EDITED TRANSCRIPT

AGREE REALTY CORPORATION

Agree Realty Corporation's
Third Quarter 2015 Earnings Conference Call
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Dan Donlan, *Ladenburg Thalmann*
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PRESENTATION

Operator
Good morning, and welcome to the Agree Realty third quarter 2015 earnings conference call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. 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 Agree *Agree Realty Corporation - President & CEO*
Thank you, Carrie. Good morning, everyone, and thank you for joining us for Agree Realty's third quarter 2015 earnings conference call. Joining me today is Ken Howe, our Interim Chief Financial Officer.

I am very pleased to report our strong third quarter results and believe that our performance further establishes the unique capabilities of our retail net lease platform. During the quarter, we continued to scale the Company via our three external growth platforms, demonstrated by a 33% increase in rental revenues, while also remaining acutely focused on actively managing our existing portfolio, disposing of approximately $20 million of non-core assets. The result was nearly 11% FFO as well as 7% AFFO growth on a per-share basis.

At the end of the quarter, our real estate portfolio consisted of 263 properties located in 41 states and encompassing over 4.8 million square feet of gross leasable area. As of September 30, the total portfolio had a weighted average remaining lease term of 11.8 years, and investment-grade retailers generated 52.6% of annualized base rent.

Specifically, our net lease portfolio had a weighted average remaining lease term of 12 years, and investment-grade retailers generated 53.2% of annualized rents. At quarter end, the portfolio was effectively fully occupied at 99.5%. These metrics continue to reflect the high-quality nature of our portfolio and continue to be among the strongest of our peers.

9.5% of our portfolio was ground leased to industry-leading retailers, including Wawa, Lowe's, Chase, McDonald's, and Aldi. These ground-lease assets are typically valued, at minimum, 75 basis points inside of comparative traditional turnkey lease.

On the acquisition front, during the third quarter we invested approximately $37 million and remain disciplined in focus on our underwriting criteria. We closed on 15 properties, net leased to 9 diverse retail tenants operating in 6 ecommerce-resistant sectors. These properties are located in 9 states and are occupied by leading national and super-regional retailers, including Bed, Bath and Beyond, Michaels, Mattress Firm, AT&T and Maurices.

The weighted average cap rate on our third quarter acquisitions was 8.1%, and the weighted average lease term was 12.4 years. Both metrics are consistent with our historical acquisitions.

Year-to-date, we have acquired 59 properties for a total purchase price of approximately $160 million, surpassing our previous record of $147 million acquired in 2014. These properties were acquired at a weighted average cap rate of just over 8%.

We remain on track to achieve our targeted 2015 acquisition volume of $175 million to $200 million and are currently conducting diligence on a number of opportunities, including potential investments in the auto parts, apparel and home furnishing sectors, among others.

On the development front, subsequent to quarter-end, we announced the commencement of another Wawa Convenience Store with fuel in Orlando, Florida. The project is preleased under a 20-year ground lease and is expected to be complete during the third quarter of 2016.

Our Hobby Lobby project in Springfield, Ohio, continues to progress as well. We anticipate completion and rent commencement by the end of the second quarter of 2016.

In Salem, Oregon, our Cash & Carry Joint Venture Capital Solutions project remains on track to be complete during the first quarter of 2016. The Company will own 100% fee simple interest in the project upon completion.

We also continue to make significant progress on the previously discussed projects at the recently created outlots in Lakeland, Florida, as well as Capital Plaza in Frankfort, Kentucky. We look forward to discussing both projects in more detail in the near future.

We were very active during the quarter on the disposition front. We sold 4 properties for gross proceeds of $19.8 million, including 2 non-core shopping centers in Big Rapids, Michigan, as well as Lakeland, Florida. Our shopping centers portfolio now consists of 3 assets, 2 of which we believe have significant embedded growth opportunities and have rental rates which are significantly below market, as well as additional outlot creation opportunity.

Over the past 19 months, we have disposed of 6 shopping center assets and announced outlot creation at 2 additional assets. I am extremely pleased with our asset management team lead by Laith Hermiz, our Executive Vice President, and the transformational efforts he has overseen. Today, our shopping center exposure represents only 2.7% of our annualized base rental income, as opposed to the nearly 30% in early 2010.

As everyone saw in our press release, our material tenant concentrations over 1.5% represents a list of the country's leading brick-and-mortar retailers. Notably, Kmart is no longer one of the Company's top 20 tenants.

We recently increased our disposition guidance from $25 million to $40 million to $50 million for the year. While we remain focused on scaling the portfolio, we are also continuously evaluating all of our real estate assets, and will consistently pursue the disposition of assets that no longer meet our objectives.

From a lease maturity perspective, our portfolio is in great shape. We have one immaterial lease expiration remaining in 2015 and only two leases are less than 0.50% expiring in all of 2016. As we enter into the fourth quarter, we are very enthusiastic about the outlook for our Company. As Ken will discuss in further detail, our balance sheet is in a fantastic position to continue to execute on our unique operating strategy.

Net debt to EBITDA was at the bottom end of our range at 5 times and net of cash, we have near full capacity on our revolving credit facility. With a first-class portfolio and a clean balance sheet, we are very well positioned to take advantage of opportunities as they arise.

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

Ken Howe Agree Realty Corporation – Interim CFO

Thanks, Joey. Good morning, everyone. 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 operation, or FFO, and adjusted funds from operations, AFFO. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in our earnings release.

As announced yesterday, for the third quarter of 2015, we reported total rental revenue of $16.7 million, an increase of 32.8% over the third quarter of 2014. FFO for the quarter was $11.2 million, an increase of 35.1% over 2014, and AFFO was $11.1 million, an increase of 31.8% over 2014.

On a per-share basis, FFO of $0.61 was an increase of 10.9% over Q3 2014, and AFFO of $0.60 was an increase of 7.1% over Q3 for 2014.

G&A expenses were approximately 9.9% of total revenue for the quarter as compared to 12.7% in the third quarter of 2014. For the full year 2015, we expect G&A as a percentage of total revenue to be under 10.5% and we anticipate G&A as a percentage of total revenues to be in the single digits in 2016, representing over a 600-basis point improvement since 2011, as the Company continues to benefit from operating leverage.

Moving on to the balance sheet. We remain in a favorable position, as the Company continues to maintain a strong credit profile. Total debt to total market capitalization at September 30 was 36.4%. Net debt to recurring EBITDA was 5 times. These metrics are well within our targeted leverage levels.

Fixed charge coverage, which includes principal amortization, remained robust at 3.6 times.

We utilized the ATM program to raise approximate $25.5 million of gross equity proceeds during the quarter, as we look to optimize our efficiency when raising and deploying capital.

From a liquidity standpoint, we had $123 million of capacity on our revolver, as well as $21.4 million in cash on hand at the end of the quarter. The Company has no debt maturing in 2015 and only $8.6 million coming due in 2016.

The Company paid 86 consecutive quarterly cash dividends since its IPO in 1994. Our payout ratios for the quarter, which were 76.2% and 77% of FFO and AFFO respectively, are at the low end of our target range and imply a very well-covered dividend.

With that, I'll turn the call back to Joey.

Joey Agree, *Agree Realty Corporation - President & CEO*

Thank you, Ken. Overall, another terrific quarter. I think most significant is the remarkable transformation of our portfolio. It is now effectively complete. Both the portfolio and the balance sheet are in excellent shape for the future.

At this time, we'd like to open it up for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. (Operator instructions). RJ Milligan, Robert Baird.

Will Herman*; R.W. Baird; Analyst*
This is Will Herman on for RJ. I've just got a couple of questions here. The first one is, do you guys have an update on your CFO search as a replacement for Brian?

Joey Agree, *Agree Realty Corporation - President & CEO*
Our search continues. We're methodically interviewing a number of candidates currently. Our goal is to have somebody in place in that seat by the first quarter of 2016 and we think we're on track to do so.

Will Herman*; R.W. Baird; Analyst*
Okay, thanks. And then, you guys issued a decent amount of equity through your ATM this quarter. Can you talk us through how you thought about the amount you issued and how you got comfortable issuing at a discount to NAV?

Joey Agree, *Agree Realty Corporation - President & CEO*
Sure. I think when we look at our ATM, we think, as Ken touched on, it's an efficient means for us to raise and deploy capital to seek the match-fund transactions and really tie together sources and uses. Uniquely, in the third quarter, as everyone may notice, relative to our cash on hand at September 30, we had a high-quality, long-only investor who came under a reverse inquiry basis, which we transacted on and that trade settled on September 30. So we're improving our shareholder base with long-only investors and we're really seeking to maximize both the efficiency of our capital raising efforts as well as the deployment.

Will Herman*; R.W. Baird; Analyst*
Okay. And then acquisitions slowed a little bit this quarter to about $37 million. Should we read anything into that or is that just a matter of timing?

Joey Agree, *Agree Realty Corporation - President & CEO*
Yes, it's really a matter of timing. Transactions aren't necessarily on the traditional calendar. I wouldn't read anything into that. Obviously, through Q3, we've closed $160 million. We're confident that we're on track to hit our target range of $175 million to $200 million for the year. I wouldn't read anything into cap rates or the market from that. It's really just the timing of closings as well as transactions proceeding through diligence.

Will Herman*; R.W. Baird; Analyst*
Okay. And then the last question -- can you guys disclose the pricing of your shopping center dispositions in the quarter? And then, how do we think about that over the next 6 months in terms of go-forward dispositions?

Joey Agree, *Agree Realty Corporation - President & CEO*
Sure, yes. We sold 6 shopping centers in the past 19 months. We've been pretty consistent that we were selling assets from the bottom over the course of the last few years, assets where we weren't comfortable either with the store performance, the credit or the residuals. And the assets that you see disposed of in Q3, both Ferris Commons and Lakeland Plaza, were upper-single-digit cap rates as compared to the mid-upper teens we've historically disposed of in 2013 and 2014. So today, we're sitting with really 2.5 shopping centers remaining in the portfolio.

Frankfort, Kentucky, we have Capital Plaza where we're currently adding the ground lease on the recently created outlot, as well as our Central Commons in Mount Pleasant, Michigan. Both of those assets are the highest quality shopping center assets we had in the portfolio, frankly, with the most embedded value creation opportunities, and we're going to be patient with those opportunities here. Shopping centers are now down to approximately 2.6% of annualized base rents and we think really the two shopping centers we have remaining in the portfolio have significant value.

Will Herman*; R.W. Baird; Analyst*
All right. That's all my questions. Thanks, guys.

Operator
Collin Mings, Raymond James.

Collin Mings*; Raymond James; Analyst*
Just going really off of that last question there, I know it's early, but just as we start thinking about 2016, what do you think is reasonable in terms of a disposition run rate as far as actual volume, just given the progress you guys made here in 2015 -- call it $40 million or $50 million of dispositions this year. What do you think is a reasonable run rate as we think about 2016?

Joey Agree, *Agree Realty Corporation - President & CEO*
That's a good question, Collin. I think first, it will depend on where we are with our dispositions closed for the quarter here, and we've given the guidance, which is pretty broad, of $40 million to $50 million. We've closed on just north of $28 million in terms of dispositions. I think the disposition activity going forward will most likely come from net lease assets as we really look to optimize portfolio composition. And then the redeployment of that capital remaining of fourth quarter and first quarter typically in 1031 transactions.

Collin Mings*; Raymond James; Analyst*
Okay. But it'll come down a little bit relative to this year in absolute volume terms?

Joey Agree, *Agree Realty Corporation - President & CEO*
I'll tell you, we're consistently looking at the portfolio for opportunities. In terms of this year, we had almost $19 million in shopping center dispositions; Lakeland being the biggest piece of that, just north of $13 million. So I'd tell you that I'd anticipate a range that is lower, probably lower than the $40 million or $50 million, but I still think it’s early for us. And a lot will be dependent on what gets disposed for the remainder of this year.

Collin Mings*; Raymond James; Analyst*
Okay, fair enough. And then just going back to the deal environment, just again, I guess average cap rates picked up just a little bit relative to the prior quarter, but again, still trading pretty much around that 8% mark. How do you think about just cap rates right now? Has there been any change? It doesn't sound like there's been much of a change as far as the pipeline based on the answer to your last question. But just how do you think about cap rates right now, any move?

Joey Agree, *Agree Realty Corporation - President & CEO*
Yes, I said previously on earnings calls, we're not the best bellwether for market cap rates. I'll tell you that we remain consistent with that 8% target. We have not noticed any material deviations either up or down in cap rates over the past 3 quarters or so, but again, we aren’t really the market bellwether for those cap rates. Our platform is focused on creating and sourcing value and really finding those opportunistic transactions in a highly fragmented space.

So I would anticipate our cap rates remaining consistent. They've been consistent really since we launched the acquisition platform in 2010, and we're looking to continue to transact with similar quality real estate, similar lease term, similar credit structure and pricing on a go-forward basis.

Collin Mings*; Raymond James; Analyst*
Okay. And then just as it relates to opportunities out there, obviously, pretty successful this year with the opportunistic strategy as far as going after assets, but have you looked at anymore larger scale deals, maybe a little bit more of a transformative transaction out there? And just maybe update us on if you're seeing any of those opportunities.

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes, we look at transactions that range from $1 million into the billions of dollars. Again, our focus is finding the transactions that complement our existing portfolio, that surpass and clear our bottoms-up underwriting approach. And the size of those transactions varies really across the board. Most importantly, we're going to remain disciplined and seek to have the highest quality net leased portfolio in the space with any transactions that we undertake.

Collin Mings*; Raymond James; Analyst*
Okay, Joey. Is there any way to maybe think about how aggressive you might want to get with just a single sale leaseback opportunity? Is there a way to frame that for us at all?

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes, I think the best way to think about it really is for any pro forma material concentrations at any single sale leaseback opportunity with a single tenant obviously would create. We really have a soft line of that 5% threshold in terms of total concentration. We've done obviously a ton of work in terms of diversifying this portfolio.

As I mentioned in the prepared remarks, we think that transformation is effectively complete. So today the only tenant that has a material tenant concentration above 5% is Walgreens, and for us to surpass that 5% line, again, that's a soft line. For us to surpass that 5% line, we would have to think long and hard.

Collin Mings*; Raymond James; Analyst*
Okay. And then just really one last one from me here. As you think about your cost of debt right now, Joey, I think the last deal you did cost 4.2% for 11 years. Just how has your cost of debt moved where you think it is right now if you were to go back to the market on the debt side?

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes, I think the short answer is it effectively hasn't moved. The 10-year was at effectively the same rate as when we transacting on the debt private replacement. When we did that transaction, we did $50 million in 10-year paper at 4.16% and the $50 million in 12-year paper at the 4.26% getting to that 4.21% that you mentioned. We're pretty confident that we could transact in the similar market with similar term at those rates.

Collin Mings*; Raymond James; Analyst*
All right. Thanks, Joey.

Operator
Dan Donlan, Ladenburg Thalmann.

Dan Donlan*; Ladenburg Thalmann; Analyst*
Joey, just going back to disposition guidance, I think you had about $10 million to $20 million less this year to hit within your guidance [range]. We're just kind of curious what your (inaudible) expectations were there. It sounds like you're not going to be selling any of the shopping center assets anytime soon. So we're just curious if we should start seeing the disposition cap rate tick down a little bit, where you think that range is. Is it a 7% to 8% range on a GAAP basis? So what should we be looking to model in our 2016 models?

Joey Agree, *Agree Realty Corporation – President & CEO*
Outside of an unanticipated shopping center disposition, I'd anticipate that those transactions in the disposition pipeline would transact at roughly a 6.5% GAAP rate.

Dan Donlan*; Ladenburg Thalmann; Analyst*
Okay. And then as far as the pipeline looks out into next year, you talked about you've been pretty consistent with the 8%, but is there anything you think that's on the horizon that would cause you to potentially change your thought process; or is there anything else that's in the marketplace that's influencing [cap] rates one way or the other that we should be cognizant of?

Joey Agree, *Agree Realty Corporation – President & CEO*
No, we don't see any market conditions that are going to cause us to change our underwriting criteria. We don't have anything in the pipeline today that's going to be a deviation from our underwriting criteria. Consistency again, I think we've demonstrated that since 2010 and we're confident that we can continue to deploy capital and high-quality net lease retail opportunities at these rates.

Dan Donlan*; Ladenburg Thalmann; Analyst*
Okay. And then, as it pertains to the Joint Venture Development Solutions Program, you seem to have done a lot of Hobby Lobbies, but there hasn't been as much as maybe some of the other or some other retailers. How is that progressing and do you -- are moving away from Hobby Lobby and maybe some other retailers?

Joey Agree, *Agree Realty Corporation – President & CEO*
Just for clarification, the Hobby Lobby project in Springfield, Ohio, that's currently under construction was not part of our Joint Venture Capital Solutions Program. That's is an organic development project for Hobby Lobby. So that was not a Joint Venture project. However, we have done a Joint Venture project historically for Hobby Lobby.

So the Cash & Carry project in Salem, Oregon, again is with a repeat partner that is a Joint Venture Capital Solutions project, the second Cash & Carry that we've undertaken with that partner, who we have a long relationship with.

Our goal for the Joint Venture project is really to secure a handful of developers -- let's call it three to five developers -- who are bringing to market three to five projects per year at an average price point of -- let's use $4 million. Market conditions aside, that's our medium-term goal. It's really to leverage our balance sheet, our access to capital, our cost of capital, our development expertise and our tenant relationships, as well as our partner's ability to source and secure opportunities. And we see that program materializing to that level in the medium term. So we’re focused on it.

Obviously, the merchant build environment that we have out there today within a low-cap rate environment is an obstacle to really seeing this platform to fruition, but again, that's our goal. It's really to secure a handful of critical partners, three to five critical partners that can leverage those things that we bring to the table there.

Dan Donlan*; Ladenburg Thalmann; Analyst*
That's all; understood. Thanks, Joey.

Operator
Wilkes Graham, Compass Point.

Wilkes Graham; *Compass Point; Analyst*
Just really one question from me. I think it's probably a follow-up to some of the others. You've done a great job paring down the portfolio and getting rid of some of the lower credit tenants like the Kmarts and improving the overall credit quality. I look at most of your dispositions to date as being a part of that effort.

So as you look going into 2016, what are your priorities for the portfolio and the balance sheet going forward between acquisitions, dispositions and developments? And how close are you to, or how much do you think about selling off some of your higher quality assets to take advantage of cap rates in the market?

Joey Agree, *Agree Realty Corporation – President & CEO*
Let's start with the last question. We anticipate again outside, Wilkes -- and frankly, an unplanned shopping center disposition in 2015 for the remainder of our dispositions in the near term to be what we call non-core net lease assets. And those will be notable names in our tenant roster, either store performance or residuals that we're not comfortable with or something that may force us to look at the asset, potentially even pricing and opportunistic pricing.

So I think in terms of dispositions, we're going to remain active asset managers true to our real estate roots and focus on those qualities similar to our acquisition platform. Our priorities going into 2016 frankly, are to continue to build upon our three external growth platforms -- acquisition, development, as well as our Joint Venture Capital Solutions Program. And really to build and scale those platforms and to continue to be able to enter a net lease retail transaction anywhere along the lifecycle of that transaction, from site selection with our retail partners, all the way through acquisition from a third party or on a sale leaseback basis.

And those capabilities and those qualities are very unique in our space; they speak to our real estate roots and they speak to the relationships that we have across the board with retailers, brokers, developers and the like. So I think you're going to see more of the same from this Company.

I think if you look at this quarter in a point in time, what we're really -- I'm most pleased with is if you look at our portfolio today, we're sitting here with a portfolio of nearly 53% investment grade. We've obviously actively managed the portfolio selling six shopping centers in the last 19 months. We've invested over the course of the last few years over $600 million into specifically retail net lease. And we've created value and source value that is atypical of what we see in the marketplace.

And that's the DNA of this organization and that's the core values of this organization, and we're confident that we can continue to grow and build upon the platforms that we've already established.

Wilkes Graham; *Compass Point; Analyst*
And just one follow-up -- as you tap into your network of sources, if you compare this to maybe a year ago or earlier this year, is it any harder to source the types of acquisitions that fits your underwriting criteria and the same on the development side? Are the opportunities -- is it getting harder to find those opportunities or is it the same and we expect to see the same level of growth going forward?

Joey Agree, *Agree Realty Corporation – President & CEO*
From an acquisition perspective, we've seen the number, a $2 trillion space. I'll tell you the transactions at any point in time can materialize. We haven't found it more difficult to source transactions. Yes, sectors and become more competitive. We don't anticipate the fast-food sector -- us transacting in the fast-food sector similar to the quick-service restaurant sector, similar to how we did it at year-end 2014. Because

frankly, cap rates and rent to sales ratios, we think have gotten out of whack on the transactions that we see. And so I'll tell you that we see sectors trend, but overall, it is such a highly fragmented large space.

And the team here is doing such a great job of building relationships and sourcing opportunities that we don't see any material deviations today or on the horizon. Again, we're really sourcing and targeting a needle in a haystack here. We're targeting a couple of hundred million dollars at the top end of our range in a space that sees multiple billions of dollars transact on an annual basis, so we don't see any change there.

In terms of development, the development world is dominated by merchant builders, private developers who are typically constructing and developing assets for retailers; then putting them on the market and selling in 1031's to private purchasers. We've been very clear that we're not going to undertake a 2 to 3-year development process for returns that are substandard.

Our development returns are superior to the market; they're superior overall to our other investment dollars that we put to work. And we're going to remain stringent and diligent in terms of how we deploy those dollars into high-quality opportunities. That can change; that is built upon relationships.

And the team here is focused on working with existing tenants in our portfolio as well as new tenants on sourcing those opportunities, but overall, we think we're able, through the three platforms, to continue to deploy north of $200 million on an accretive basis that fit our underwriting criteria.

Wilkes Graham*; Compass Point; Analyst*
Thanks, Joey. I appreciate it.

Operator
(Operator Instructions). Seeing no further questions, 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*
All right. Well, that about wraps it up. Again, I'd like to thank everybody for joining us today and we look forward to speaking with you in 2016. Thank you.

Operator
This concludes our conference. Thank you for attending today's presentation. You may now disconnect your lines. Have a great day.