EDITED TRANSCRIPT

Agree Realty Corporation's
First Quarter 2021 Earnings Conference Call
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**CORPORATE PARTICIPANTS**

**Joey Agree** | Agree Realty Corporation | President & CEO
**Simon Leopold** | Agree Realty Corporation | CFO

**CONFERENCE CALL PARTICIPANTS**

**Ki Bin Kim** | Truist
**Katy McConnell** | Citigroup
**Nate Crossett** | Berenberg Capital Markets
**Haendel St. Juste** | Mizuho Securities USA
**Linda Tsai** | Jefferies Group, LLC
**Todd Stender** | Wells Fargo Securities, Inc.
**Peter Hermann** | Robert W. Baird & Co.
**John Massocca** | Ladenburg Thalmann

**PRESENTATION**

**Operator:**

Good morning, and welcome to the Agree Realty, First Quarter 2021 Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Simon Leopold, Chief Financial Officer. Please go ahead Simon.

**Simon Leopold** | Agree Realty Corporation | CFO

Good morning, everyone, and thank you for joining us for Agree Realty's first quarter 2021 earnings call. Before we begin, I'd like to thank Joey and the Board for the opportunity to join ADC and the outstanding team that they've assembled. I'm very excited to build upon the long track record of success here at Agree, and I look forward to contributing to the company's next phase of growth, while maximizing value for all stakeholders.

Before turning the call over to Joey 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, including uncertainty related to the scope, severity and duration of the COVID-19 pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures on us and on our tenants.

Please see yesterday's earnings release and our SEC filings, including our latest Annual Report on Form 10-K and subsequent reports, 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

Thank you, Simon, and welcome aboard. Good morning, everybody. I'm pleased to report that ADC 3.0 is officially underway. Our focus on people, processes and systems, combined with the unique and unprecedented opportunity in the marketplace, has accelerated the trajectory of our company in every respect. Our increase in guidance reflects the success we are seeing on the acquisition front. While externally, these results speak to our present and future capabilities, what is less visible is the platform infrastructure that we have constructed that powers the ADC engine.

The launch of ARC, our proprietary technology platform, is the culmination of a multiyear effort. What started as an idea on a static spreadsheet has now materialized into a powerful and dynamic tool for our growing company. At the core of our decision-making is real-time data. ARC enables and informs everything from relationship management through its CRM tool, our asset level underwriting, portfolio construction, be it vast modeling and planning capabilities, as well as its asset management through its Work Order Management System.

These tools have enabled our team to execute quickly and decisively on opportunities to aggregate and access data, establish key performance indicators, measure our performance, streamline and provide clarity to team members and proactively manage our growing team. We are very excited to demonstrate ARC's capability in the very near future.

In addition to the technology that we have deployed, the leadership and Board additions match the opportunity we see in front of us. This is not a company that sits still, but we intend to continue to rise to the occasion and take advantage of our distinctive market positioning.

Moving now to our results, during the first quarter, we invested approximately $391 million in 90 high-quality retail net lease properties across our 3 external growth platforms. 86 of these properties were originated through our acquisition platform, representing acquisition volume of almost $387 million.

While achieving another very strong quarter of acquisition volume during these uncertain times, we maintained our disciplined focused on best-in-class opportunities with leading retail partners. This was clearly demonstrated by a record 32% of first quarter acquisition volume being comprised of ground leases, and more than 72% of first quarter volume being derived from investment-grade retailers.

The 86 properties acquired during the first quarter leased to 46 tenants operating in 20 distinct sectors, including best-in-class operators in the off-price, consumer electronics, auto parts, general merchandise, convenience store, grocery and tire and auto service sectors.

The acquired properties had a weighted average cap rate of 6.3% and had a weighted average lease term of 12.9 years.

We executed on several notable transactions during the quarter, including our first two Amazon Fresh grocery stores located in Westmont and Bloomingdale, Illinois. We are very pleased about the opportunity to add Amazon as a top-50 tenant within our portfolio and look forward to additional opportunities to grow our relationship with them.

Additionally, we acquired a unique portfolio of 10 CVS stores, all of which recently signed brand new 20-year net leases at below-market rent of just over $14 per square foot on a weighted average basis. Even with this portfolio acquisition, our pharmacy exposure is still down nearly 110 basis points year-over-year, driven by portfolio growth and the opportunistic disposition of Walgreens' assets. With this transaction, CVS has surpassed Walgreens as our largest pharmacy tenant, quite an accomplishment for a former Walgreen developer that at one time had nearly 40% exposure to Walgreens. By year-end, I anticipate our exposure to Walgreens to drop to at or below 1.5% of our total portfolio.

The pharmacies that we've added in recent years, including this portfolio and the long-term CVS in Downtown Greenwich, Connecticut, reflect unique opportunities to acquire high-performing CVS stores with duration and residual values that are difficult to find in the pharmacy space. As I discussed in recent calls, we continue to favor CVS as the sector leader, given their innovation and adaptation to consumer preferences, and overall market dynamics in the pharmacy space. The acquisition of Aetna in 2018, the rollout of the MinuteClinics and now their HealthHub concepts continue to demonstrate thoughtful leadership.

During the quarter, we also added our first REI store located on a major retail thoroughfare in East Hanover, New Jersey. With median household incomes of $150,000 and a daytime population of 165,000 within a 5-mile radius, this store is positioned for long-term success.

Our focus on building the highest-quality retail portfolio is further evidenced by the record number of ground leases that we acquired during this past quarter. We added 31 ground leases to our portfolio for an aggregate purchase price of $127 million, again representing almost 32% of annualized base rents acquired during the quarter. Our overall ground lease exposure now stands at a company record of 11.4% of our total annualized base rents.

Notable ground lease acquisitions during the quarter include a CarMax in Pleasant Hill, California, 6 Wawa convenience stores, our first Discount Tire, and the previously-announced portfolio acquisition of 15 ground lease assets from Kite Realty Group. Inclusive of our first quarter acquisition activity, our ground lease portfolio now derives 89% of rents from investment-grade tenants and is comprised of the company's premier retailers. Our deep relationships across the industry, as well as our team’s strong track record of execution, continued to deliver additional opportunities to add such properties to this expanding sub portfolio.

Given our robust acquisition activity in the first quarter, and enhanced visibility into our pipeline, we are increasing our full year 2021 acquisition guidance to a range of $1.1 billion to $1.3 billion, representing a 33% increase at the midpoint as compared to our previous annual guidance. This increase reflects the fact that we are seeing very strong opportunities to grow our portfolio, while remaining disciplined and committed to our stringent investment criteria.

We continue to view retail real estate as dynamic and bifurcated into long-term winners and losers, and we fully intend to stay on the winning side. At quarter-end, our portfolio’s investment grade exposure stood at more than 67%, representing a significant year-over-year increase of more than 750 basis points. On a 2-year stacked basis, our investment grade exposure has improved by almost 1,500 basis points.

Moving onto our development and Partner Capital Solutions platforms, we continue to see compelling opportunities. We had 4 development and PCS projects either completed or under construction during the first quarter, that represent total capital committed of more than $14 million. One of these projects was completed during the quarter, our second development with Burlington in Texarkana, Texas.

I'm pleased to announce we also commenced our first development with 7-Eleven during the quarter, located in Saginaw, Michigan. 7-Eleven will be subject to a new 15-year lease upon completion and we anticipate delivery will take place in the first quarter of 2022. Construction continued during the first quarter on 2 development and PCS projects, with anticipated total cost of more than $8 million. The projects consist of a grocery outlet in Port Angeles, Washington, and a Gerber Collision in Buford, Georgia.

Subsequent to quarter end, we commenced our first development with Floor & Decor in Naples, Florida, where they'll be subject to a new 15-year lease. We anticipate total cost for this project to be approximately $20 million, with rent commencing by January of 2022.

We remain focused on leveraging our 3-pronged external growth platform to expand our relationships with best-in-class retailers, and we look forward to updating you on progress in the quarters ahead.

Moving on to dispositions, we sold 3 properties for total gross proceeds of nearly $9 million during the first quarter. These dispositions were completed at a weighted average cap rate of 6.8% and included a short-term Walgreens in Big Rapids, Michigan, as well as another franchise restaurant.

Subsequent to quarter-end, we sold our Dave & Buster's in Austin, Texas, for approximately $10.5 million, representing a cap rate of 7.4%. Notably, Dave & Buster's had less than 4 years remaining on the base term of their lease at the time of sale. This disposition is reflective of our real estate underwriting and the ability to sell this asset at an IRR of more than 8% is a testament to the quality of real estate in our portfolio. This sale reduced our Dave & Buster's exposure to just 2 remaining locations.

During the quarter, we executed new leases, extensions or options on approximately 66,000 square feet of gross leasable area. As a result of our asset management team's efforts, at quarter-end, our lease maturities for 2021 stood at just 0.4% of annualized base rents, representing a quarter-over-quarter decrease of approximately 50 basis point and a year-over-year decrease of approximately 170 basis points.

Our 2022 lease maturities are in a very positive position as well with only 21 leases or 1.2% of ABR expiring during the course of the year. No single lease maturity exceeds $600,000 annualized base rent, and represents only 0.2% of ABR.

As of March 31, our rapidly growing retail portfolio consisted of 1,213 properties across 46 states, including 120 ground leases. The thoughtful and disciplined construction of our leading retail portfolio continues to be reflected in our rent collections data. Including April, we've now collected at least 99% of rent payments for 8 consecutive months. During the quarter, we collected more than 99% of rent payments from our portfolio while entering into deferral agreements representing less than 1% of first quarter rents.

As a reminder, our collections data includes both base rent and recurring operating cost reimbursements. In addition, we include base rents and operating cost reimbursements charged to tenants in bankruptcy, and have not made any COVID-related adjustments to the denominator when making these calculations. We remain committed to providing complete and transparent data to our investors and our collections.

I'm also pleased to report that our inaugural ESG report was published in the first quarter, and can be found in the Investor section of our website. I look forward to continuing to engage with our stakeholders on the ESG front and excited about our future successes here.

Lastly, I'd like to take a moment to welcome Ambassador John Rakolta, Jr., back to our Board of Directors. John previously served on our Board from 2011 until his confirmation as United States Ambassador to the United Arab Emirates in September of 2019. His leadership helped shape our company and his contributions will be invaluable as we enter the next phase of our growth.

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

**Simon Leopold | Agree Realty Corporation | CFO**

Thanks, Joey. Starting with earnings, core funds from operations for the first quarter was $0.84 a share, a 3% year-over-year increase. Adjusted funds from operations per share for the quarter was $0.83, an increase of 2.3% year-over-year.

During the past 4 quarters, we've elected to treat COVID-19 rent deferrals as delinquent receivables and our FFO measures include this revenue.

As a reminder, treasury stock is included within our diluted share count prior settlement, if and when ADC stock trades above the deal price of our outstanding forward equity offerings. The aggregate dilutive of impact related to these offerings was negligible in the first quarter.

Per FactSet, current analyst estimates for full year AFFO per share range from $3.39 to $3.53 per share, implying year-over-year growth of 6% to 10%. Given current visibility into our investment pipeline and the broader operating environment, we view this level of growth as achievable and expect to end the year towards the higher end of this range.

General and administrative expenses totaled $6.9 million in the first quarter. G&A expense was 8.8% of total revenue or 8.3% excluding the non-cash amortization of above and below market lease intangibles. While we continue to invest in people and systems, our anticipation is that G&A, as a percentage of total revenue, will decrease approximately 100 basis points from 2020 to roughly 7% for 2021, excluding the impact of lease intangible amortization on total revenues.

As a reminder, G&A expense for our acquisitions team fluctuates based on acquisition volume for the year. And our current anticipation for G&A expense reflects the acquisition volume within our new increased annual guidance range of $1.1 billion to $1.3 billion.

Due in part to a one-time true-up of almost $500,000 related to 2020 income taxes, total income tax expense for the first quarter was approximately $1 million. For 2021, we now anticipate total income tax expense to be approximately $2.5 million.

Moving on to our capital markets activities for the quarter, as mentioned on last quarter's call, in January we completed a follow-on public offering of approximately 3.5 million shares of common stock, including the underwriters' option to purchase additional shares, which generated net proceeds of almost $222 million.

We were also active on the ATM during the first quarter, entering into forward sale agreements to sell more than 372,000 shares of common stock at an average gross price of $68.93 for anticipated net proceeds of more than $25 million.

On March 31 we settled 578,000 shares under our outstanding ATM forward offerings for net proceeds of approximately $37 million. At quarter-end, we had approximately 2.9 million shares outstanding under our ATM forward offerings, which in total, are anticipated to raise net proceeds of approximately $190 million upon settlement.

Inclusive of the anticipated net proceeds from our outstanding forward offerings and availability under our credit facility, we have more than $450 million in available liquidity.

As of March 31, our pro forma net debt to recurring EBITDA was approximately 4.2x, as our outstanding forward equity offerings continued to meaningfully reduce pro forma leverage. Excluding the impact of unsettled forward equity offerings, our net debt to recurring EBITDA was approximately 4.9x.

Total debt to enterprise value at quarter-end was approximately 24%, while fixed charge coverage, which includes principal amortization, increased to a company record 5x.

During the first quarter, we announced the transition to a monthly dividend and declared monthly cash dividends of $0.207 per share for January, February and March. The monthly dividend reflected an annualized dividend amount of $2.484 per share, representing a 6.2% increase over the annualized dividend amount of $2.34 per share from the first quarter of last year.

Our payout ratios for the first quarter were a conservative 74% of core FFO per share and 75% of AFFO per share respectively. Subsequent to quarter-end, we declared an increased monthly cash dividend of $0.217 per share. The monthly dividend reflects an annualized dividend amount of $2.604 per share or an 8.5% increase over the annualized dividend amount of $2.40 per share from the second quarter of last year.

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

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

Thank you, Simon. Operator, at this time, we'll open it up for questions.

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**QUESTIONS AND ANSWERS**

**Operator**

We will now begin the question-and-answer session. (Operator Instructions). Ki Bin Kim with Truist.

**Ki Bin Kim** | Truist

Joey, can you talk about your leverage philosophy? I believe your last quoted target range is about 4x to 5x debt to EBITDA. Why is that the right range for you guys, why not a little bit higher? It would be great to see that total AFFO growth translate to more AFFO per share growth. And when you take into account the high-quality nature of your EBITDA, 70%, investment grade and all that, I would think it could support a higher leverage range relatively speaking.

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

Yes, good morning, Ki Bin. But I think -- well, I think if you look at net lease generally and our portfolio specifically in a private context, I think net lease, of course, you're right, it does in a private contact support significantly more leverage. What we've found is running a conservative balance sheet with the liquidity and strictly the balance sheet capacity to continue to expand our business, which is growing at a clip of, call it, 33% per annum here, it is prudent. So during the pandemic, we brought our stated leverage target down from 5x to 6x to 4x to 5x. We've historically been operating in that range. It really anyway increases the forward equity offering.

So today, sitting at pro forma 4.2x, we think we're in a fantastic position to continue to execute on our pipeline near term and long term. But at the same time, look, these aren't hard and fast rules. Tools like the forward equity offering give us the ability, right, to move leverage between that 4x and 5x and even potentially go north of the 5x. But I think as Simon mentioned in the prepared comments, we think we could achieve upper-single-digit AFFO growth here even with a strong balance sheet that's running between 4x and 5x. So while the portfolio certainly could support higher leverage, we think it's prudent to maintain the dry powder to continue to execute on the business.
Simon, do you want to add anything?

**Simon Leopold** | Agree Realty Corporation | CFO

Yes, the only thing I'd add, Ki Bin, is that it's really important that we continue to be able to raise capital in an efficient and cost-effective way. And with the leverage where it is right now, we think we're clearly going to be very appealing to investors in the bond market and that's a really important part of our overall capital strategy. And we're able to achieve the kind of AFFO growth that Joey talked about, that I talked about, on the call, at these leverage points. So it seems like the right place for us is a comfortable balance between sort of all the stakeholders' interest in the company.

**Operator**
Katy McConnell with Citi.

**Katy McConnell** | Citigroup
Can you give us some insight into the volume of deals sourced versus closed during the quarter? Are you making any changes in your underwriting criteria or assets that you're targeting based on the new technology you're using with the ARC platform?

**Joey Agree** | Agree Realty Corporation | President & CEO
Good morning, Katy. The first part of your question broke up. Was that the specifics about what we acquired during the quarter?

**Katy McConnell** | Citigroup
Yes, just the volume that you sourced as opposed to closed.

**Joey Agree** | Agree Realty Corporation | President & CEO
So I tell you, we close the vast majority of assets that we source, as long as obviously, we clear diligence and receive estoppels and the like. And so in terms of sourcing, look, we will continue to bat upper-single-digits, that's our business. We bat 6%, 7%, 8% of what we actually close on in terms of what comes into investment committee. And so the team's doing a tremendous job uncovering opportunities and so it's fair to say we will get billions of dollars in any given quarter for acquiring close to $400 million.

To the second part of your question, what ARC enables is really real-time access to data and the transactional capabilities to match, and then the dash-boarding capabilities that I mentioned in the prepared remarks. So it's a fantastic tool for our team, both on the origination side, as well as throughout the entire real estate lifecycle of an asset. But I would anticipate our acquisition activities in coming quarters to be similar in terms of composition. We'll continue to focus on industry-leading retailers in our quote, unquote, "sandbox." We'll continue to source opportunistically high-quality ground lease assets, and our focus will remain in best-in-class omnichannel operators.

**Katy McConnell** | Citigroup
Okay, thanks. And then now that you've sold the Dave & Buster's asset, what are your plans to further sell down entertainment exposure? And what does demand look like for this category of (inaudible)?

**Joey Agree** | Agree Realty Corporation | President & CEO
The totality of our entertainment exposure is in 2 remaining Dave & Buster's assets, ones in downtown New Orleans, in a mixed use complex, which is a very unique property for us, and adjacent to the Smoothie Center and the Mercedes Benz Zone, the former Dome there in New Orleans, the Superdome. So the totality -- that's the totality of our exposure there. So we were never overly inquisitive in the experiential/entertainment sector to begin with. And so those are the 2 assets, we're very comfortable with them.

Obviously if we get the right bid for them and we look at the opportunity to dispose of them, I think that Dave & Buster's in Austin is representative of the high-quality nature of our real estate. That asset had 3.7 years of remaining term on it and we were able to achieve a mid-7 cap rate. So I think that was an optimal outcome for us there, and that was an inbound, which we've been talking about for a couple of quarters now; it wasn't even openly marketed.

**Operator**
Nate Crossett with Berenberg.

**Nate Crossett** | Berenberg Capital Markets
Just curious to get your comment on what the outlook for pricing looks like as far out as you can see, I guess? Is there any pressure there? Have you seen any change with kind of rates backing up, or what should we kind of be expecting?

**Joey Agree** | Agree Realty Corporation | President & CEO
Well, I think pricing in the high-quality net lease space and from comments from some of our peers and just general market data, we see it in the lower tier in terms of quality in the net lease space continues to be attractive. And we continue to see aggressive cap rates marginally compressing. We continue -- well, here specifically the source value given our relationships, our technology now, and just the depth and breadth of our team. But in terms of cap rates on a go-forward basis, if the 10-year stays in this range bound here, in the 1-6 range, let's call it, plus or minus 20 basis points, I don't -- I truly don't see any material movement in cap rates or any upward pressure in terms of cap rate.

**Nate Crossett** | Berenberg Capital Markets
Okay, that's helpful. And then a record quarter for ground leases for you guys. Is there anything to call out there that's driving the increased volume there? Was it -- or is it just a function of the Kite Realty Portfolio? And are there other portfolios like that, that are out there that you can get?

**Joey Agree** | Agree Realty Corporation | President & CEO
Well, Kite was certainly a component there, but as we talked about in the prepared remarks, we acquired a number of Wawa's; we acquired a CarMax in California, a long-term ground lease in Pleasanton, California, the CarMax where we continue to view really in a superior position in the used car space, given the nature and breadth and depth of their different lines of businesses. And we continue to source unique opportunities like the Discount Tire on a one-off basis. So, the Kite Portfolio certainly was a piece of it. We'll continue to look at such portfolios as they arise, but the vast majority of opportunities were clearly on a one-off basis there.

**Nate Crossett** | Berenberg Capital Markets
Okay. Thanks, guys.

**Operator**
Haendel St. Juste from Mizuho.

**Haendel St. Juste** | Mizuho Securities USA
Joey, I guess we've seen a pickup here in M&A, in Kimco, Weingarten and Realty Income and Vereit the latest. I guess I'm curious on what your view on the backdrop for M&A today is here in the space, and if there's any scenario that you could see ADC participating. And then also more broadly, curious what your thoughts on the pricing from the Realty Income and Vereit merger.

**Joey Agree |** Agree Realty Corporation | President & CEO
Well, it's certainly interesting to see public-to-public M&A in the overall retail space. I think the shopping center space potentially was a long time coming, and I'm not sure if we've seen the remainder, all of it, in totality, given just the number of operators in the space and the different pressures on the space. I think, look, M&A, obviously, it is unique, it is transaction-specific. We'll continue to look at any and all opportunities and most importantly, I think the M&A we've seen in our space, as well as adjacencies, provides us a continued opportunity to execute on what we do. We are not a portfolio purchaser generally speaking; we're not a sale leaseback purchaser generally speaking. We're focused on a very tight sandbox here of the best retailers in the country.

And we have 80 to 80-plus or minus transactions going through our pipeline at any given time at a very granular nature, average price point of $4 million to $5 million. So our competitive set continues to be private purchasers, 1031 purchasers, levered purchasers on the asset leverage, on the asset level. And so it's a very unique opportunity for us to continue to accelerate and expand our business with an M&A backdrop there and we'll continue to look at opportunities. I've always said what we will never do is dilute the quality of this portfolio.

We are on a March to improve what we think is already the highest quality retail portfolio in the country, and we are going to continue to drive that home. Now, pandemic surge sales and the like, and a lot of unique circumstances, have made retailers outside of our sandbox appear more attractive in the near term. But as I stated in the prepared remarks, we really view retail as a K here. There's going to be continued dynamic transformation and that in retail. We're focused on the up-leg of that K and the winners there.

**Haendel St. Juste |** Mizuho Securities USA
Got it. Thank you for that. Anything under contract or LOI today? And then as part of that, I'm thinking what's your overall view on exposure for the ground lease out of your business, good growth to you. How are you thinking about that over time?

**Joey Agree |** Agree Realty Corporation | President & CEO
Well, I continue -- the team continues to surprise me by the ability to source ground lease assets. They are -- and I say consistently; we think the best risk adjusted returns by a significant margin in retail real estate. The ground lease portfolio of 11.4% has almost doubled in size in approximately I'd say 24 months. I anticipate it to tick higher in Q2, just given the extent of the pipeline that we can see currently, with similar opportunities that we executed on Q1.

And so it is a -- it's a unique aspect to our business, the team and through their efforts, surprised me about their capabilities to continue to uncover those truly on a granular basis. Where it goes from here will be a function of the team's efforts in pricing and what makes sense qualitatively within the portfolio. So I wouldn't have predicted 11.4%; I wouldn't have predicted historically that it would be north of there at 6.30, but we continue to find those opportunities.

**Haendel St. Juste |** Mizuho Securities USA
On the contract or LOI side, anything on that front?

**Joey Agree |** Agree Realty Corporation | President & CEO
Nothing specific. Our pipeline continues to be strong for Q2, hence, the raise of the guidance. We're

beginning to source for Q3 opportunities today. There are some unique transactions and they are similar to Q1, obviously, diverse geographically by sector and by tenant, but nothing overly notable or nothing that we're going to call out today.

**Haendel St. Juste |** Mizuho Securities USA
Thank you.

**Operator**
Linda Tsai with Jefferies.

**Linda Tsai** | Jefferies
To reach the high end of consensus estimates, Simon, I think you said 10% year-over-year growth. Does this assume $1.3 billion in transaction volume? And what kind of assumptions does this incorporate on the equity side?

**Simon Leopold |** Agree Realty Corporation **|** CFO
The range was 6% to 10%. And what we said was that we didn't expect it to be toward the higher end, not necessarily all the way to 10%. But it does incorporate the range of outcomes on acquisitions that we put out there, the 1.1 to 1.3. And look, you never know exactly where you're going to get, this is not a precise science. We are out there buying things every day, but that's what we're trying to get to.

It also does require an acceleration of the results quarter-over-quarter. So we had, call it, $0.83 of AFFO in this first quarter. In order to get to that higher end of the range, it does require an acceleration of results towards the back end and that's really a function of our acquisition pipeline.

**Linda Tsai** | Jefferies
Thanks. And then Joey, in your prepared remarks, you highlighted the CVS in Greenwich and then REI in East Hanover. Are you seeing more compelling opportunities come to market in higher-income areas, or is this part of a focus to gain higher exposure to these markets?

**Joey Agree |** Agree Realty Corporation **|** President & CEO
Just for clarity, the CVS in Greenwich was acquired, I believe, in 2020 or late 2019. The CVS portfolio, the 10-pack, was acquired in the first quarter. Look, we continue to be geographically very dispersed. That is from urban to rural to street retail to ground leases, really across that spectrum, as long as within our sandbox. So we've seen accelerated opportunities in the Sun Belt, just given the nature of construction starts down there. We've see accelerated opportunities in the South, but really, we are opportunistic in terms of going coast to coast and north to south across the country.

**Linda Tsai** | Jefferies
Thank you.

**Todd Stender** | Wells Fargo Securities, Inc.
And Joey, just to kind of hone in on the CVS transaction, how big a deal was that? What was the remaining lease term before you blended and extended? Maybe just some context there. I think you commented on the rent being below market. Can you give any more color, please.

**Joey Agree |** Agree Realty Corporation **|** President & CEO
So that transaction, as I mentioned, was unique. These are CVS locations in their core markets in the Midwest. Short remaining lease terms sub roughly 5 years on those stores, fully recasted to 20-year leases, 10 stores. It was approximately, off the top of my head, about $30 million. The unique aspect of the transaction was not only the CVS, as I mentioned in the remarks, that extended for a full 20 years.

But also if you look at per square foot rental rates and aggregate rental rates across the pharmacy space, they typically range from $25 to $35 per square foot. Part of my challenge was pharmacy acquisitions historically, and hence, the dispositions of the Walgreens and their overall exposure, the reduction in overall exposure, was the replacement rent on those approximate 13,000 to 14,000 square foot buildings, which typically, ran from a third to half.

And so in context of this transaction, we have CVS's that are paying approximately just over $14 per square foot, brand new recast, 20-year leases. CVS results by chance came out this morning again, beating the Street with impressive results. And so we are a fan of what CVS is doing, both transformational within their business, but also on the real estate front.

And so as I mentioned, Walgreens really went -- really post the acquisition by Boots Alliance, and hence, then the attempted acquisition of Rite Aid to increase the store count; while CVS went in a divergent health and wellness aspect. They had the PBM historically, the Aetna purchase, the MinuteClinic rollout, and other health clubs, which are extremely impressive if anyone's had the opportunity to see them if they continue to roll out. It's really a vertically integrated health and wellness business.

And so we like what they are doing from a corporate perspective. We are hesitant on the front end of pharmacy; we are hesitant on the residuals historically. But given the nature of the low price points, the low per square foot rental rates and the low per square purchase prices and the 20-year CVS leases, we thought this was an extremely attractive transaction.

**Todd Stender |** Wells Fargo Securities, Inc.
Right. That's helpful. Thanks, Joey. And then I don't know if I missed this, what are the assets that are on top of the ground leases that you acquired from Kite, any color there?

**Joey Agree |** Agree Realty Corporation **|** President & CEO
So it was a mixed bag, and so everything from a Chick-fil-A to, I believe, a Bank of America to a couple of Panera Bread locations, out-lots to their existing shopping centers throughout their portfolio. It was an opportunity for us, portfolio level opportunity, to increase the ground lease exposure there. And so it was a direct transaction that we thought was beneficial, obviously to both parties.

**Todd Stender |** Wells Fargo Securities, Inc.
It's all single tenant standalone, not -- no shopping centers?

**Joey Agree |** Agree Realty Corporation **|** President & CEO
Correct, all single tenant standalone out-lots, which is fairly unique for us.

**Todd Stender |** Wells Fargo Securities, Inc.
All right. Thank you.

**Operator**
Peter Hermann with Baird.

**Peter Hermann |** Robert W. Baird & Co.
Can you talk about the ability to potentially close deals faster now with the new platform?

**Joey Agree |** Agree Realty Corporation **|** President & CEO
Yes, and just to -- I appreciate the question to talk about ARC a little bit. I'll just take the opportunity. So what I found a few years ago is the acceleration of the business really began to ramp. Was just being the nature of an aggregator, it's difficult to project forward critical key metrics. And so Peter Coughenour, our VP of Finance, and I started sketching out literally on a piece of paper an idea and a concept. That idea quickly then morphed into a static spreadsheet, which required obviously significant manual input.

That static spreadsheet then became powered by an IBM TM1 database. The IBM TM1 database then got switched to a MySQL database to give us the real-time and dynamic capability. And from there, we customized our CRM tool that we hooked in to ARC, through MySQL database.

That initial projection tool then became a dash-boarding tool for us for our acquisition team, really guided in part by Greg Lehmkuhl, the CEO of Lineage, who's a fantastic Director on our Board, and who's a lean guru and whose team trained and facilitated ours, just in operational and using visual key management tools. So every member of our acquisition asset management transaction team now has a dashboard that they can drill into all levels of data, cut, slice, dice it, display it visually, export it, do all types of really cool things.

In the last few quarters, we have constructed even more additional modules, really expanding it to really the entire company. So now we have a full pipeline and database that ties into our underwriting. And so it's literally a map of the country that could be drilled into, sorted and filtered by any criteria; our Work Order Management System that spans the property level maintenance all the way to the full data aggregation here; work orders by duration, type of work order, planning tools in terms of seeing the number of work orders and where they span across the country.

Another transaction team module is in beta, and we'll go live very shortly here. That enables the full team to see the real-time status of all transactions in our pipeline from the first contact at the CRM level, at the Customer Management Level, to the current status of the diligence.

So ARC is truly the connectivity between the team and the technology we've created to harness the opportunity in a very fragmented market. It's a key ingredient for us to continue to scale. Without ARC, our people and our culture, it wouldn't be possible to execute $1.1 billion to $1.3 billion in transactions with an average purchase price of $4 million to $5 million.

So again, we have 50 to 100 transactions going through the pipeline at any given time. This system, this tool, the platform really gives us real-time data on all real estate activities. It gives us the capability through its dash-boarding, both team and individual, to establish KPIs to measure and manage through them. So it's a powerful tool that will continue to expedite and accelerate the business here, both at the transactional level and obviously, that rolls up those 300-plus or minus transactions rolls up to our result at the end of the day.

**Peter Hermann |** Robert W. Baird & Co.

Got it, appreciate that color. Thank you so much.

**Operator**

John Massocca from Ladenburg Thalmann.

**John Massocca |** Ladenburg Thalmann

Could you maybe provide some color on the expected investment volume cadence this year? It's just kind of if you look at the 1Q21 acquisitions, and you back those out of guidance, it essentially calls for kind of around $300 million of investments, which would be kind of a notable decline versus 1Q. I'm just trying to figure out if that's based on your visibility into 2Q or just kind of conservatism around maybe 2H.

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

Well, I think given just the nature of our business as a granular purchaser, it's very difficult to predict or project. We truly have zero visibility into Q4, minimal visibility into Q3; we have very good visibility now into Q2. Again, I'd remind people, our average transaction is approximately 70 days from the letter of intent execution to close, some longer, some shorter, just by the nature of the transaction. And so it's difficult, given obviously, a fluid market, a fragmented space and just the nature of our business to project forward.

Now we've come out with the initial guidance of $800 million to $1 billion in the first week of January, given what we know at the time. And our promise has always been when we know what we know, we will come out and adjust any expectations and provide that transparency to investors. So I would tell you, it's a combination of the environment, it's a combination of our business. And we just can't see the future, I wish we could. ARC does not allow us to see the future, unfortunately, but that will be the next module, right, Peter?

**John Massocca |** Ladenburg Thalmann

As I think about maybe -- I know you don't give quarter-to-quarter investment volume guidance. But if you think about the investment volume, guys, if you think about the $1.1 billion to $1.3 billion, is that significantly front-end loaded based on what you see today?

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

Well, I wouldn't say necessarily front-end loaded. We just printed Q1 at 300 -- approximately $380 million acquired. And so I think we can cut that up for the remaining 3 quarters. I don't anticipate Q2 to be very different in terms of assets that we're acquiring. Volume may be down or at that level, so we'll see where things close. Again, we can't predict whether something is going to close on July 27, 28 or July 2. It won't close on July 4, because everything is closed.

But our business, the last outstanding issue generally to close an asset in our business is reliant upon the tenant to provide estoppels, and so things can cross quarters. We have ideas what will close this quarter and then everything can get jumbled around. ARC gives us the visibility to move things around in those corners as we have those third-party respondents, diligence, outstanding estoppels and such like that. And so that provides a level of transparency and visibility for us. But closing and the timing of transactions really isn't reliant necessarily upon just our operations or execution here.

**John Massocca** | Ladenburg Thalmann

Okay, understood. And then how is the cap rate on ground lease assets acquired in the quarter compared to kind of non-ground lease investments? And I guess if you saw ground leases as a percentage of investments maybe normalized versus historical levels, how much higher, assuming ground leases were a lower cap rate, how much higher could the overall kind of blended cap rate trend?

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

So the ground lease assets, interestingly enough, due to the duration in our relationships, the duration of their base term remaining, our relationships we're buying short-term, long-term ground leases, we obviously did the Kite transaction. They generally speaking, fall within the range of our general acquisition volume. Now long-term ground leases in California can be at the lower end of the acquisition, obviously, spectrum for us in terms of cap rates, and so -- but they generally fall within that range.

I don't have a percentage for you off the top of my head. But just given the nature and the disparity between some of these assets, it generally is falling within, call it, that 5% to 7% range for us; and then we end up generally in the mid 6's.

There's a second part of that question? I'm sorry.

**John Massocca** | Ladenburg Thalmann

No, I think it's kind of irrelevant because they are in the same range, so it makes sense.

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

Yes

**John Massocca** | Ladenburg Thalmann

And then one last kind of bigger-picture one. There have been some rumblings about kind of increased capital competition in the net lease space from leveraged non-public buyers, LifeCos, etc. Are you seeing these competitors in the sandboxes in which you tend to play?

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

No, I think the ABS-backed buyers, the CTL-backed buyers, the heavy-lever buyers are looking at larger price point transactions, some of the larger sale leasebacks where we're seeing very aggressive cap rates where we haven't participated. I think just again, the $4 million to $5 million average price point doesn't play itself very well to private equity sponsors or ABS or CTL-backed purchasers there. So our competition continues to be Jane Doe and it's a unique competitive set. Given our balance sheet, our team, our capabilities and now our technology platform and cost of capital, frankly, it's a mismatch.

**John Massocca** | Ladenburg Thalmann

Okay. That's it for me. Thank you very much for taking my questions.

**Operator**

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

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

Thank you, operator, and thank you, everybody, for joining us today. And we look forward to catching up with everybody in June at Virtual NAREIT. We'll talk to you soon. Thanks.

**Operator**

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