you, Joey, and good morning, everyone. Before we begin I'd like to start by saying that I'm truly excited to join this fantastic team. I look forward to building upon the tremendous success that the company has experienced over the past several years.

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 of 2017 was $28.6 million, an increase of 22.5% over the fourth quarter of 2016. For the full year 2017, total rental revenue increased 25% over the comparable period in 2016, to $105.3 million.

General and administrative expenses in the fourth quarter totaled $2.3 million. G&A expenses were 7.2% of total revenue in the fourth quarter, and 8.5% of total revenue for the full year.

Also, in the fourth quarter we recorded $347,000 in other income to reflect a credit we received post-closing from an acquisition. This amount reflects a liability that we recorded at the time of closing the transaction and will no longer incur.

Funds from operations for the fourth quarter was $21.3 million, representing an increase of 28.7% over the comparable period of 2016. On a per-share basis, FFO increased to $0.71 per share, a 10.9% increase as compared to the fourth quarter of 2016.

For the full year 2017 funds from operations was $76.3 million, representing an increase of 28.9% over the comparable period of 2016. On a per-share basis, FFO of $2.72 per share represents a 7.1% increase as compared to the full year 2016.

Adjusted funds from operations for the fourth quarter was $20.9 million, a 29.2% increase over the comparable period of 2016. On a per-share basis, AFFO was $0.70, an 11.4% increase as compared to the fourth quarter of 2016.

For the full year 2017, adjusted funds from operations was $75.7 million, representing an increase of 29.7% over the comparable period of 2016. On a per-share basis, 2017 AFFO was $2.70 per share, a strong 7.8% increase as compared to the full year 2016.

Now moving to our capital markets activities, during the fourth quarter we issued nearly 1.8 million shares of common stock through our at-the-market equity program at an average price of $49.03, raising gross proceeds of approximately $87.1 million. The entirety of the Company's fourth-quarter ATM activity was the result of a reverse inquiry by a long-only preeminent REIT dedicated investor. The total proceeds were raised through two separate transactions and represent what we believe was a highly cost-effective and efficient capital raise.

For the full year 2017 we issued a total of 2.4 million shares of common stock through our at-the-market program at an average price of $49.17, realizing total gross proceeds of $116.5 million. The ATM program continues to be an effective tool to raise equity, given the nature and granularity of our business.

As you may recall, in June the Company completed a follow-on offering of 2.4 million shares of common stock. After deducting the discount and offering expenses, total net proceeds from the common equity offering were $108 million.

Total common equity raised in 2017, both through the Company's ATM and June's overnight offering, totaled more than $229 million.

In addition to efficiently accessing the equity markets. we completed a $100 million private placement of senior unsecured notes in September. The notes bear interest at a fixed rate of 4.19% per year and have a 12-year term maturing in September 2029. The all-in pricing represented 165 basis points above the 12-year interpolated US Treasury yield curve at the time of pricing.

During this past year we also entered into two separate uncommitted $100 million private placement shelf agreements. We remain committed to executing fixed-rate, long-term financings. These two shelf agreements will allow us to issue additional senior unsecured notes to the investors at terms to be agreed upon at the time of any issuance. At year end, no notes had been issued under the shelf agreements.

As of December 31, our total debt to enterprise value was approximately 24.5% and our fixed-charge coverage ratio, which includes principal and amortization, was the strongest in the Company's history at 4.2x. Furthermore, net debt to recurring EBITDA was approximately 4.3x. All three of these metrics are amongst the strongest of our peers and net debt to EBITDA remains well below our stated range of 5x to 6x.

Our balance sheet is in tremendous position for the upcoming year, with significant dry powder and optionality in regard to capital sources. Cash on hand net of outstanding borrowings on our revolving credit facility totaled $45 million. In addition to our $250 million revolving credit facility, we have two untapped $100 million private placement shelf agreements. We are not relying on the equity markets to achieve our targeted 2018 acquisition volume, and this prudent approach to leverage allows us to be opportunistic, while making capital raising and capital allocation decisions.

The Company paid a dividend of $0.52 per share on January 3 to stockholders of record on December 20, 2017. The quarterly dividend represents a 5.1% increase over the $0.495 per share quarterly dividend declared in the fourth quarter of 2016. This is the Company's 95th consecutive cash dividend since its IPO in 1994 and represents a 5-year increase of 30% over the Company's 2012 quarterly dividend.

For the year, the Company declared dividends of $2.025 per share, an increase of 5.5% over the dividends per share declared in 2016.

Our quarterly payout ratios for the fourth quarter of 2017 were a conservative 73% of FFO and 74% of AFFO. For the full year 2017, our payout ratios were 74% of FFO and 75% of AFFO. These payout ratios are at the low end of the Company's target ranges and 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 wrap it up, 2017 represented another record year for our company. We entered 2018 in a fantastic position, with a great team and a fortified balance sheet to take advantage of any opportunities as they arise.

At this point, we will open it up for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. (Operator Instructions) David Corak; B. Riley FBR.

David Corak *- B. Riley FBR - Analyst*
Joey, I'd love to get your thoughts on the Rite Aid-Albertson's deal and specifically what the implications there are for Walgreens. Do you think something strategic needs to happen there to be competitive with the Rite Aid and the CVSs of the world? Just any color you can provide would be helpful.

Joey Agree - *Agree Realty Corporation - President & CEO*
Good morning, David. I think first, as I touched on in our prepared remarks, our effective Rite Aid exposure is now down in really 4 stores, 0.8% of rents or half of our previous exposure, as reported really at year end. And so, we've made some obviously significant progress through the 2 purchases from Walgreens, as well as the Fresenius sublease that was through Rite Aid.

Look, the Rite Aid-Albertsons combination will result in a stronger, larger, more diversified company. Pro forma their leverage is sub 4x. Pro forma $24 billion company. I'll be honest, that said, we don't view it as an industry leader that currently fits our investment criteria. It's certainly an interesting matchup, between Rite Aid and Albertsons.

In terms of Walgreens, our focus really hasn't changed. Our exposure remains at 7.7%, given those transactions and the disposition we anticipate closing next week. And we're focused on continuing to reduce that exposure towards our year-end target of approximately 5% through opportunistic dispositions as well as portfolio growth.

David Corak *- B. Riley FBR - Analyst*
Is that still a late '18 kind of target?

Joey Agree - *Agree Realty Corporation - President & CEO*
Yes, that's a late '18 -- it's not a hard target for us. But we've been very clear we wanted to get sub 10% in 2017. Our goal is around 5%. Obviously, the Rite Aid purchase of these 2 stores plus the disposition, we're still at 7.7%. But that still remains a target for us.

David Corak*, B. Riley FBR; Analyst*
Okay. And then appreciate the deeper dive, deeper view of the Lowe's assets. Could you maybe walk us through the same sort of exercise for a Wawa, if you have those stats in front of you?

Joey Agree*, Agree Realty Corporation - President & CEO*
Yes, sure. First, I should apologize because I think we've done a -- and it's my responsibility -- a poor job of really articulating the value and how the portfolio composition and the assets in our ground lease portfolio really shows through. And I think we've consistently said that it's been around 8% of our overall portfolio, but we haven't broken it down. We're making a concerted effort to do that here, as you heard with Lowe's in the prepared remarks.

Wawa we can do the same thing. Wawa is our number 6 tenant. We have 9 Wawa assets, $2.7 million in ABR, 2.2% of our total portfolio. Wawa's very interesting. Obviously, we have 5 stores and 4 that we developed, which are all ground leased through the Company. And then we have 4 stores in the Mid-Atlantic. One of them is on a ground lease and then the other 3 are on turnkey master leases. So, our Wawa exposure, 58% of it is ground leased and the remaining 42% is under a 3-store master lease. So, again, 6 ground leases, 3 stores on turnkey under a master lease, high-performing in the Mid-Atlantic, diversified among 4 or 5 states.

And so, I think that exercise, going through Lowe's and seeing how the asset underwriting and the portfolio composition, and now Wawa, really shows through in our top tenant base as not only interesting, I think it's compelling for investors to understand better and it's incumbent on us to do so.

David Corak *- B. Riley FBR - Analyst*
All right, far enough. I'll hop back in the queue.

Operator
Nick Joseph; Citi.

Nick Joseph *– Citi - Analyst*
Joey, just continuing on the ground leases, you mentioned 8% of ABR currently. Where could you see that trending going forward?

Joey Agree - *Agree Realty Corporation – President & CEO*
Nick, it's a tough question to answer. The ground leases that we continue to add to the portfolio, both through development as well as acquisitions. We were fortunate to add a small ground lease portfolio in 2017, as I mentioned, National Tire and Battery, Starbucks, a CVS. They're really opportunistic. They're typically one-offs. It's hung around 8%. We'll continue to try to develop and source. We think it is on a risk-adjusted basis there's nothing better than a ground lease. We love having skin in the game and we love the reversionary interest in the buildings since we have no investment.

And so, it's tough to tell. We'd like to keep it around this level or even increase it, frankly. But it's difficult to find those types of investments out there.

Nick Joseph *– Citi - Analyst*
Thanks. And then just on G&A, you've continued to drive it down as a percentage of revenue. I think 2017 it finished at about 8.5%. What are expectations for 2018 for that?

Clay Thelen - *Agree Realty Corporation – CEO*
Hi, Nick, it's Clay. Appreciate the question. In terms of G&A going into '18, we're focused on a run rate of 8% of total revenues in terms of modeling into the year.

Operator
Rob Stevenson; Janney.

Rob Stevenson *– Janney - Analyst*
Good morning. Joey, can you talk about where cap rates have been effectively on those '16 and early '17 development and Partner Capital Solutions assets you completed versus the acquisitions that you have made recently?

Joey Agree - *Agree Realty Corporation – President & CEO*
Sure. Our historical returns on development and Partner Capital Solutions haven't moved. Right? We're targeting, obviously, a variable component of 250 basis point spreads where we can buy like-kind product. Obviously, that's a static look. At the same time, we have fixed hurdles.

And so, we're targeting around that 8% range for Partner Capital Solutions, dependent upon -- and the projects have come in there -- dependent upon our scope and what we're doing in terms -- if we're taking over a project and constructing it ourselves or is it a reverse build to suit. Those are different returns for us. So, time, energy and efficiency are important for us. And then returns, we continue to target 9% returns in terms of organic development activity where we spend 18 to 24 months on a project.

Rob Stevenson – *Janney - Analyst*
Okay. And then you have about $41 million under construction today. I mean, given your conversations with some of these existing tenants where you're now on project 2 or 3 or 4 for some of these, how significant is the pipeline when you look out in terms of likely starts over the remainder of '18 and into '19?

Joey Agree - *Agree Realty Corporation – President & CEO*
Well, it's hard to time exactly. I would anticipate a couple starts during this quarter or early second quarter of 2018. We've got a couple exciting projects with new tenants, frankly, where we're going to get in the ground hopefully when it thaws out.

It's tough to tell. I'll tell you that we continue to work on opportunities to leverage all three platforms, find those synergies with retailers and be a comprehensive full-service real estate solution. I mean, we don't view ourselves as a finance company. We view ourselves as a real estate company. And as I said in my prepared remarks, our goal here is to be considered one of the preeminent retail REITs. And we think that we have the ability through our three external growth platforms, the balance sheet, the team and the relationships to effectuate that.

Rob Stevenson – *Janney - Analyst*
Okay. I mean, you said that the Art Van is in service now. And then there's I think another three -- the two Mr. Car Wash's and the Burger King that are likely to be completed this quarter as well. What are the chances that you guys are able to sort of keep a $35 million, $40 million pipeline going? Or is it likely to be sort of hits and spurts as stuff comes in and out of the portfolio throughout the year and into '19?

Joey Agree - *Agree Realty Corporation – President & CEO*
No, I think it's fair to say that's a good run rate for us. Our focus going in the future -- we said approximately a year and a half ago our intermediate goal -- so we call that three years -- was to deliver $50 million to $100 million on an annual basis in PCS and development activity and we think we're en route to do that. Both Mr. Car Wash's are open and operating in Urbandale, Iowa and Bernalillo, New Mexico. The Art Van, the flagship store, is open. It's fantastic. It had a spectacular grand opening February 1 and it's doing very well. So those three stores are now all open.

Rob Stevenson – *Janney - Analyst*
Okay. Thanks guys.

Operator
Michael Bilerman. Citi.

Michael Bilerman – *Citi - Analyst*
It's Michael Bilerman. Joey, just out of curiosity, you've been talking about becoming a premium retail REIT. Enterprise value is approaching $2 billion. I guess at what point do you consider giving guidance like 99.9% of the REITs out there?

Joey Agree - *Agree Realty Corporation – President & CEO*
So, look, I think what we try to do is give as many inputs as we can -- acquisitions, disposition activity and G&A. And I agree that the cash flows and net lease are consistent, and they are -- we have visibility into existing cash flows and hopefully so do you as well as investors.

The real challenge is the timing and sources of uses of capital on a small cap base approaching $2 billion, like you said, are really the huge driver. And timing is a really strong factor. At the same time, we want to remain flexible and opportunistic on how we raise and deploy capital. And I've said a bunch of times, our visibility truly extends, outside of development of course, 90 days out. We average 71 days from LOI execution to close. And I would never want to do anything that inhibits our ability to move quickly and decisively.

Our goal remains the same. It's to deliver solid double-digit total returns to investors, with almost 8% AFFO per share growth and a growing 4.5% dividend. We achieved that in 2017. We're focused on doing it in '18.

And so, I know that was longwinded, but the small cap base and the bottom line is the timing of uses and sources of capital make it very challenging for us to accurate guidance that wouldn't be so wide that it, frankly, would be worthless.

Michael Bilerman – *Citi - Analyst*
Well, I mean, look, you can lay out what the assumptions are, right? I mean, we're smart people. And we can run it through our model in terms of running acquisitions and distributions and various cap rates and how that affects interest expense. And instead of asking about G&A on a call, you can put the G&A in the press release and then -- there's a reason why the bulk of REITs provide that guidance and not.

Joey Agree - *Agree Realty Corporation – President & CEO*
Well, I think it's really the timing of the sources of capital which has changed. I mean, I don't think the anticipated ATM activity in Q4, for example, taking our balance sheet down to 4.3% -- of course we have some drag on earnings when you do that. But at the same time, we opportunistically equitize the balance sheet and put ourselves in position to run into 2018 with what I consider one of the strongest balance sheets in REIT-dom, let alone in the net lease space.

And so, I just wouldn't want to inhibit our ability to be flexible, nimble, and opportunistic in any way. But I understand what you're asking for.

Michael Bilerman – *Citi - Analyst*
Yes. I don't think giving guidance or putting up goalposts about where you want to keep from a balance sheet perspective and doing some mid-quarter or mid-year convention on transaction activity and having a number out there necessarily inhibits you. I think it actually does the reverse. It actually allows you to pivot off a number and explain how things are evolving either sooner or later relative to expectations.

So, I think as you have gotten larger, you've executed well. It obviously is something that I think more details on the pieces of guidance -- if you don't want to give an underlying number, but at least put out all the pieces in your press release at a minimum.

Joey Agree - *Agree Realty Corporation – President & CEO*
Look, it's a point well taken. I'll tell you none of our stated goalposts have changed in terms of source, uses of capital or leverage profile, 5x to 6x. That said, you saw us drop down to 4.3x in advance of the year. But I understand what you're saying. This is a growing and evolving company. It's approaching $2 billion and there will be a time and place I think that you're right. And I'm not sure how far off that is, that we can continue to provide more and more information for investors.

Michael Bilerman – *Citi - Analyst*
Is there any change yet, as you approach and get a bigger company, on changing the board and going to annual elections and doing some of the corporate governance improvements?

Joey Agree - *Agree Realty Corporation – President & CEO*
Yes, I think there's an opportunity this year, frankly, for us to continue to look at all of those things, most notably potentially looking at the board. We take each quarter a deep dive into our business, all the way

from the top through the bottom, from the board level to the analyst level. And our board has been fully supportive of that.

But I think we're going to potentially have an opportunity this year to really put ourselves in a position starting at the board level. And we've got some great board members to really take it to what I'll call ADC 3.0. We've achieved 2.0, so take it to ADC 3.0, get new, fresh, divergent opinions on that board.

Michael Bilerman – *Citi - Analyst*
And annual elections.

Joey Agree - *Agree Realty Corporation – President & CEO*
Annual elections are something, all the corporate governance things, are something that the board will continue to consider.

Rob Stevenson – *Janney - Analyst*
Okay. Thank you.

Operator
Collin Mings. Raymond James.

Collin Mings - *Raymond James - Analyst*
Just as we look at 2018 lease expirations and maybe even 2019, Joey, are there any other redevelopment opportunities like the one you executed on in Boynton Beach last year?

Joey Agree - *Agree Realty Corporation – President & CEO*
There potentially are. And so, as I mentioned in our call, 2018 lease expirations are now down to effectively 0.8%. I'll note that of that 0.8%, 63% is tied to the three remaining Kmart's that we have in our portfolio, which has option notifications due quite shortly here. We spoke in depth and it's in our investor deck posted online the quality of that underlying real estate, Kmart paying sub $2 a square foot on average on a net basis. We think that there are some potential redevelopment opportunities and we look forward to potentially getting our hands on those and executing on them in 2018.

Collin Mings - *Raymond James - Analyst*
Okay. And then just going back to some of the comments in Clay's prepared remarks, just given again you've highlighted a couple of times just finish 2017 with debt to EBITDA at 4.3x. And really if we look back over the last year or so, you've really been running the company sub 5x.

Two-part question here: Has the recent pullback in the stock price impacted any investment committee decision as far as what's coming through from a pipeline standpoint? And then, recognizing you have a higher leverage target out there, but really been operating below that for a period of time, how are you and the board thinking about that leverage target? Does it make sense to even ratchet it back down a little bit, just given I think clearly, you've been rewarded by having a conservative balance sheet.

Joey Agree - *Agree Realty Corporation – President & CEO*
Look, I think the conservative underpinnings of this company are the foundation of our execution. We're focused on executing our operating strategy. Our stated leverage target of 5x to 6x remains. But as I said earlier, we're going to be opportunistic in terms of sources of capital. We know what we can execute to with our three origination platforms as well as our disposition platform. And we never want the balance sheet to get in the way.

And so, when you're able to run a balance sheet at 4.6x levered, drive nearly 8% AFFO growth with a growing dividend, up by 5.5% -- approximately 4.5% dividend growing at 5.5% today, we think it is very compelling. I think there are, frankly, few REITs that have the ability to do that.

And then if you look at what our permanent financing structure that we undertook in 2017 and '16 and before that, accessing 12-year unsecured debt, long-term, fixed rate, if you take our leverage up into the mid-5s, in line with our peer group, you're looking at 9-plus-percent AFFO growth in 2017.

That said, we wouldn't be positioned as well as we are today going into 2018. So, we don't run this company on a quarter-to-quarter basis. We're cognizant of all the implications of our decisions. But we're going into 2018 with $40 million in firepower, no outstanding balance on our facility, 4.3x levered, the lowest leverage profile in the space and, frankly, a team that's focused on delivering those results.

Collin Mings - *Raymond James - Analyst*
Okay. So, I guess it's safe to say the temporary or the transitory movement in the stock price really isn't impacting any decisions. And it sounds like you continue to maybe have a bias towards the low end of that target. Are both of those fair statements?

Joey Agree - *Agree Realty Corporation – President & CEO*
I think those are fair statements. And just to expound upon your first statement, look, the stock price doesn't impact our investment decisions because it didn't impact our investment decisions when we had a 2 in front of the stock or a 3 or even a 5 in front of the stock price. We don't operate on the margins. We have the widest spreads in the net lease space. We have a cost of capital today that allows us to go buy assets and acquire assets that are, frankly, trophies, like, Secaucus. But at the same time, we're focused on individual value creation across all three of our origination platforms.

So, we're in a very unique position. And the optionality which Clay spoke to, and the dry powder that our balance sheet has today we think puts us in a prime position for 2018 and beyond.

Collin Mings - *Raymond James - Analyst*
Great. Thanks, Joey. I'll turn it over.

Operator
George Hoglund. Jefferies.

George Hoglund*; Jefferies; Analyst*
Just wondering if you could give a bit more color on some of the asset sales in terms of reducing exposure, especially with Burger King. That seems to be a little bit of a shift, given how you had been growing the Burger King exposure before. Just wonder if you could provide some color there.

Joey Agree, *Agree Realty Corporation – President & CEO*
Sure. Look, we remain focused on recycling capital accretively, divesting of assets that don't fit within the portfolio. The Burger King specifically, the six Meridian restaurants that we sold in 2017, are opportunistic dispositions for us. You're talking about 6 cap trades. I'd rather own a high performing TJ Maxx, HomeGoods/Marshalls combo store in Secaucus, New Jersey with 1.5 million people in the trade area, 4 miles from Manhattan, than a number of Burger King franchise restaurants.

And so, it's an opportunistic disposition that's based upon the aggressiveness of the price point in the 1031 market. At the same time, we're focused on building a leading 21st century omnichannel portfolio. And so, you can see the addition of TJ Maxx as number 5 in our tenant base. We now have 10 TJ Maxx stores in our portfolio. And what we're talking about is the leading junior-box retailer and the best off-price retailer in the world.

And so, our portfolio is a source of stability in a dynamically changing retail environment. And most importantly, we are going to focus, continue to focus, on creating the omnichannel portfolio of the 21st century. And so, the movements that you see in and out of our portfolio are both a function of us wanting to change composition, but also opportunistically divesting of assets and redeploying that capital.

George Hoglund*; Jefferies; Analyst*
Okay, thanks for that. And then also just looking at the tenant credit watch list, any notable changes there?

Joey Agree, *Agree Realty Corporation – President & CEO*
I think the most notable change, frankly, is the Rite Aid, which I commented on. We're down from 1.6% to an effective 0.8% after the asset sales to Walgreens. And so now we're down to four Rite Aids. It's 0.8% of the portfolio. And so, we consider immaterial part of our overall portfolio. And so, that's the most notable change there, which we're very pleased with and, frankly, came to fruition in the last two to three weeks.

George Hoglund*; Jefferies; Analyst*
Okay. Thanks guys.

Operator
John Massocca. Ladenburg Thalmann.

John Massocca*; Ladenburg Thalmann; Analyst*
So, you have been able to do more transactions over the last two years in dense coastal markets, into the recent Secaucus deal and the Lowe's deal in Silicon Valley, that may have been kind of hard for net lease REITs to invest in those areas, given the low cap rates in those markets. What do you think allows you to acquire these properties and get them at cap rates that you find attractive?

Joey Agree, *Agree Realty Corporation – President & CEO*
It's a good question. Those are two prime examples. First off, I want to congratulate you. And we'll miss Dan, but we know how well you've covered the net lease space. Just want to congratulate you on taking that seat. Look, I'll tell you it's a function of our relationships. It's a function of the team here, sourcing creative opportunities through multiple different channels. I mean, I'm looking out of our conference room here. We have a fantastic growing and dynamic team. The acquisition team today is seven people, with an eighth starting this summer.

We look at opportunities long term, short term and that come from multiple directions, inclusive of our relationships with tenants. And so, it all starts with relationships in this business. Our relationships provide for some unique opportunities which would be atypical for most net lease REITs, including those coastal opportunities to execute on.

And so, that combined with our cost of capital today, allows us to go into Secaucus, New Jersey, allows us to go into Silicon Valley. And when we see an asset that we think is compelling our team, frankly, in Secaucus was on the ground in 48 hours. And that transaction was a function of relationships.

John Massocca*; Ladenburg Thalmann; Analyst*
So the Secaucus, specifically the tenant brought that to you? Or was there some other relationship that drove that transaction? There's not, like, a typical net lease it sounds like.

Joey Agree, *Agree Realty Corporation – President & CEO*
No. Look, we enjoy a fantastic working relationship with TJ Maxx. Jerry Rossi on our board was the former president. We enjoy a fantastic working relationship with Michaels and with PetSmart. And so, we feel like we have a unique perspective and unique insights that stem all the way to the board level.

John Massocca*; Ladenburg Thalmann; Analyst*
Makes sense. Looking at the existing portfolio, it's not as big a portion of your portfolio as it used to be, but what's your view on Academy Sports, kind of especially given it's not really in what you would call an e-commerce-resistant retail subsector.

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes. We're not big fans of the sporting goods sector overall. I think we have two Dick's Sporting Goods, one in Boynton Beach adjacent to the new Orchard Supply Hardware. We have three Academy Sports in our portfolio. We're not focused on adding any sporting goods, frankly, in our portfolio today. Our focus in an omnichannel retail world is hard or soft goods that can't be easily commoditized and sold over the internet. And to me, a lot of the sporting goods space struggles stem with the experience of the shopper. And it's difficult for them to overcome.

So, our portfolio of Academy Sports -- we have three Academy Sports. We anticipate that number going down in terms of overall ABR and percentage of ABR. Those three stores -- one is a very high performing store in Texas. One is in Belton, Missouri, which is a fantastic piece of real estate. A new Menards and a power center went up directly across the street. And the third is in Topeka, Kansas, which is also a high performing store with a low basis.

And so, we're looking at those assets. We're watching Academy Sports, the overall trends in the sporting space inclusive of the outdoor hunting and fishing component, which is obviously the gun component, which is topical today, the firearm component. So, I wouldn't anticipate us making additional investments in the sporting goods space. And I would anticipate, frankly, our exposure to continue to be reduced.

John Massocca*; Ladenburg Thalmann; Analyst*
Understood. And then kind of lastly, what kind of runway is there for additional developments with Mr. Car Wash? I know you worked pretty hard with them to kind of structure these ground-up developments. And then kind of along that same vein, are there other competitors out there doing these ground-up projects with them? Or is this something kind of unique to you guys?

Joey Agree, *Agree Realty Corporation – President & CEO*
No. These were the first four organic developments for Mr. Car Wash. They're the nation's largest carwash operator. A Leonard Green sponsored company, obviously. They have historically grown through the acquisition of independent or smaller chains. And we worked with Mr. Car Wash to create an organic prototype. The first two are open in Bernalillo and Urbandale. The second two are now under construction in Florida, in Orlando and Tavares. And Mr. Car Wash will see, most importantly, how those stores are performing. But, no, we really don't have any competitors. It's a function of Mr. Car Wash's ability to grow organically as well as inorganically through acquisition.

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

Operator
Todd Stender. Wells Fargo.

Todd Stender*; Wells Fargo; Analyst*
The Secaucus acquisition sounds pretty compelling but may carry a shorter lease term and also a lower cap rate, just based on your averages. Can you give a little more detail on this?

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes. Good morning, Todd. Looking forward to seeing you next week at the conference.

Yes, so Secaucus is interesting. Almost 60% of the NOI is tied to the HomeGoods/Marshalls combo store. It's a very extremely high performing store. We talked about it in the prepared remarks. Outside of that transaction our cap rates would have been materially higher. So that transaction was a mid-6 transaction. Had a shorter lease term. TJ Maxx, almost 60% of the NOI is about 8 years remaining. And that's really a strong performer for them.

And so outside of that transaction, our cap rates would have been, what, 30, 40 basis points higher as well as, as I said in the prepared remarks, it dragged down lease term a little as well. I think what's most compelling is the underlying real estate for that transaction, it's irreplaceable. We know how the stores perform, which are very strong. And we think it's pretty compelling, given the dynamics of the New Jersey/New York market.

Todd Stender*; Wells Fargo; Analyst*
Do these get added into an existing master lease? What's the structure behind it?

Joey Agree, *Agree Realty Corporation – President & CEO*
No, single leases. So, these were existing leases that were in place.

Todd Stender*; Wells Fargo; Analyst*
I guess upon renewal, though, is that probably your angle? I mean, if you're entering it at 6 or so, you want to make it in a shorter-term lease you probably want to make sure they stick around.

Joey Agree, *Agree Realty Corporation – President & CEO*
We're very confident that they would stick around. This wasn't a low-6 transaction, but we're very confident that they'll stick around. And we're very confident in the underlying real estate. But in terms of adding it into a master lease, we don't have any master leases. I'm not aware that they do with any of those tenants.

R.J. Milligan*; Baird; Analyst*
Okay, thanks. And then, just back to the Mr. Car Wash, what yields are you developing in Florida? And how do they compare to the other two? I know one was in New Mexico. I forget the other location.

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes. Same yields that we've historically been developing. So, again, our target is 9% yields really across the board. Some projects come in higher, some projects come in a little bit lower, but same structure.

Todd Stender*; Wells Fargo; Analyst*
Great. Thank you.

Operator
Ki Bin Kim; SunTrust.

Ki Bin Kim, *SunTrust; Analyst*
What do the rent recoveries look like for you in 2017, for all the leases that you've done or assets that you've sold?

Joey Agree, *Agree Realty Corporation - President & CEO*
Yes. So first of all, we sold no dark assets in 2017. Our preference is to sell assets that, we don't wait awhile until an asset goes dark. Most notably the dark -- the asset that rolled off our disposition cap rates, not directly on point with your question, was a Kmart in Oscoda, Michigan. Good luck to anybody, besides my father who developed it, finding the Kmart or finding Oscoda, Michigan. But that disposition we looked at the real estate, we looked at the credit profile. It was the only Kmart that we didn't have a plan for. And we said, "You know what? It doesn't fit the criteria of our portfolio."

In terms of lease rollover in 2017 -- we spoke to 2018 -- it's really unique for us. First of all, in 2017 we only had about a half dozen real leases that rolled. The most material lease that we rolled was the Off Broadway Shoes in Boynton Beach, which we replaced with Orchard Supply Hardware. And so, if you look at rent to rent, or ABR to ABR, or NOI to NOI, you're looking at effectively -- and I'll tell you it's not a good sample or a good sample size -- a 35% increase there across those leases as expired and then in terms of '17 versus '18 on a run rate.

And, look, like I said, I wouldn't expect that on a go-forward basis. When you can replace an Off Broadway Shoes with an Orchard Supply Hardware with Lowe's corporate credit, that was a very unique opportunity that I think speaks to the quality of the underlying real estate as well as the lack of options for Off Broadway Shoes and the existing tenant.

Ki Bin Kim, *SunTrust; Analyst*
Okay. And could you speak to what is in the mindset of the seller today, if there's been any type of adjustment or change in how long it takes to get a deal done or kind of pipeline activity?

Joey Agree, *Agree Realty Corporation - President & CEO*
So, is your question -- it's an interesting one in context -- of us as a seller or what we believe or perceive the market mindset to be?

Ki Bin Kim, *SunTrust; Analyst*
The market.

Joey Agree, *Agree Realty Corporation - President & CEO*
All right. Well, I'll tell you, I hope it's fear. We're opportunistic. We like to make deals that we come up on the right side on. I would tell you in terms of cap rates, cap rates and interest rates, is there a correlation? Sure. But it takes 6 to 12 months. And we haven't seen any substantive change in cap rates. Will we? We hope so. I've often talked about how developers and owners, typically when we're thinking about marketing an asset you have two primary emotions, fear and greed. And we're hoping that that flips over from greed to fear. And that's when we're going to find better opportunities and more opportunities across all three of our origination platforms, from organic development to short-term third-party leases.

And so that will take time. This is a huge, fragmented market. And so, I'll tell you when and if we see cap rates move we're going to be the first mover.

Ki Bin Kim, *SunTrust; Analyst*
Okay. Thank you.

Operator

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, thank you, everybody, for joining us this morning, and we look forward to seeing you at the upcoming conferences or speaking with you next quarter to discuss our first-quarter 2018 results. Thanks again and have a great weekend.

Operator

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