EDITED TRANSCRIPT

Agree Realty Corporation’s
First Quarter 2015 Earnings Conference Call
Tuesday, April 28, 2015; 9:00AM ET

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

NYSE: ADC

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CONFERENCE CALL PARTICIPANTS

R.J. Milligan*; Robert W. Baird; Analyst*
Collin Mings*; Raymond James; Analyst*
Dan Donlan*; Ladenburg Thalmann & Company; Analyst*

PRESENTATION

Operator
Good morning, and welcome to the Agree Realty Corporation first-quarter 2015 earnings conference call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Joey Agree, Chief Executive Officer. Please go ahead.

Joey Agree *Agree Realty Corporation - President & CEO*
Thank you, Drew. Good morning, everyone, and thank you for joining us for Agree Realty's first-quarter 2015 conference call. Joining me today is Michael Donahue, our Corporate Controller. Brian Dickman, our Chief Financial Officer, is having ~~a~~ his second child. We wish ~~he~~ him and his wife nothing but the best.

Overall, I am very pleased with our first-quarter results. We generated strong year-over-year earnings of nearly 8% growth in FFO per share and over 5.5% in AFFO per share. This growth was led by an active quarter on the acquisition front, as we closed 13 transactions for approximately $60 million. All three external growth platforms continued to produce a strong pipeline of high quality opportunities to invest our capital.

We also made progress on important portfolio and balance sheet initiatives which we'll discuss later in this call.

On the acquisition front, during the first quarter we acquired 25 properties net leased to 15 retail tenants operating in 9 ecommerce-resistant sectors. These properties are located in 15 states and are 100% occupied by leading tenants such as Bed, Bath & Beyond, Old Navy, Academy Sports, Sherwin-Williams, and Jo-Ann Fabric and Craft, as well as large franchisees operating in top brands, such as Taco Bell and Wendy's.

The weighted average cap rate on our first-quarter investments was 8.1% and the weighted average lease term was approximately 13 years.

We are currently conducting diligence on a number of additional opportunities, including potential investments in the casual dining, health and fitness, warehouse club, auto parts, grocery, specialty retail, and pet supply sectors, among others. We believe we remain on track to achieve our targeted 2015 acquisition volume of $175 million to $200 million, while maintaining our disciplined approach to investing capital.

As of March 31, 2015, our portfolio consisted of 233 properties, located in 39 states and encompassing approximately 4.7 million square feet of gross leasable area. The portfolio was 98.6% occupied and consisted of 227 retail net lease assets which generated over 92% of our annualized base rents, and 6 community shopping centers which generated the remainder.

As of March 31, the total portfolio had a weighted average remaining lease term of 11.8 years, and investment-grade retailers generated a sector-leading 54.1% of annualized rent. Excluding the remaining six community shopping centers, the net lease portfolio had a weighted average remaining lease term of 12.4 years, and investment-grade retailers generated 57.6% of annualized rents. These metrics continue to be the strongest among our peer group and are representative of a very high caliber net lease portfolio.

During the quarter we made significant headway on both the development and Joint Venture Capital Solutions platforms. We are close to announcing three exciting projects, all of which are with repeat tenants or development partners, as we continue to leverage relationships across all three of our external growth platforms. While there are no assurances that these transactions will be consummated -- and it is our policy not to announce the terms until they are -- we are excited about the prospects for these investments.

The three projects represent approximately $13 million of total investment, and the tenants are leading operators in the convenience store, crafts and novelties, and grocery sectors. Including the two outlet developments we discussed during our previous call, our near-term development and Joint Venture Capital Solutions pipeline now stands at approximately $15 million, with anticipated returns of approximately 9%.

We've also made significant progress of potential dispositions as we continue to focus on active asset management. We are targeting approximately $25 million of disposition activity in 2015, including both noncore community shopping centers as well as select net lease assets. Again, there are no assurances that any transactions will be consummated, but we have identified and made tangible progress on potential dispositions that are consistent with our portfolio composition objectives and will generate proceeds that can be effectively recycled.

In the first quarter we sold one asset for just over $1 million. The property was initially acquired in 2014 as part of a sale/leaseback transaction involving a portfolio of quick-service restaurants. While this was a small, one-off asset sale, we believe that it's indicative of the kind of value we can create with our investment approach as this asset was sold at a cap rate that was more than 100 basis points lower than where we acquired it just four months earlier.

As we look forward to the remainder of 2015 we are very excited about the direction the Company is headed. Our portfolio is extremely healthy with no material lease expirations or credit concerns, and an active asset management plan in place to optimize portfolio composition. Our balance sheet remains in great condition with no near-term debt maturities, and the potential to access new sources of capital.

With that, I'll turn it over to Michael Donahue to discuss our financial results. Mike?

Michael Donahue *Agree Realty Corporation – Corporate Controller*

Thanks, Joey. Good morning, everyone.

As a reminder, please note that during this call the Company 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 the Company's earnings release.

As announced yesterday, for the first quarter of 2015 the Company reported total rental revenue of $14.6 million, an increase of 26.4% over Q1 2014. FFO for the quarter was $10 million, an increase of 26.2% over 2014, and AFFO was $10.1 million, an increase of 24.1% over 2014.

On a per-share basis, FFO was $0.56, was an increase of 7.7% over Q1 2014, and AFFO of $0.57 represented an increase of 5.6% over Q1 2014. Note that FFO in Q1 2015 included a one-time loss on debt extinguishment of approximately $180,000, or $0.01 per share. This was related to a mortgage loan we prepaid in January and discussed on our last earnings call. This was a fully amortizing loan secured by four Walgreens in Michigan. And by unencumbering the properties we've increased our asset-level flexibility.

G&A expenses were approximately 10.6% of total revenue for the quarter as compared to 12.7% in Q1 2014, as our growing platform continues to drive efficiencies with regards to overhead costs. We anticipate continuing to see G&A as a percentage of total revenues trend in a downward trajectory as the portfolio grows.

Moving on to the balance sheet, the Company continues to maintain a strong credit profile. Total debt to total market capitalization at March 31 was approximately 32.4%, and debt to recurring EBITDA was approximately 5.3 times. These metrics are well within our targeted leverage levels.

Fixed-charge coverage for the first quarter, which includes principal and amortization, was robust at 3.8 times. The increase from prior periods was driven in part by eliminating the amortization associated with the mortgage loan prepaid in January.

From a liquidity standpoint, the Company had nearly $8 million of cash on the balance sheet and over $70 million of capacity on its revolver at the end of the quarter. And we have no debt maturing in 2015.

As Joey alluded to earlier, we are currently working on a couple of initiatives to diversify our sources of capital and raise funds to pay down the revolver and finance future investments. We continue to favor long-term fixed-rate debt, and believe that we have a number of attractive options available to us. And, in general, we remain focused on raising capital as efficiently as possible and in a manner that is optimal for a net lease portfolio such as ours.

Finally, the Company paid a dividend of $0.45 per share for the first quarter, or $1.80 on an annualized basis. This was the Company's 84th consecutive cash dividend since its IPO. Our payout ratios for the quarter, which were 80% of FFO and 79% of AFFO, are at the lower end of the Company's target ranges and imply a very well covered dividend.

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

Joey Agree, *Agree Realty Corporation - President & CEO*
Thank you for the update, Michael.

To wrap it up, I'm very pleased with our first-quarter results, as well as the progress we've made on a number of initiatives during the past three months. Our three growth platforms continue to produce unique, high quality, net lease investment opportunities that provide significant value to our shareholders.

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) R.J. Milligan; R. W. Baird.

R.J. Milligan*; Robert W. Baird; Analyst*
Joey, question for you. You did $60 million in the first quarter in acquisitions, guidance for $175 million to $200 million. Is there anything that was in the first quarter that was more lumpy or front-end loaded that you would think that that acquisition pace might slow? Or would you say that you're just being a little conservative in terms of the rest of the year for guidance?

Joey Agree, *Agree Realty Corporation - President & CEO*
~~-~~I don't think ~~there's~~ there was ~~nothing~~ anything particularly lumpy in the first quarter. We had a couple larger price point transactions. And ~~then~~ we saw a couple transactions that were anticipated ~~closing~~ to close in Q4 of 2014 ~~kind of~~ roll over into 2015. So I'd tell you nothing is out of the normal course in terms of our typical aggregation.

R.J. Milligan*; Robert W. Baird; Analyst*
Okay. And then, just over an 8 cap for the acquisitions in the first quarter. I'm curious how you think that might trend over the rest of the year.

Joey Agree *Agree Realty Corporation - President & CEO*
~~Yes, we~~ We see an ability to maintain similar cap rates. We think the first quarter of this year was emblematic of 2014 in terms of our closed transactions. And we see that carrying forward at least into Q2 and Q3. I ~~couldn't~~ can't tell you we ~~had~~ have full visibility into Q4 yet.

R.J. Milligan*; Robert W. Baird; Analyst*
Okay. And then, switching over to the three potential development announcements ~~that could come~~, is that something that you're looking to increase your exposure to, development, or do you still anticipate a couple projects a year and then the focus being on acquisitions?

Joey Agree *Agree Realty Corporation - President & CEO*
That's a great question. I think the three additional projects that we're getting close to announcing are similar to the development and joint venture activity that we've been undertaking for the past few years. We would love to continue to ramp up our development, as well the joint venture platform~~, up.~~, but ~~It's~~ it's going to be opportunistic.

Most importantly, we're going to transact and engage on projects that have the right risk-adjusted returns and maintain our discipline. As we see cap rates continue to remain low, development yields are being chased by a lot of developers out there. We're going to maintain our traditional 250 basis point spread over market cap rates.

And, look, we're working with existing retailers within our portfolio, as well as new retailers. And we're focused on continuing to find projects that make sense for this company.

R.J. Milligan*; Robert W. Baird; Analyst*
Okay. Thanks, Joey.

Operator
(Operator Instructions) Collin Mings; Raymond James.

Collin Mings, *Raymond James - Analyst*
First question; just flipping through your recent investor presentation, there are really a number of multi-tenant properties that you highlight as far as some recent acquisitions. Given some of your peers are just focused on single-tenant properties, can you talk a little bit more about maybe opportunity to pursue some of these multi-tenant properties?

Joey Agree *Agree Realty Corporation - President & CEO*
Yes, that's a great question, Collin. We made a couple of acquisitions, as well as our Joint Venture Capital Solutions project in New Lenox, Illinois, which we call multi-tenant net lease properties. These are traditionally two to really four junior boxes, no small tenant space, no lease maturities, no rollover risk there.

We look at it in the following way:~~. I~~ if we'll acquire any of those individual boxes or tenants on its own in isolation, we see the opportunity if there's two to four of them lined up, typically anchored by a Super Walmart or a Target or a Kohl's~~.~~, ~~We~~ we think that's a great opportunity for us to deploy capital. And, frankly, we get exposure to tenants which aren't traditional net lease retailers from a freestanding perspective.

Most recently we've been able to add Old Navy, obviously a Gap credit, and Bed, Bath & Beyond to the portfolio, as well as Dress Barn last year. With our New Lenox joint venture, we were able to add TJ Maxx, which was our first in the portfolio, as well as Ross, which was the first in the portfolio.

So, again, we see these opportunities as a meaningful way for us to deploy capital in an accretive manner and take on really a similar risk profile to a single-tenant net lease asset.

Collin Mings, *Raymond James - Analyst*
Okay. I mean, is it safe to say that there's less competition maybe for those assets?

Joey Agree *Agree Realty Corporation - President & CEO*
Yes, I think traditional net lease acquirers, most traditional net lease acquirers, aren't transacting -- certainly aren't developing those types of assets. Obviously we're the only net lease development REIT. So they aren't developing those types of assets.

And then, on the acquisition front we don't see significant interest from the shopping center REITs who are typically looking for the ability to generate either same-store NOI growth, out~~-~~lot development or expansion of the existing shopping centers.

So it's a unique opportunity for us in many cases, again, to deploy capital into credits and retailers that we like, that are recession resistant and ecommerce resistant, and to do so with either minimal competition or less competition. I think you're right there.

Collin Mings, *Raymond James - Analyst*
Okay. And then, you touched on this briefly in the prepared remarks, Joey, but just on the decision to exit the Sonic in Virginia, are there any other properties from that same portfolio you'd be looking to exit? Is there anything we sort of read through from that sale as it relates to some of your disposition plans for the rest of the year?

Joey Agree *Agree Realty Corporation - President & CEO*
Good question, Collin. I'd tell you that asset was specifically carved out of a 20-year master lease due to store-level performance. That asset was subject to a traditional 10-year lease in isolation. It was an opportunity for us, frankly, to divest of the asset, and gain about 100 basis points. And really it was one of the weaker performing stores in that portfolio. So the remainder of the portfolio is subject to a 20-year master lease~~s~~. That was an opportunity, again, for us to divest of some of the exposure, divest of really the weakest store in the portfolio.

I think as we go forward, our disposition target ~~of~~ is $25 million for the year. We're going to see additional shopping center divestments in that $25 million, as well as opportunistic dispositions of net lease assets, either due to store sales, portfolio composition, or we don't like the residuals on the real estate.

So we're going to take advantage of some of the cap rates that we've seen in this market and continue to work to build the best retail net lease portfolio in the space.

Collin Mings, *Raymond James - Analyst*
Okay. And then, just thinking about the ground lease front, you have -- about 10% of the portfolio currently is the ground lease portfolio. How do you think about that changing as you continue to ramp up the acquisition activity and some of your plans for growth?

Joey Agree *Agree Realty Corporation - President & CEO*
Yes. Our ground lease portfolio, which is about 10% of the portfolio, is really an investment-grade ground lease portfolio. So 90% of the rental income is investment grade retailers -- JP Morgan Chase, Lowe's, McDonald's, PNC, Meijer, Walmart, Wawa. And as we go forward, we've really been able to aggregate that portfolio, because it's historically been a piece of our development platform. So all of the Wawa development that we undertake as a preferred developer for Wawa, the Chase development, the McDonald's work that we've done, it's all been on ground leases ~~to~~ with varying extents of landlords' work.

As we go forward I wouldn't expect that portfolio to grow. I think as the overall portfolio grows from acquisitions, development and Joint Venture Capital Solutions, I think it would be probably presumptuous to say we'll be able to grow the ground lease sub-portfolio at the same rate. That said, it's a fantastic portfolio and almost 15 years of term remaining -- again, nearly 90% investment grade. A significant portion of that is A credit. And it's ~~above~~ north of $6 million ~~on~~ from a GAAP ABR perspective.

So it's a unique portfolio. I don't think we see any of our peers have a portfolio like that. And it really comes back to our ability to execute on all three of our external growth platforms -- development, joint venture capital solutions, as well as acquisitions.

Collin Mings, *Raymond James - Analyst*
Okay. And then one last one from me, Joey, and then I'll turn it over. In April, Walgreens announced the potential for 200 store closures. Obviously, that's your largest tenant. Just any update there as it relates to your exposure to Walgreen's, what you think that store closing announcement may mean for you guys, if anything.

Joey Agree *Agree Realty Corporation - President & CEO*
Yes, Collin, that's a good question. Obviously, 200 stores in the context of Walgreens' overall real estate exposure is a tiny fraction. All retailers are looking at existing stores, closing stores, relocating stores, adding stores to varying degrees.

We have no notice from Walgreens that they'll be closing any stores in our portfolio. If they happen to close a store in the portfolio, they would still be contractually obligated to continue to pay rent. Obviously we don't look favorably upon having any dark stores. But our Walgreens portfolio we feel is very stable. Again, we don't have any notice from Walgreen's that they'll be closing any of our stores or any of our stores are in that basket of 200. And there's no co-tenancy or really other considerations tied to those.

Collin Mings, *Raymond James - Analyst*
All right. Well, thank you, and congrats to Brian.

Joey Agree *Agree Realty Corporation - President & CEO*
Thanks, Collin. We'll pass it along.

Operator
Dan Donlan; Ladenburg Thalmann.

Dan Donlan*; Ladenburg Thalmann & Company; Analyst*
Joey, just going back to the ground lease portfolio, just kind of curious, we've seen cap rates for some of these corporate owned or corporate leased -- the Texas Roadhouse or some of the Applebee's, Outback, trading kind of the mid 5s. Where do you think the ground lease portfolio for you guys would trade?

Joey Agree *Agree Realty Corporation - President & CEO*
That's a good question, Dan. I think probably about a 5 cap would be an appropriate number to put on that portfolio. You look at the investment grade profile at 90%, you look at the term of almost 15 years, and you look at some of the lease structures with the scheduled rent increases, and I would tell you that that portfolio would probably trade around a 5 cap.

Dan Donlan*; Ladenburg Thalmann & Company; Analyst*
Okay. And I was reaching for the Olive Garden; that was the name I couldn't remember. I've eaten there for years.

And then, as far as the disposition plan that you talked about, kind of curious cap rates on that. You're buying in the 8s right now on a GAAP basis. If you were to layer in some of the single-tenant stuff that you have, what do you think your disposition cap rates could be, anywhere from 50 basis points above or below -- just looking for some modeling detail there.

Joey Agree *Agree Realty Corporation - President & CEO*
Yes, that's a good question, Dan. We don't have great visibility yet into ~~really~~ a blended cap rate on that $25 million. We're really looking at it on effectively a neutral basis as we redeploy that capital. If there's upside to that, obviously we'll take it. But there's going to be some shopping center disposition in there, some net lease dispositions.

So it's really going to be a blended basis. We're going to see where some of those assets transact as we move through the year here. We have visibility into a couple of them. But there will be some opportunistic dispositions at lower cap rates. There will be some dispositions potentially in the shopping center space, which will be low double-digit cap rates, and then some mid-single digit cap rates potentially in the shopping center, as well as net lease.

Dan Donlan*; Ladenburg Thalmann & Company; Analyst*
Okay. And then, kind of sticking with an 8% cap rate kind of range for the rest of the year, how are you able to achieve those cap rates? We are seeing kind of high quality retail in the high 5s or 6s. Is it really just that you're going direct from the retailer? How are you able to get the better pricing that you're getting?

Joey Agree *Agree Realty Corporation - President & CEO*
Look, we won't give away all of our secrets on the call, but I'll tell you we have a very unique set of circumstances that really set the opportunity here. So we have three external platforms, all three which work symbiotically and together to really source opportunities that are not in market.

We aren't a market buyer. We aren't entering into asset-level auctions. We're leveraging our relationships, our skill sets, our unique development expertise really to transact on assets that are unique. We're doing a lot of work with retailers. We're doing a lot of work with existing relationships. We're doing a lot of work where we can bring something to the table that's a value-add proposition, even though it's an acquisition, which is really enabled by our development expertise, our environmental expertise, and the things that really emanate from ~~our~~ the development roots of this company that have been here for 40 years.

So, again, I'd tell you we aren't a market buyer; we will never be a market buyer. Frankly, I don't think that is an accretive opportunity for us today. But more importantly, it's not in our DNA. I mean, this is a real estate company at its roots and we leverage those real estate capabilities, and resources, as well as those relationships to deploy our capital across all three platforms.

So I would tell you the transactions and the opportunities that we see come from all directions. They do come at times directly from retailers, but that by no means is a majority of the opportunities we see. They come from shopping center REITs; they come from developers, general contractors, leasing brokers, investment sale brokers, direct from developers and landlords. And we really seek to aggregate those opportunities and to deploy, like we said, $175 million to $200 million into acquisitions this year.

Again, if you look back at 2014, we underwrote nearly $2.5 billion of acquisition opportunities that came into real estate committee, and we only transacted on $148 million of opportunities. So we have a very wide net. I'd tell you it's a unique net. And we continue to see those opportunities that don't necessarily correlate to market cap rates.

Dan Donlan*; Ladenburg Thalmann & Company; Analyst*
Thank you, Joey. Appreciate it.

Operator
(Operator Instructions) Seeing that there are no other 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*
Thanks, Drew. That concludes our call. Again, I'd like to thank everybody for joining us, and we look forward to speaking with you when we report our second-quarter results. Have a great day. Thank you.

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