



Agree Realty Corporation's  
Second Quarter 2024 Earnings Conference Call  
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## CORPORATE PARTICIPANTS

**Reuben Treatman** | Agree Realty Corporation | Senior Director, Corporate Finance

**Joey Agree** | Agree Realty Corporation | President & CEO

**Peter Coughenour** | Agree Realty Corporation | CFO

## CONFERENCE CALL PARTICIPANTS

**Ronald Kamdem** | Morgan Stanley

**Smedes Rose** | Citigroup

**Farrell Granath** | Bank of America

**Mitch Germain** | JP Securities

**Eric Borden** | BMO Capital Markets

**Brad Heffern** | RBC Capital Markets

**Alec Feygin** | Baird

**Upal Rana** | KeyBanc Capital Markets

**Michael Goldsmith** | UBS

**John Kilichowski** | Wells Fargo

**Linda Tsai** | Jefferies

## PRESENTATION

### Operator

Good morning and welcome to the Agree Realty Second Quarter 2024 Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Note today's event is being recorded.

I'd now like to turn the conference over to Reuben Treatman, Senior Director of Corporate Finance. Please go ahead, Reuben.

**Reuben Treatman** | Agree Realty Corporation | Senior Director, Corporate Finance

Thank you. Good morning, everyone and thank you for joining us for Agree Realty's Second Quarter 2024 Earnings Call. Before turning the call over to Joey and Peter to discuss our results for the quarter, let me first run through the cautionary language.

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 for a number of reasons. Please see yesterday's earnings release and our SEC filings, including our latest Annual Report on Form 10-K, for a discussion of various risks and uncertainties underlying our forward-looking statements.

In addition, we discuss non-GAAP financial measures, including core funds from operations or Core FFO, adjusted funds from operations or AFFO, and net debt to recurring EBITDA. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in our earnings release, website and SEC filings.

I'll now turn the call over to Joey.

**Joey Agree** | Agree Realty Corporation | President & CEO

Thanks, Reuben and thank you all for joining us this morning. I'm very pleased to report that we've had a strong first half of the year as our discipline has proven warranted. On our last call, I mentioned our improved visibility into the acquisition market and am pleased to say that visibility turned into high quality closed transactions at similar return profiles. Our team's efforts continue to produce unique and proprietary deal flow. We continue to identify attractive investment opportunities across all three external growth platforms.

As mentioned, our investment activity during the quarter was supported by capital markets transactions that bolstered our fortress balance sheet with approximately \$650 million of unsecured debt and equity capital. In addition, we have received commitments to expand our revolving credit facility to \$1.25 billion, which will provide us with proforma total liquidity of \$1.7 billion. This additional dry powder will enable us to execute our strategy for the remainder of the year and into 2025.

At quarter end, proforma for our outstanding forward equity, our fortress balance sheet sat at 4.1 times net debt to recurring EBITDA, providing us with unparalleled optionality as we continue to execute on our pipeline. Given our investment activity of nearly \$345 million during the first half of the year, our balance sheet and liquidity position, we have continued to aggregate an incredibly high quality and robust pipeline.

I am pleased to announce we have increased our acquisition guidance to approximately \$700 million from \$600 million previously. With a rapidly changing environment, that number could prove conservative, however I think it is prudent given the current lack of visibility into fourth-quarter acquisition activity and the rapid change in our cost of capital. We will continue to be disciplined capital allocators and maintain our stringent underwriting standards.

Given our liquidity profile, strong positioning of our balance sheet and portfolio performance, we have raised AFFO per share guidance to a range of \$4.11 to \$4.14 for the year. At the midpoint, this represents a 4.4% year-over-year growth. Peter will provide more details and the inputs on these numbers momentarily.

Turning to our three external growth platforms, during the second quarter, we invested approximately \$203 million in 70 high-quality retail net lease properties across our three external growth platforms. This includes the acquisition of 47 assets for approximately \$186 million. The properties acquired during the second quarter are leased to leading retailers operating in sectors including home improvement, off price, auto parts, crafts and novelties and grocery.

Our completed transactions to date and current pipeline are emblematic of our dynamic approach to sourcing opportunities and include a variety of different transaction structures: sale-leasebacks with relationship tenants, several unique blend and extends, shorter term high-performing stores purchased at 50% of replacement cost, both new and repeat sellers as well as distressed developers. We continue to be the first and last call in a highly fragmented and disjointed market.

The acquired properties had a weighted-average cap rate of 7.7%, a 90-basis point increase year-over-year, and a weighted-average lease term of over nine years. Investment grade retailers accounted for nearly 60% of the annualized base rent acquired. Note that we are not including retailers such as Hobby Lobby in this investment grade percentage and do not imply shadow ratings to non-rated companies.

Through the first half of the year, we've invested \$343 million across 102 retail net lease properties spanning 37 states and 24 retail sectors. Approximately \$309 million of our investment activities originated from our acquisition platform.

During the quarter we also commenced five development and DFP projects representing committed capital of approximately \$19 million and completed four development and DFP projects with total costs of \$15 million. In total, we had 25 projects either completed or under construction during the first half of the year, representing \$101 million of committed capital, inclusive of the \$66 million incurred through June 30th. Our pipeline for both of these platforms continues to grow quite significantly and we are excited to further discuss in upcoming calls.

Similar to last quarter, we opportunistically disposed of assets at levels where we can re-deploy proceeds at attractive spreads. During the quarter, we sold ten properties for total gross proceeds of almost \$37 million, with a weighted-average cap rate of 6.4%. These dispositions were opportunistic capital recycling of non-core assets, generally leased to sub-investment grade or non-rated operators including Mister Car

Wash and select Gerber Collisions. Our decision to bolster our asset management capabilities, including executive additions and IT investments, was prudent.

On the asset management front, we executed new leases, extensions or options on approximately 300,000 square feet of gross leasable area during the quarter including a Walmart Supercenter in Kimball, Tennessee.

Additionally, during the quarter, we executed a ground lease with no anticipated tenant improvement allowance with a leading quick-service restaurant operator, which I articulately called one of the “chicken guys” on last quarter’s call, for a portion of the former Bed Bath and Beyond parcel in Memphis, Tennessee. We are negotiating multiple letters of intent for the remaining parcels and will move to lease this quarter. As previously discussed, we anticipate recapturing over 150% of the former Bed Bath and Beyond rent, further highlighting our ability to identify and underwrite value-add real estate.

As a result of our asset management team’s efforts, our 2024 lease maturities now stand at just 0.1% of annualized base rents. Given the progress achieved year-to-date, our occupancy ticked up to a Company record 99.8% at period end. We are now focused on any 2025 pending maturities.

With that, I’ll hand the call over to Peter and then we can open it up for questions.

**Peter Coughenour | Agree Realty Corporation | CFO**

Thank you, Joey. Starting with the balance sheet, as Joey mentioned, we had a very active quarter in the capital markets, raising nearly \$650 million of capital.

In May, we completed a \$450 million public bond offering comprised of 5.625% senior unsecured notes due in 2034. In connection with the offering, we terminated related swap agreements of \$300 million, receiving over \$4 million upon termination and reducing our effective interest rate.

The offering further staggers our maturities and extends our weighted-average debt maturity to approximately seven years, excluding the unsecured revolving credit facility.

During the quarter we sold over 3.2 million shares of forward equity via our ATM program, raising net proceeds of approximately \$195 million. As of June 30th, we had approximately 7.1 million shares remaining to be settled under existing forward sale agreements, which are anticipated to raise net proceeds of over \$430 million upon settlement.

Recently, we further strengthened our balance sheet with commitments to increase our revolving credit facility from \$1.0 billion to \$1.25 billion, with strong support from our key banking partners. The facility includes an accordion option that will allow us to request additional lender commitments, up to a total of \$2.0 billion. The term of the facility will be extended to 2029 including extension options, and our cost to borrow will be reduced by five basis points, based on our anticipated credit ratings and leverage ratio at the time of closing.

Our capital markets transactions provide us with more than \$1.7 billion of total liquidity, proforma for the closing of our expanded \$1.25 billion revolving credit facility, the previously mentioned outstanding forward equity, and more than \$24 million of cash on hand.

As of quarter end, proforma for the settlement of our outstanding forward equity, net debt to recurring EBITDA was approximately 4.1 times, which is down two tenths of a turn from last quarter. Excluding the impact of unsettled forward equity, our net debt to recurring EBITDA was 4.9 times. Our total debt to enterprise value was approximately 30%, while our fixed charge coverage ratio, which includes principal amortization and the preferred dividend, is very healthy at 4.7 times.

We had only \$43 million of floating rate exposure at quarter end via our revolver balance, and as a reminder, we have no material debt maturities until 2028. We are very well positioned to execute on our pipeline and stay well within our stated leverage range without raising any additional capital.

Moving to earnings, Core FFO for the second quarter was \$1.03 per share, representing a 5.7% year-over-year increase. AFFO per share for the second quarter increased 6.4% year-over-year to \$1.04.

Our results for the quarter included the recognition of approximately \$2 million of lease termination fees from a financial institution. The tenant agreed to pay 100% of the remaining base rent due for the primary term of both ground leases upon termination. We have taken ownership of both buildings via the termination without any incremental investment due to the ground lease structure. A letter of intent has already been executed on one of the properties and there is significant interest in the second from national operators. We view this as a great outcome for the Company and indicative of our focus on identifying and acquiring high-quality retail real estate with long-term demand drivers.

As Joey mentioned, we have increased our full-year 2024 AFFO per share guidance range to \$4.11 to \$4.14. The updated midpoint represents 4.4% growth, an increase of 20 basis points from our initial guide. There are parameters on several other inputs in our earnings release, including acquisition and disposition volume, general and administrative expenses, non-reimbursable real estate expenses, plus income tax and other tax expenses.

As a reminder, treasury stock is included within our diluted share count prior to settlement if ADC stock trades above the net price of our outstanding forward equity offerings. The aggregate dilutive impact related to these offerings was minimal in the second quarter. However, our updated guidance range contemplates more meaningful treasury stock method dilution in the second half of the year and assumes that our stock continues to trade near current levels. Under that scenario, again assuming a stable stock price, we anticipate treasury stock method dilution will have an impact of roughly one penny on full-year 2024 AFFO per share.

Our ability to drive consistent earnings growth continues to support a growing and well-covered dividend. In April, we increased our monthly cash dividend to 25 cents per share, representing a 1.2% month-over-month increase. We subsequently declared monthly cash dividends of 25 cents for each of May, June and July. The monthly dividend represents an annualized dividend amount of \$3 per share and is almost 3% higher than the annualized dividend from the comparable periods last year. This growth comes as our AFFO payout ratio remains at 72% for the second consecutive quarter, enabling us to retain significant cash flow for reinvestment. As mentioned on prior calls, free cash flow after the dividend for 2024 is approximately \$100 million on an annualized basis. To conclude, our well-positioned balance sheet affords us tremendous flexibility with proforma net debt to EBITDA of 4.1 times and roughly \$1.7 billion of liquidity to fund our robust investment pipeline.

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

**Joey Agree** | Agree Realty Corporation | President & CEO

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

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## QUESTIONS AND ANSWERS

### Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from the line of Ronald Kamdem from Morgan Stanley.

**Ronald Kamdem** | Morgan Stanley

Congrats on the quarter and raising the guidance. Maybe just starting with acquisition. The guidance implies an acceleration in the second half of the year. Maybe can you give some comments on what you're seeing in the pipeline and cap rates?

**Joey Agree** | Agree Realty Corporation | President & CEO

Sure. Ron, I'll tell you, this has been, as I mentioned, a rapid ascent of our stock price here in a fairly dynamic market, obviously, with a lot of crazy stuff going on. And so I think most importantly, we started

sourcing for Q4 yesterday. And Q3 sourcing stopped -- yes, ceased yesterday as well. And so, again, given the 70 days average letter of intent execution to close, call it, give it another couple of weeks to negotiate a letter of intent, there's the basic transaction timeline for you.

What I'm excited about is now turning to Q4 with an improved cost of capital. It's been 12 to 18 months here of gritted teeth and clenched jaws while we sit here and watch the stock price flounder and rates creep higher. And so we don't see any material macro changes yet on the cap rate horizon. But with an improved cost of capital, we certainly can lean into transactions that were high quality and additive to the portfolio.

**Ronald Kamdem** | Morgan Stanley

And just on the cap rate, any cap rate trends? Any commentary? Is it flat? Getting better?

**Joey Agree** | Agree Realty Corporation | President & CEO

For Q3, I would anticipate similar cap rates to Q2. That pipeline is effectively built subject to diligence and closing already. Q4, we're going to see what's out there. Like I said, we started yesterday.

**Ronald Kamdem** | Morgan Stanley

Great. And my second one is just on maybe can you comment on just the bad debt assumptions, of any change to the watch list. And have you seen any sign that the low-end consumer may be under pressure? Are you hearing anything from tenants on that front?

**Joey Agree** | Agree Realty Corporation | President & CEO

I think definitely. And I'll let Peter comment on the bad debt assumptions. The low-end consumer has been under pressure, undoubtedly. We really look at the consumer in three tranches, \$50,000 median household income, \$100,000 and over \$150,000.

I think if you see the pressure on the \$50,000 that's reflected in the Dollar General performance. If you look at \$100,000, the Walmart core customer, they're getting trade-down. Over \$150,000 seems to be strong just certainly due to the overall market environment and their 401(k)s and their portfolios being elevated with that market.

And so the low-end consumer continues to struggle. You see it in the restaurant prints. You see it in the Dollar General prints. But the middle road there, the \$100,000 median household income, is fairly strong. But we're seeing the trade-down effect there. And again, that's reflective in Walmart's performance to date. Go ahead, Peter.

**Peter Coughenour** | Agree Realty Corporation | CFO

Ron, from a credit loss perspective, in terms of what we're contemplating in guidance, we're still assuming approximately 50 basis points of credit loss in our guidance range. And again, that's fully loaded credit loss. So any form of us not receiving rent as contractually obligated is included in that 50 basis points.

Year-to-date, we've experienced roughly 25 basis points of credit loss. And so while the portfolio continues to perform well, that 25 basis points is in line roughly with our historical average, we thought it prudent to keep 50 basis points in our guidance for the time being.

**Operator**

Our next question comes from the line of Smedes Rose from Citi.

**Smedes Rose** | Citigroup

I just wanted to ask a little more about the acceleration in the pipeline. You've had not a lot of change on the macro front. So I mean, is it really driven by what you described? I think last quarter, it's the three Ds and then very active or proactive outbound calling on your part. But it seems like the environment is maybe starting to stabilize a little bit more. I'm just wondering if there's any sort of organic pickup in transaction activity that maybe is helping you out as well.

**Joey Agree** | Agree Realty Corporation | President & CEO

Yes. Smedes, I agree with you. We see some stabilization, obviously, in the 10-year treasury, which seems to be range-bound. That could change tomorrow. But that stabilization does help the liquidity in the market and sellers' willingness to transact. But that said, that can change on a dime.

Our transaction volume, as we mentioned on the Q1 call, would pick up in Q2 because transactions for Q1, going back to the timeline, are generally sourced during Q4, when we saw the rollercoaster of the treasury peaking at 5%. And so that stabilization pulls through generally to the next quarter, again, given that transaction timeline. And I think we'll see some pull through to Q3. And like I said, I'm excited for Q4, again, assuming a normalized environment here, which can be a tough assumption.

**Smedes Rose** | Citigroup

Okay. And then I wanted to ask you, you issued on the ATM during the quarter. The price is about 10% lower, so where the stock is now. And I realize there's some relatively modest impacts in the dilution methodology. But how are you thinking about potentially continuing to issue shares here just as you maybe gear up for 2025?

**Joey Agree** | Agree Realty Corporation | President & CEO

Our balance sheet is in a great position at pro forma 4.1x levered, obviously with pro forma \$1.7 billion in liquidity, executing on the \$450 million unsecured bond offering with no material debt maturities. This balance sheet is a fortress. We'll look to how we deploy in terms of your prior question in terms of uses. If we see the need for incremental capital, we'll certainly look at alternative options here. But again, we are locked and loaded from a balance sheet perspective from any angle.

**Operator**

Your next question comes from Joshua Dennerlein with Bank of America.

**Farrell Granath** | Bank of America

This is Farrell Granath on behalf of Josh. I just wanted to ask specifically about the competition in the market now with the also increased acquisition pipeline, what you're seeing.

**Joey Agree** | Agree Realty Corporation | President & CEO

No real material changes in competition in the market. The 1031 buyers are generally sidelined. The levered individual purchasers are generally sidelined. We've seen the CMBS market come back to a degree at lower LTVs.

Institutional competition in our space remains extremely muted given the price point and nature of our transactions. We're really focused on those \$4 million to \$5 million transactions, those relationship transactions where we can create value. And so competition is extremely limited.

**Farrell Granath** | Bank of America

Great. And also just going back to the watch list. I was curious if there are any names that recently have been added or fallen off in anything that you're keeping.

**Joey Agree** | Agree Realty Corporation | President & CEO

Nothing material that I can think of. It's been a fairly consistent watch list. Obviously, the Conn's was in the news yesterday. We don't have any Conn's. I've never been to a Conn's. Frankly, I'm not even sure what they sell.

But we don't have these restaurant tenants that we see with the challenges in the news as well. And so it's a very consistent watch list, which we're on top of here and the asset management team is on top of in case we get these bases back. And frankly, we're excited to get some of these bases back to redo the Memphis, Tennessee former Bed Bath & Beyond, which I discussed in the prepared remarks.

**Operator**

Our next question comes from the line of Mitch Germain from Citizens JMP.

**Mitch Germain | JP Securities**

Joey, I'm curious when you look at CVS versus Walgreens and you're making a bet on one and obviously trimming exposure to the other, what are the nuances of one store versus the other that gives you confidence in that model and that brand?

**Joey Agree | Agree Realty Corporation | President & CEO**

Great question. We've talked extensively over the years and there's a slide in the deck about, frankly, our dissatisfaction with Walgreens' both business model and performance.

What we're looking for in a 21st century suburban pharmacy is one of three things. A high-performing store that's generally doing over \$12 million, \$13 million with limited competition; a ground lease; or a basis that makes sense in the 21st century omnichannel world.

Now I'm hesitant to compare. But I'll compare suburban pharmacies today to movie theaters. Movie theaters aren't going away and neither are suburban pharmacies. They're just both going to be rationalized. And so we're very focused on the real estate fundamentals, the residual values and the individual store performance.

You will not see us make any incremental investments in Walgreens. Obviously, we've gone from over 40% in 2010 to negligible today for a reason.

The only pharmacy we're interested in is CVS. I think our CVS exposure is most likely peaked here. But we're looking for unique transactions that aren't your prototypical suburban pharmacy catty corner or kitty corner from a Walgreens paying \$375,000 a year and \$28 per square foot in a 14,000 square foot box that is infungible.

**Mitch Germain | JP Securities**

Great. Thanks for that. And obviously, I appreciate the white paper last week that you wrote. And I'm curious about C-stores. They're becoming, obviously, a greater emphasis of the portfolio. Obviously, it seems to be still a lot of competition with those types of assets. So, is it through developer relationships, corporate? How are you getting success in growing that business?

**Joey Agree | Agree Realty Corporation | President & CEO**

All three platforms. We are very active on the development front, specifically with C-stores, large format C-stores, as well as the developer funding platform. Third, I would tell you acquisitions just due to the cap rates.

The interesting thing about the C-store white paper is people's perception of an understanding of the large format C-store space is generally based on where they're located regionally. And I'll tell you, here in Michigan, with Sheetz just entering; Kum & Go, now Maverik, with an entry into the space; QuikTrip entering Michigan, we're not familiar with the C-store. The Michigan consumer is not familiar with the large format C-store that sells food and beverage for off-premises consumption, primarily coffee, breakfast and lunch here.

And so as C-stores, these regional operators, Wawa, Sheetz, QuikTrip, we go through a number of them, expand across the country, what they're learning and what consumers are becoming accustomed to is the C-store becoming a quick service restaurant, the C-store becoming a place to grab something quickly, a front end which they historically grabbed in the pharmacy, a bag of chips, a soda, any of those things. And so it's very interesting to watch them continue to grow, I think Wawa alone has announced seven new states, and then watch the regionalized operators expand across the country and consumers flock to it.



We saw it in Florida with Wawa. Now they had the history of racetrack in Florida, so a large format operator, I tell you, from my perspective, inferior food and beverage, but Wawa's success in Florida and other states has really led the way, and we were initial developer for Wawa in the state of Florida upon their entry, has led the way and given these C-stores confidence that consumers outside of their core region are going to continue to really be attracted to the brand.

### Operator

Our next question comes from the line of Eric Borden from BMO Capital Markets.

### Eric Borden | BMO Capital Markets

Just building off the comment on the white paper. Just given that C-stores are a growing presence and you highlighted how they're potentially taking share from QSRs and coffee shops, how high are you willing to take your exposure to C-stores? Could they eventually become a top one or two sector for you? And does this change your view on your current exposure to your QSR portfolio?

### Joey Agree | Agree Realty Corporation | President & CEO

I believe, correct me if I'm wrong, Peter, C-stores are #4 at approximately 8% of the overall portfolio. We don't have a C-store tenant in our Top 15. I believe Wawa is our largest, just under 15 at approximately 1.7%, 1.8%, I believe. Sorry, 7-Eleven we have in there above them too at about 2.4%.

There is lots of room for us to continue to add C-store. I mean, just taking them from, let's call it, the 8% to 10% of our overall portfolio from a sector perspective would be a very significant jump as the underlying portfolio and denominator continues to grow.

So, we will aggressively continue to pursue those transactions. Many of them are on ground leases. We have very strong relationships and are growing additional relationships in that space. And I think C-stores are going to be amongst them and off price the highest growth sectors overall in retail for probably the next five to ten years.

In terms of QSR, it's very negligible in our portfolio. We quickly divested of the Burger Kings and the other things in the 1031 markets when private equity entered, and purchasers were paying five caps for them. I think we have -- Peter, our QSR exposure is what?

### Peter Coughenour | Agree Realty Corporation | CFO

It's roughly 1% today. And similar to our C-store exposure, if we are acquiring or if we own a quick-service restaurant or any type of restaurant, we're looking to do so on a ground lease basis.

### Joey Agree | Agree Realty Corporation | President & CEO

And I believe Chick-fil-A is #1 or #2. And those are all ground leases in terms of QSRs. But we have stayed away from the Popeyes and the Burger King franchisees and the Wendy franchisees and all the Yum! Brand franchisees. One, we don't like the real estate. The buildings are disposable, Inspector Gadget style, if you recall. And then two, private equity just came into the space, levered up balance sheets to drive costs down because they were unable to raise prices fast enough to drive EBITDA and the rent coverage post-sale leaseback in divesting of the real estate.

So we don't like food here in terms of selling it. We like to eat it. Food as an ancillary product, like in the QSR space, for convenience we're big fans of. But you will not see us make any significant investments in the restaurant space absent a ground lease.

### Eric Borden | BMO Capital Markets

That's helpful. And you touched on this a little bit in your prepared remarks as it relates to the '24 and 2025 lease expirations. How are your conversations with tenants for the '25s? Are there tenants looking to renew early just given the limited availability for retail real estate? And the second part of my question is, are there potential move-outs that we should have on our radar?

**Joey Agree | Agree Realty Corporation | President & CEO**

Generally, tenants don't renew early unless you give them something in exchange. We're confident of the, I think it's 64 lease expirations. The vast majority will be exercising options. Those notifications, frankly, start in the fourth quarter of this year if not the end of the third quarter of this year. There's generally a minimum of a 90-day lease notification or option notification that's required. And so we'll be patient.

At the same time, if we see any vulnerabilities from either the store-level data that we receive, the store-level conversations, corporate conversations or market dynamics, we will definitely be in front of it. And the asset management team led by our COO, Nicole Witteveen, is on top of it. And no material move-out that you should be aware of that are on our radar as of today.

**Operator**

Your next question comes from Brad Heffern with RBC Capital Markets.

**Brad Heffern | RBC Capital Markets**

You have this Disciplined Capital Allocator slide in the deck, Slide 12. I think your own WACC calculation and the cap rates from the second quarter would put you in the pedal to the metal category. Would you say that that's what you were thinking, pedal to the metal, for the fourth quarter and for 2025, assuming nothing changes? Or is there something that would moderate that view?

**Joey Agree | Agree Realty Corporation | President & CEO**

Great question, Brad. If you look at our spot cost of capital, it's down approximately 50 basis points in the last, fair to say, 90 days, Peter, 80 days. I do mention that the \$700 million in guidance in the prepared remarks could prove conservative. We have full optionality given our balance sheet and our cost of capital. The one, either maintain the 150 basis points spread, we'll call it mid-\$700 million cash; or to put the pedal to the metal and keep it to the 100 basis points spread, which is the lighter green.

Now we'll look at that on a case-by-case basis, on a qualitative basis. We'll also look at larger transactions, if those make sense in context of our portfolio. I think the interesting thing here is for fourth quarter, we maintain full optionality. And as I mentioned earlier, sourcing started yesterday, given our clock in ARC. So we have about -- ARC tells us we have 92 days left to source for 2024. We are excited about those 92 days, what it brings. Our cost of capital and balance sheet affords us full flexibility now. And we're going to see how that materializes.

So I think next quarter we'll have much more visibility into it. And again, the \$700 million could prove conservative. Or we could push for that 150 basis point spread and say we're going to maintain discipline. That's going to be subject to the transactions that we're able to dig up.

**Brad Heffern | RBC Capital Markets**

Okay. Got it. And then do you think cap rates will react to the broader change in cost of capital for the public names? And will they be as slow to go down as they were to go up?

**Joey Agree | Agree Realty Corporation | President & CEO**

I try to avoid predicting cap rates always on these calls and in any forum. Predictions always seemed to be wrong. If I had my money, they've -- put my money on it, they've peaked. That said, just given the craziness of the world that we live in today, we're not going to place it either way. And we're going to bet either way and maintain our discipline here.

The volatility out there from a macro, from a geopolitical, from a domestic perspective is something like I've never seen in my career, obviously. And so we're going to maintain our agility and flexibility here. I wouldn't anticipate cap rates materially moving up. But I could be wrong.

**Operator**

Our next question comes from the line of Renata Lurye from Baird.

**Alec Feygin** | Baird

It's Alec Feygin. How much has the transactable PAM increased by your current cost of equity relative to the beginning of the year?

**Joey Agree** | Agree Realty Corporation | President & CEO

The beginning of the year, we were laying out do-nothing scenarios. So that was -- it's been a dramatic shift here. Again, that ties into the hesitancy of guidance and acquisition guidance for the year. This has been somewhat of a roller coaster. Frankly, we were on a defensive mindset here.

We executed on a number of internal initiatives to, frankly, prepare for a slowdown. We deployed the do-nothing scenario and articulated that to the street, followed by our initial guidance, or inaugural guidance, I should say, with the approximately \$600 million. Since then, as we've talked about on prior questions here, our cost of capital has decreased almost 10% materially here.

And so it's been a roller coaster of the year. I'm extremely proud of the team, the discipline they've maintained. It is never easy for a team or a company to go through these types of strategic changes and these types of market-based changes. But we buckled down. We maintained our discipline. We ramped up our efforts. And now I anticipate we see the fruits of that labor.

**Alec Feygin** | Baird

Got it. Thank you. And second one for me. I also enjoyed reading your most recent white paper. Seems like a few of the questions have been asked already. But if you can just tell us what the percentage of your current C-store exposure is large format versus small or regular format.

**Joey Agree** | Agree Realty Corporation | President & CEO

It's all large format. We don't believe in small format C-stores. There may be one or two odd ones that we have for some reason. We don't believe in the small format C-store.

Again, just harkening back to my comment about the state of Michigan, historically gas stations, we didn't call them C-stores, had an auto base, sold cigarettes, gum and a cooler. We weren't familiar with that. Now some local operators and 7-Eleven expanded to offer food and beverage.

We don't believe in the small format C-store. As the white paper articulates, the margin is not in fuel. The margin is in food and beverage. Liquid gold is coffee, sitting in front of me right now. That is where C-stores drive margin and EBITDA. And so we do not invest in small format C-stores absent a ground lease or some unique circumstance.

**Operator**

Our next question comes from the line of Upal Rana from KeyBanc Capital Markets.

**Upal Rana** | KeyBanc Capital Markets

Joey, with the possibility of a September rate cut being high at this point, how would that maybe impact your strategy leading up to that cut or even after, assuming we get one?

**Joey Agree** | Agree Realty Corporation | President & CEO

I think a rate cut, a short-term rate cut, is most likely already priced into the market today. I mean, we are approaching August here now. So I would anticipate that's already approaching. You can see it priced in at the 90-plus percent probability today. So I would tell you that is no impact on our overall strategy here.

**Upal Rana** | KeyBanc Capital Markets

Got it. Okay. And then just the follow-up. What's your opinion on the current state of retailers broadly? We continue to hear some more of these companies either filing, restructuring, closing stores. I just want to get your view on the current state of the market and maybe what you may be hearing. And obviously, you don't own a lot of these names. But just want to get your two cents.

**Joey Agree | Agree Realty Corporation | President & CEO**

We are back to capitalism in retail -- or Darwinism in retail. The strong will survive, the large players, which we're focused on in our sandbox with the balance sheets to invest in labor, in price and in fulfillment strategies. And we're in the fifth inning, sixth inning max of a transition to an omnichannel world.

The legacy retailers that were frankly bolstered by COVID by the access to cheap capital or IPOs, we're going to see them continue to fade and go away. This is something that we fully anticipated. It's back to a normal cycle, a normal business cycle, that was frankly averted during COVID and in a post-COVID world where money was free.

And so now we are -- it's about balance sheet. It's about execution. It's about value proposition for consumers. And that's irrespective of where the macroeconomic or consumer health lies.

Dollar General, we talked about how they have had a more difficult time because the \$50,000 median household income is obviously challenged. Dollar General is going to be just fine here, guys. They are a provider of food for rural America today that probably would be a national security threat if they went out of business. At the same time, they have a huge balance sheet. They have a growing demand on an overall basis inclusive of their new store count for their goods, primarily now servicing food and essentials, all of them.

And so we're going to go back to a world -- we're in the world again. I had a conversation yesterday with a turnaround consultant who was very busy working with retailers. We're back in the world where the strong survive and the weak will die off. And that's a good thing. That's capitalism.

**Operator**

The next question comes from the line of Michael Goldsmith from UBS.

**Michael Goldsmith | UBS**

We appreciate the guidance and increased visibility into the algorithm. Now I think as the investment community tries to digest your approach to the outlook, you've talked about the acquisition guidance of \$700 million being conservative. You may have mentioned that at least three times on the call. And you took it up with this quarter.

So just trying to get a sense of how are you looking at setting that guidance? For instance, does that reflect your visibility into the third quarter and then a haircut of what you think is reasonable for fourth quarter? Just trying to get to a better understanding of the mindset when putting that number on the piece of paper.

**Joey Agree | Agree Realty Corporation | President & CEO**

Yes. It reflects the current visibility we have and then gives us flexibility to deploy capital subject to our cost of capital. I mean, this is all packaged together. So if you look from 30,000 feet, we're assuming Treasury method of dilution in our guidance as Peter articulated. At the same time, we're not incorporating any assumptions that are non-static based.

When I talk about it being potentially conservative, I'm just not willing to go out there on a limb given the volatility we've had with a presidential candidate being attempted assassination, another one dropping out of the race, the volatility we have in this world to go out on a limb and tell everyone we're going to do some wild number in the fourth quarter of this year when acquisition sourcing for fourth quarter started yesterday.

We have \$1.2 million in our fourth quarter pipeline for acquisitions. That is normal. That is our normal cycle. We don't want any more than that because we don't want to be on a forward basis. And so we just don't have visibility. This is a conservative company all around, whether it's our guidance, our balance sheet, our management philosophy and then how we message to the street. And so we're going to stick to that philosophy through and through.

Now again, I hope fourth quarter proves much larger, I'll call it, than our conservative underlying assumptions here. But again, we maintain the willingness to stick to now 150 basis points spread and be strategic and surgical about the acquisition pipeline and what we execute on or step on the gas if, qualitatively, transaction's warranted.

**Michael Goldsmith | UBS**

Thank you very much for that. I think we can all appreciate that. And my second question is related to the dispositions in the quarter. It included Mr. Car Wash and Gerber, similar to last quarter. What are the characteristics of the properties you're looking to recycle? And should we read anything into the cap rates on the dispositions moving up 20 basis points sequentially?

**Joey Agree | Agree Realty Corporation | President & CEO**

No. I appreciate the question. This was part of our disposition program and capital recycling of noncore assets at a very aggressive basis. So as you can see in the mid-6s here, these were Gerber Collisions and basically Florida-based stuff with Florida-based money that is overheated. And so this was the first half of the year capital recycling program that has now most likely transitioned given our cost of capital here.

Now our goal was to dispose of assets that were noncore and recycle that north of 100 basis points wide. Obviously, that has changed. We were prepared not to enter the equity markets in the do-nothing scenario until we bolstered our asset management disposition capabilities. We've now executed on, I believe, \$60 million of that type of asset recycling, not that anything is not for sale here. All real estate is for sale at the right price. But at the same time here, we're focused on offense now.

**Operator**

(Operator Instructions) Our next question comes from the line of John Kilichowski from Wells Fargo.

**John Kilichowski | Wells Fargo**

So early on the call, you mentioned that distress is picking up in the market as it relates to acquisition opportunities. Are these idiosyncratic? Or are they specific to certain geographies or asset types?

**Joey Agree | Agree Realty Corporation | President & CEO**

I don't recall saying distress is picking up in the market. I mean, we think distress is pretty static throughout the market based upon what we call the three Ds, death, divorce and debt, whether it's asset-specific debt or just overall capital structure of an entity or an institution or individual.

And so I think there's level distress in the market. Refinancing, obviously, is down. LTVs are down. Proceeds are down. Local and regional banks are challenged here. Developers are challenged. There's a level of distress that we continue to work through, take advantage of across all three platforms. But I wouldn't say I've seen a notable increase in distress throughout the course of the year.

**John Kilichowski | Wells Fargo**

Okay. Understood. Maybe it was just the mention of distress. So second question here. Have you noticed a material change in seller behavior following either the most recent CPI print or how sentiment has changed around the election?

**Joey Agree | Agree Realty Corporation | President & CEO**

Sentiment change here around the election, that's hot off the press. I can't tell you anything on that front. In terms of the most recent CPI print, this is such a large and fragmented space. I think sellers today, if they're waiting for one cut or two cut from the Fed, then correlated to the 10-year Treasury and cap rates thereafter are looking at tertiary effects.

And so I'd tell you, I think sellers have come to the realization now with the stabilized or semi-stabilized Treasury in the 4.2% to 4.3% band here that we're in a higher for longer period. Reality is amongst us,

guys. And so what we tell our team members is that is our working assumption. If a seller does not have that or a potential seller does not have that working assumption, move on to the next one.

#### Operator

Our next question comes from the line of Linda Tsai from Jefferies.

#### Linda Tsai | Jefferies

Just to follow up on C-stores in your white paper, you highlighted several Wawa, Sheetz, QuikTrip, 7-Eleven. What does term look like for these deals? And what do cap rates look like across these different concepts? And then I guess the last question is, who would you consider your main competition in competing for these names?

#### Joey Agree | Agree Realty Corporation | President & CEO

The term is generally 15 to 20 years. Many of them are on ground lease structures. That's Wawa's preferred format, is a ground lease structure. You can see that reflected in our investor deck with just our Wawa exposure there. Sheetz is very similar, generally on ground lease structures. 7-Eleven, generally on a turnkey basis.

Cap rates vary. There's a lot of regional purchasers for these operators. By the way, I should apologize to all the Buc-ee's fans that we didn't include them in the white paper because I got lots of emails. "Where's Buc-ee's? Where's Buc-ee's? Where's Buc-ee's?"

Amazing operation if you're not familiar, but only about 100 stores. We didn't want to make it the white encyclopedia. It's a white paper. So we couldn't include everybody. So I apologize to those Buc-ee's fans. We'd love to do business with Buc-ee's.

Cap rates range. You get a lot of local buyers that fall in love with the Wawa down the street or the Sheetz or the QuikTrip down the street from them. And so cap rates range. We still see trades in the fives. We don't pay attention to that stuff. Again, I'd remind everyone, Linda, that we're working across all three external platforms here, growth platforms, to source C-store opportunities. So for us to buy a full-term new Wawa, Sheetz or QuikTrip would be very rare.

#### Linda Tsai | Jefferies

And then just a quick question on drugstores with Rite Aid and Walgreens closing stores. And I know you were very aggressive in reducing your Walgreens exposure in recent years. But do you have thoughts on where this market share gets reallocated?

#### Joey Agree | Agree Realty Corporation | President & CEO

Great question. Where it gets reallocated, the front end of the stores have been reallocated to C-stores, the front end of the pharmacies. Chips, drinks, right, those of -- candy, reallocated to C-stores.

The fragrance, beauty has been reallocated to the Ulta's, the Sephora's plus online of the world, while simultaneously that share has exited the first floor of the department stores as we see shrinkage there. Pharmacy, generally, I'll tell you, has stayed somewhat fairly stable. But the problem is the generic pressure on drugs as well as the third-party government reimbursement rates for there. And we haven't seen an online penetration of pharmacy that is material.

Now Costco, Walmart, all those operators, also grocery stores, operate pharmacy. But the business has never driven EBITDA from the pharmacy. The business is driven from 11,000 square feet at the front end space. And that front end is under pressure. As I mentioned, I think, on the last call, I go to the pharmacy, absent picking up a script, three times a year, Valentine's Day, my wife's birthday and my anniversary. And I stand there and get a \$9 greeting card. And I can't believe it's \$9.

If you're going to run in for any convenience items, you're going to a convenience store. It's faster, they have more checkout lanes and it's cheaper. When I need new toothpaste, I hit order again on Amazon. It shows up cheaper the next day for free.

So you see the disintermediation across the aisles as you walk around the pharmacy. It's not going to one specific competitor. It's being disintermediated by multiple different retail sectors plus Amazon. And so there's no turning back from this. There is no merchandising strategy that takes the pharmacy front end and makes it successful that would not be a wholesale change.

Pharmacies inclusive of Walgreens have explored and experimented with things like the Walgreens Cafe. The challenge there is to man food and beverage for off-premises consumption. If you have soda fountains and Slurpee machines, if you have coffee stations, they break, people have spills and there are challenges to manage. And when you have three FTEs max exclusive of the pharmacy, three full-time employees, checking out, stocking and a manager, you cannot service and maintain that type of equipment. And so that hasn't worked.

Walgreens also experimented with Walgreens Boots Alliance with cosmetics and fragrance thinking that they could replicate Boots Alliance' experience in Western Europe. They underestimated the American consumer. Women in this country don't go to the traditional pharmacy for beauty, makeup, fragrance. Ulta has taken that chair from the department stores. Very dissimilar from Western Europe.

So next time you walk around a pharmacy, just look around the aisles and say, where can I buy this stuff? The stuff in the middle that's seasonal, go to Five Below. It's cheaper. Go to the dollar store. It's cheaper. The Halloween junk, the Christmas stuff, that stuff has a better assortment, it's better organized probably and it's cheaper at the dollar store. You walk around the perimeter, think of a C-store.

So that's what we do here and how we figure out what sectors and retailers we think make sense in 2024 and beyond.

**Operator**

So, there are no further questions at this time. I would now like to turn the call back over to Joey for his closing comments.

**Joey Agree | Agree Realty Corporation | President & CEO**

All right. Thank you very much. Great job, Cision. I hope everybody enjoys the rest of this summer. We look forward to seeing you soon. Thank you.

**Operator**

Well, thank you, everybody, for joining us. I hope you enjoy the rest of your summer. Thanks again.