



Agree Realty Corporation's  
Fourth Quarter 2024 Earnings Conference Call  
Wednesday, February 12, 2025, 9:00 AM ET

## 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

**Ki Bin Kim** | Truist Securities

**Smedes Rose** | Citigroup

**Jenny Li** | Morgan Stanley

**Michael Goldsmith** | UBS

**Rob Stevenson** | Janney Capital Markets

**Spenser Glimcher** | Green Street

**Sheryl Kaul** | Wells Fargo

**Upal Rana** | KeyBanc Capital Markets

**Linda Tsai** | Jefferies

**Wes Golladay** | Baird

**Eric Borden** | BMO Capital Markets

**Farrell Granath** | Bank of America

**Rich Hightower** | Barclays

**Haendel St. Juste** | Mizuho

**Sam Ohiomah** | Deutsche Bank

## PRESENTATION

### Operator

Good morning and welcome to the Agree Realty Fourth Quarter 2024 Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Note: this 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 Fourth 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, including statements related to our 2025 guidance. 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 our historical 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 with our performance during 2024 as we maintained our strategic discipline through a year of significant market volatility. Approximately 16 months ago, we introduced our "do nothing" scenario, demonstrating that even in the absence of conditions that facilitated external growth, we could deliver meaningful AFFO per share growth. We resisted the temptation to move up the risk curve or deviate from our core investment strategy. Instead, we remained steadfast in our commitment to investing in the strongest retailers with superior risk-adjusted returns... and focused on our objective of being a valued partner to the largest retailers in the country.

Quite simply---our discipline paid off. As the markets shifted, we quickly capitalized on opportunities and proactively strengthened our fortress balance sheet, decisively pre-equitizing our balance sheet with \$1.1 billion of forward equity during the year, including \$423 million in the fourth quarter alone. We concluded 2024 with over \$2 billion of liquidity including \$920 million of outstanding forward equity. Paired with no material debt maturities until 2028, our balance sheet management philosophy has put us in a tremendous position to execute.

As we enter 2025, we find ourselves once again navigating a volatile higher interest rate environment. This underscores the importance of our disciplined and prudent approach to both capital allocation and capital raising. By proactively fortifying our balance sheet last year, we provided ourselves with ample liquidity to execute on this year's investment guidance without the need for additional equity capital. At year end, leverage stood at just 3.3 times proforma net debt to recurring EBITDA. We can deploy over \$1.5 billion this year while staying within our targeted leverage range of 4 to 5 times net debt to EBITDA without raising any additional equity.

I would note that we have had a very strong January to start the year and remain extremely confident in our ability to invest between \$1.1 and \$1.3 billion in 2025 across all three external growth platforms. It could in fact turn out to be conservative, and we are committed to updating the market in regular course as we gain incremental visibility.

This outlook, supported by a fortress balance sheet and combined with our best-in-class portfolio, gives us conviction in achieving our AFFO per share guidance of \$4.26 to \$4.30 for the full year 2025. This represents approximately 3.5% year-over-year growth at the midpoint. I would note that given our significant forward equity position, this includes assumptions for dilution via the treasury stock method if the stock continues to trade in the \$70+ range. I have repeatedly said that I don't care about a penny or two of earnings in any given year due to accounting methodologies, but more importantly value the balance sheet flexibility enabled by forward equity and other risk mitigation tools. Peter will provide more details on our guidance momentarily.

Turning to our three external growth platforms, we set out last year to further enhance and deepen our relationships with our core retailers. I am pleased to report this effort, led by Craig Erlich, our Chief Growth Officer, was a success. Today, our retail partners truly understand the value proposition of partnering with Agree Realty. We are a one-stop shop for acquisitions, development and developer funding solutions. This unique value proposition is unmatched in the industry. Our private peers don't have the liquidity, cost or access to capital, while our public peers lack the real estate development and operational capabilities engrained in our organization.

For the fourth quarter, we invested approximately \$371 million in 127 high-quality retail net lease properties across all three platforms. This included the acquisition of 98 assets for over \$341 million. The properties acquired during the quarter are leased to leading operators in the auto parts, off-price, farm and rural supply, home improvement, tire and auto service, as well as crafts and novelties sectors.

The fourth quarter marked both the highest volume and highest quality quarter of the year evidenced by the longest weighted-average lease term, as well as the highest investment grade and ground lease percentage of any quarter in 2024. Notable transactions included Walmart and Home Depot ground leases, as well as a sale-leaseback with a top relationship tenant with which we enjoy a very strong relationship.

The acquired properties had a weighted-average cap rate of 7.3% and a weighted-average lease term of 12.3 years. Approximately 10.5% of annualized base rents acquired were derived from ground leased assets, while investment-grade retailers accounted for over 73% of the annualized base rents acquired.

For the full year 2024, we invested \$951 million in 282 retail net lease properties spanning 45 states and 28 retail sectors. Approximately \$867 million of our investment activities originated from our acquisition platform. The acquisitions were completed at a weighted-average cap rate of 7.5% and had a weighted-average lease term of 10.4 years, with roughly two-thirds of rents coming from investment grade retailers. As a reminder, we do not impute credit ratings for non-rated retailers.

Switching to our development and DFP platforms, we had a record year with 41 projects either completed or under construction representing approximately \$180 million of committed capital. We're continuing to see increased activity across both platforms as we work with our retail partners to help them execute their store growth plans and provide struggling developers with liquidity to fund their pipeline.

During the fourth quarter, we commenced eight new development and DFP projects with total anticipated costs of approximately \$45 million. The new projects are with leading retailers including ALDI, TJ Maxx, Marshalls, Hobby Lobby, Boot Barn, Sherwin-Williams and Starbucks. Construction continued during the quarter on 14 projects with anticipated costs totaling approximately \$67 million. Lastly, we completed construction on nine projects during the quarter with total costs of \$31 million.

On the asset management front, we executed new leases, extensions or options on over 530,000 square feet of gross leasable area during the fourth quarter. For the full year 2024, we executed new leases, extensions or options on approximately two million square feet of gross leasable area. We are very well positioned for 2025 with only 41 leases or 120 basis points of annualized based rents maturing.

During the year, we opportunistically disposed of 26 properties for total gross proceeds of over \$98 million, including eight properties that were sold during the fourth quarter. The weighted-average cap rate for dispositions in 2024 was 6.7%.

At year end, our best-in-class portfolio included 2,370 properties and spans all 50 states. The portfolio includes 229 ground leases comprising nearly 11% of annualized base rents. Our investment grade exposure at year end stood at 68.2% and occupancy remained strong at 99.6%.

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, we had a very active year in the capital markets, raising approximately \$1.1 billion of forward equity, upsizing our revolving credit facility to \$1.25 billion, and completing a \$450 million bond offering.

We also entered into \$200 million of forward starting swaps during the year, effectively fixing the base rate for a contemplated 10-year unsecured debt issuance at approximately 3.7%. Combined with our outstanding forward equity of \$920 million, this provides us with \$1.1 billion of hedged capital to fund investment activity in 2025.

During the fourth quarter, we sold 5.8 million shares of forward equity via our ATM program and an overnight offering in October for anticipated net proceeds of approximately \$423 million. We also settled 3.7 million shares of forward equity for proceeds of over \$228 million. As of year-end, we had approximately 12.9 million shares of outstanding forward equity, which as mentioned, are anticipated to raise net proceeds of \$920 million upon settlement. We are contractually obligated to settle \$12.7 million of those shares in 2025.

Additionally, as discussed on past calls, we recast and expanded our revolving credit facility in August. The facility was increased from \$1 billion to \$1.25 billion and includes an accordion option that allows us to request additional lender commitments, up to a total of \$2 billion. We also extended the term of the facility to 2029 including extension options and reduced our borrowing cost by 5 basis points, based on our current credit ratings and leverage ratio.

As of December 31<sup>st</sup>, we have over \$2.0 billion of liquidity, including \$1.1 billion of availability on our revolving credit facility, the previously mentioned outstanding forward equity, and cash on hand.

Proforma for the settlement of our outstanding forward equity, net debt to recurring EBITDA was approximately 3.3 times, which marks the lowest level in two years. 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 27%, while our fixed charge coverage ratio, which includes principal amortization and the preferred dividend, is very healthy at 4.4 times.

Our floating rate exposure remains minimal with \$158 million outstanding on the revolver at year end, and as Joey mentioned, we have no material debt maturities until 2028. We are in an excellent position to execute our investment guidance this year without having to raise any additional equity capital.

The strength of our fortress balance sheet was further validated by the credit rating upgrade we received in July. S&P upgraded our issuer rating to BBB+ from BBB with a stable outlook, which is a testament to the prudent and disciplined manner in which we continue to grow the Company.

Moving to earnings, Core FFO per share was \$1.02 for the fourth quarter and \$4.08 for full-year 2024, representing 3.5% and 3.7% year-over-year increases, respectively.

AFFO per share was \$1.04 for the fourth quarter, representing a 4.7% year-over-year increase. For the full year, AFFO per share was \$4.14, which reflects the high end of our guidance range and 4.6% year-over-year growth.

As Joey mentioned, we issued initial AFFO per share guidance of \$4.26 to \$4.30 for full-year 2025, representing approximately 3.5% year-over-year growth at the midpoint. We provide parameters on several other inputs in our earnings release, including investment and disposition volume, general and

administrative expenses, non-reimbursable real estate expenses, as well as income tax and other tax expenses.

In addition to those parameters, our earnings guidance for 2025 includes anticipated treasury stock method dilution related to our outstanding forward equity. As a reminder, if ADC stock trades above the net price of our outstanding forward equity offerings, the dilutive impact of unsettled shares must be included in our share count in accordance with the treasury stock method. Provided that our stock continues to trade near current levels, we anticipate that treasury stock method dilution will have an impact of roughly one to two pennies on full-year 2025 AFFO per share. That said, the impact could be higher if our stock price moves materially above current levels.

Our consistent and reliable earnings growth continues to support a growing and well-covered dividend. During the fourth quarter, we declared monthly cash dividends of 25.3 cents per common share for each of October, November, and December. The monthly dividend equates to an annualized dividend of almost \$3.04 per share and represents a 2.4% year-over-year increase. Our dividend is very well covered with a payout ratio of 73% of AFFO per share for the fourth quarter.

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

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

Thank you, Peter. Operator, at this time let's open it up for questions.

---

## QUESTIONS AND ANSWERS

### Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the one on your touchtone phone. A reminder to please limit yourself to two questions.

The first question comes from Ki Bin Kim at Truist Securities. Please go ahead.

### Ki Bin Kim | Truist Securities

Thank you. Good morning. Hey, Joey. You provided an interesting case study on one of your ground lease renewals in your presentation. I was just curious, I'm sure that's not indicative of the whole ground lease portfolio, but typically when these ground leases come due, I guess, is it more of a typical lease renewal where you get a little bit of a bump and that case study was more of a one-off example or do you think there is a significant mark-to-market upside?

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

Good morning, Ki Bin. There's definitely significant mark-to-market upside there. The case study that you're referred to, the tenant had no remaining options. Initially offered to extend at effectively a five-year option at a flat rental rate. We had inbounds north of 180,000 starting year one. The tenant was about 105, I believe. And we told the tenant, if you want to stay, you're going to have to sign a new five-year ground lease with options, marking that to market, and that's the reference to the upside that you're talking about. That's indicative of a naked lease with no options in the ground lease space. That isn't a regular occurrence for us, but it's an example, I think it's a prime example of the upside if and when we were to retain control of the building.

**Ki Bin Kim** | Truist Securities

And on your forward equity, you have about \$900 million of forward equity out there. I think when you look at it versus history, you're probably a little bit higher than what you've had, so I was just curious, high level, how do you balance how much forward equity you have out there? Because you are paying the dividend on it. It's not interest expense but it is still a cash drag. Or is it that you see larger acquisition opportunities coming up sooner?

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

Well, to the question of the expense of the forward equity, the interest in construct or factor with forward equity is, yes, you do pay the dividend. Historically, when rates were at zero or very low, you weren't earning any interest. Today, the forward equity, with rates being higher, effectively the interest nets out to dividend maybe to the tune net of less 10, 15 basis points, inclusive of fees. So there's really no cash drag. Before the Fed lowered rates in the most recent, ah, the most recent time the Fed lowered rates, there was actually a positive spread to the forward equity that's the interest expense that we are inuring versus relative to the dividend that we're paying. And so there really is a de minimis, if any, expense to carrying that forward equity today which is very different than historically. Now there is the treasury method of dilution, which we talked about in the prepared remarks, so that's accounting methodology but not cash.

In terms of how much forward equity, it's really a function of sources and uses and then where do we think our macro, the macro overlays upon that. And so you'll see us and you have seen us historically carry ample forward equity to source or to utilize for investment activities. Obviously, with approximately \$920 million in forward equity, we're locked and loaded here and we're prepared to execute on our guidance or above for 2025.

**Ki Bin Kim** | Truist Securities

Okay. Thank you.

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

Thanks, Ki Bin.

**Operator**

Thank you. The next question comes from Smedes Rose at Citigroup. Please go ahead.

**Smedes Rose** | Citigroup

Hi. Good morning. Thanks. I just wanted to ask you, it's interesting to see kind of a continued slight downward bias in your acquisition cap rates offsetting, you know, we see a continued upward movement in the 10 year, which I think is now at about 4.6. So just looking forward, I mean do you think seller expectations, even for higher-quality buckets of assets that you've cited, do those need to change? And maybe can you maybe share what you're seeing thus far in the first quarter?

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

It's a great question, Smedes. I think part of the problem is mornings like today where you have a 10-basis-point spike, the last time I looked, in the 10-year treasury after the CPI print came out. So we have 45 or 60 day swings with 10% movement in the base rate for effectively the world, the 10-year U.S. Treasury, which has become normalized in everybody's minds. That includes net lease sellers. And so the 10-year vacillating between 4.25 and 4.75, I'm just using broad ranges here, doesn't really seem to impact sellers' expectations of pricing.

Now we've been very careful and very prudent in how we will continue to be and how we deploy capital at appropriate spreads and, frankly, how we gauge asset-level pricing in this environment. That said, we're

not going to come out of the gates and below \$1 billion in acquisitions in the first quarter in this volatile environment. We'll be disciplined. We'll continue to manage those uses of capital. But the volatility certainly doesn't help reset pricing expectations in such a large, fragmented, and frankly predominantly individually owned space. What we are seeing is individual cases of distress, usually non-asset level distress in other assets potentially where partnerships need proceeds or individuals need proceeds from the sale or disposition of their net lease assets. But again, the volatility here really doesn't serve anybody to have stabilized pricing.

**Smedes Rose | Citigroup**

Okay. Thank you. And I just wanted to ask you, you mentioned in the past about continuing to take share within the market, and that sounds like that's still the case. I was just wondering, I mean there's a lot of discussion around potentially changing the regulatory banks for, sorry, the regulatory regime, I guess, for local and regional banks. Is there anything there that might make them more competitive that you have on your radar or do you think it's just kind of you'll continue to compete in a similar environment?

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

No, I don't see any regulatory issues that may open up the capacity for banks to lend. But you have a multi-pronged problem as a merchant developer today. One, obviously, the liquidity of construction financing, the availability of that financing, as you're alluding to, the higher, the rates on construction loans, the lower loan to cost side construction loans, and then effectively for merchant builders in our space the ability to have some visibility into where they're going to be able to transact at the end of the day upon completion. And so what our developer funding platform continues to do and continues to take share is bridge that gap. With \$2 billion in liquidity and a \$1.25 billion credit facility and the forward equity position we have, we have visibility into our cost of capital and we're able to provide solutions for retailers and developers to bring projects to fruition that can still pencil. You combine it with rising construction costs and tariffs on aluminum and steel and all of these other things that are going to continue to challenge construction costs in this country, it's a tremendous solution and it continues to gain share, like you said.

**Smedes Rose | Citigroup**

Okay. Thank you very much.

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

Thanks, Smedes.

**Operator**

Thank you. The next question comes from Ronald Kamdem of Morgan Stanley. Please go ahead.

**Jenny Li | Morgan Stanley**

Good morning. This is Jenny on for Ron. Thanks for taking my question. I think first, with 68.2% of IG tenant exposure, like almost reaching all-time high, how does this compare to your long-term expectations? Like do you anticipate this percentage to increase in the near term based on your acquisition strategy? Thanks.

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

So we always talk about investment-grade percentage being really a proxy for us or an output of our investment strategy and so 68.2%, as you mentioned, is near an all-time high. At the same time, we're huge fans of unrated retailers. Again, we don't impute credit ratings such as Hobby Lobby, Chick-fil-A, Publix, Aldi, and so if those transactions materialize, we'll be there if the pricing makes sense. And so that investment-grade exposure was, I would tell you, almost artificially ticked up by institutions loading up on Walgreens and other credits to check the proverbial IG box. That can go away quickly if you're not

prudent with your capital allocation and don't see trends in the consumer and retail sectors. We're going to focus on the biggest and best retailers in the country. The vast majority of those have investment-grade exposure. But there are some investment-grade exposures that we're big fans of, Burlington being one that comes to mind that's a great relationship for us. So again, that's really an output of our investment strategy, focusing on our sandbox retailers of the 30 plus or minus biggest and best in the country.

**Jenny Li | Morgan Stanley**

That makes sense. Thanks. I think the second, I want to ask about the transaction volume. Like considering the current environment, like do you see the transaction volume kind of slowed down in the first quarter or do you see that as kind of trending in line with your expectations? Like what are the upside or downside to your like \$1.2 billion investment pipeline this year? Thank you.

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

First quarter is effectively locked and loaded. We've had, as I mentioned in the prepared remarks, again subject to diligence and closing, a very strong January. Right now we're sourcing for the second quarter. In terms of forward visibility, every day changes, every executive order and every piece of data that comes out on the environment. And so the most exciting part about this business to me is that any given day, any given hour, a new and exciting opportunity can pop up that inures to our pipeline. But we think first quarter is right where we want it, we're very pleased with it, and the second quarter we're focused on right now.

**Jenny Li | Morgan Stanley**

Okay. Thanks so much.

**Operator**

Thank you. The next question comes from Michael Goldsmith at UBS. Please go ahead.

**Michael Goldsmith | UBS**

Good morning. Thanks a lot for taking my question. The auto parts category stepped up as a percentage of the portfolio ABR by 70 basis points, and we know you're very thoughtful about what enters your portfolio, so what is the thesis for auto parts and why auto parts now?

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

So, specific to that transaction, it was a portfolio transaction from an institutional seller of over 40 assets leased to NAPA Genuine. That's our first material exposure or semi material exposure to NAPA Genuine. Obviously, our exposure to O'Reilly and AutoZone is more significant and you can see that in our top tenants. We've talked about auto parts. O'Reilly had a good print last week. We've talked about auto parts and the construct of average age of cars on the road at 12.7 years, a record. The lack of financeability of cars today just given the interest rate environment. We're going to see now, with aluminum and steel, I mean Ford came out, Bill Ford came out and said these tariffs could destroy the auto industry. Cars today are getting older, a record every day, and they need more parts. And so we continue to love and be significant fans in the auto parts sector. The second piece is the underlying real estate, not only the credit and the business model. These are generally 6,000 to 7,000 square foot rectangles that are paying \$11 to \$12 per square foot with vinyl floors or concrete floors, no TI or TIA or landlords' work amortized into the rental rates. They're multipurpose boxes. And if that tenant were ever to leave, file bankruptcy, not exercise an option, you have a highly marketable rectangle below replacement cost. And so it fits right within our wheelhouse. It's a top three favorite sector of ours.

**Michael Goldsmith | UBS**

Got it. Thanks for that, Joey. And my follow-up question is just on the expected transaction cadence for the year. Last year, the transaction market was much slower to start the year and picked up as we moved

through 2024. You commented that you've had a very strong January, so does that mean that the balance through the year should be, you know, maybe continue to be back-half loaded in terms of acquisitions but should be more balanced this year relative to last year and that also should help support some of the earnings growth this year? Thanks.

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

I have no idea, to be frank. I don't know what's going to happen tomorrow, let alone third or fourth quarter of this year. We just started building second quarter. Our average transaction cycle is now down to approximately 66, 67 days on the acquisition front. We're in a volatile environment. I'm not going to make predictions. That's why we're in the hedge position with the 10-year swap to 3.7 and the \$920 million of forward equity. I really didn't want anything to do with the capital markets this year, to be honest. And so that war chest is going to allow us to be decisive at times where we see there's opportunities but we can be patient when we think there's volatility and underlying pricing should move. But right now, honestly, all we have is visibility into Q1.

**Michael Goldsmith | UBS**

Thank you very much.

**Operator**

Thank you. The next question comes from Rob Stevenson at Janney Capital. Please go ahead.

**Rob Stevenson | Janney Capital Markets**

Good morning. Joey, can you give an update on Big Lots and how things look to be playing out there? I think last quarter you had a new tenant ready for the Manassas, Virginia location. And where are you with Grand Rapids and the other locations these days?

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

The Big Lots bankruptcy continues to extend on. Obviously, Nexus, the original purchaser out of bankruptcy, failed the week they were supposed to close and so now they're going through another lease auction period. This is a multi-month bankruptcy process. Manassas, we have taken the rent from \$8.55 per square foot to \$16 per square foot. That lease is signed. The tenant has yet to commence rent. We are working in Cedar Park, Texas on one of the other ones where we have a high-quality tenant that would like to purchase that lease but needs approvals that would take that rent from \$5 per square foot to \$8 per square foot. We have significant interest in the asset use specified here in Michigan. And then we're awaiting the results, frankly, of these lease auctions, which continue to be delayed based upon just the bankruptcy, which is kind of running circles.

**Rob Stevenson | Janney Capital Markets**

Okay. That's helpful. And then where is the sale-leaseback market sitting today with either your major tenants and others that you want to do business with? Are they looking to do stuff this year? Is it likely that there's going to be a decrease in volume there? How would you sort of view that given your recent conversations with current and prospective tenants?

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

So, as I mentioned in the prepared remarks, we closed a sale-leaseback with a relationship tenant subject to CA and confidentiality that was our third transaction with that tenant. We've closed already in Q1 a sale-leaseback with another relationship tenant.

As far as the year progresses, it's really going to be what the C-suite, what the CFO, how they want to capitalize their balance sheet. Generally, these are unsecured issuers who are looking at the unsecured market where they can issue. They're looking at the sale-leaseback market where they can price. We've

had a number of discussions on sale-leasebacks, on different structured partnerships for retailers that are developing new real estate on their balance sheet. There's a lot of interesting conversations happening. I'll leave it at that. We'll see where they transpire. This morning's print probably with the CPI at 3% could change that, frankly, or make it more, frankly, the market more active. And so, look, they're always comparing cost of capital, like we're comparing our cost of capital to a transaction. I would expect additional sale-leaseback activity this year though.

**Rob Stevenson** | Janney Capital Markets  
Okay. Thank you.

**Operator**

Thank you. The next question comes from Spenser Glimcher at Green Street. Please go ahead.

**Spenser Glimcher** | Green Street

Thank you. Maybe just one on your development segment. Just curious if there's been any change in regards to retailers' demand to build new stores just given the macro and political backdrop. And then as it relates to that, have there been any talks about fears around labor shortages and how topical is that right now in your discussion as it relates to the development space?

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

Our discussions, and I've been with, I'm going to say, five-plus retailers myself in the past 60 days, they have all revolved around retailers, these are the largest retailers in the country, wanting to get new stores built and how they'd do it. Whether that's Walmart or Lowe's or Tractor Supply, O'Reilly, AutoZone, 7-Eleven, Speedway. These tenants all want to grow. But given the constraints I talked about earlier in the Q&A, there are challenges for their growth. Our three-pronged platform and our multi-level capabilities plus our balance sheet can be a solution. And so, as I just mentioned on the previous answer, there's a lot of different solutions being discussed. I think we have unique opportunities here given our capabilities in the organic development front plus our cost of capital and balance sheet to bridge the gap that's out there today and potentially be that solution, but it's all subject to the individual transaction level.

And then Spenser, the one common theme that we hear from large retailers today is, as opposed to 10 years ago when brick-and-mortar is dead, today the store is the hub. It's not one piece of an omnichannel solution; it is the hub of the omnichannel solution. All retailers today have realized if ecommerce is a significant part of their omnichannel platform, that's basically all of them outside of off-price, that they cannot send goods to people to their home for free and have them return for free 40% via UPS or FedEx. That model doesn't work. And so driving traffic to the store, and if you don't have a store in that MSA, is critical. So this is the greatest desire to expand that I've seen for retailers since before the great financial crisis. The challenge is how they do so in this liquidity constrained, elevated construction cost environment. And that's where I think, again, our unique capabilities can come to play. And retailers, as I mentioned in the prepared remarks, fully appreciate that today, because there's no public company in our space with our development capabilities and there is no private company in our space with the cost or cost of capital and liquidity and balance sheet that we have. So it's us and us alone that can provide some of these solutions.

**Spenser Glimcher** | Green Street

Okay, great. Yeah, no, your comments on the financing alternatives and retailer appetite to grow, that certainly makes sense, but labor and labor shortages and immigration policy, obviously, that's out of most people's hands, so just curious if that has been coming up at all in discussions and if that's going to potentially deter or delay development, at least as you see it in the pipeline right now.

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

No, it has not come up yet. Could come up if we see some mass deportations. But the biggest challenge, again, is just constructability and construction costs.

**Spenser Glimcher** | Green Street

Okay, great. Thank you.

**Operator**

Thank you. The next question comes from John Kilichowski at Wells Fargo. Please go ahead.

**Sheryl Kaul** | Wells Fargo

Hi. This is Sheryl on behalf of John. I just want to understand what themes or concerns have emerged in terms of growth plans for some of your tenants. And in the light of like recent bankruptcies and store closures, are any of your tenants waiting to capitalize on these opportunities given the vacant retail space available?

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

Certainly. It's the lack of space that's available. We've seen it in the Party City auction where Dollar Tree and Five Below bought, I think, about 33% of the leases. And so retailers, and we've talked to them and frankly educated some of them is, if you want new stores, acquiring leases in bankruptcy is an effective and efficient means to do so. Now we're going to have put ourselves in a sandwich position there, buying a leasehold and subleasing, that's not what we want to do at the end of the day, but ultimately retailers have to be creative with their growth given the constraints in the environment today.

**Sheryl Kaul** | Wells Fargo

That makes sense. And just one quick follow up on your comment that private players don't have liquidity or access to capital. Can you like discuss instances if you've seen any private players exit the market or are you seeing any opportunities arising from private capital not being able to participate in acquisitions? Thank you.

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

Definitely across all three platforms. The lack of 1031 capital in the space due to transaction slowdown across commercial real estate, the lack of private capital due to elevated rates, that's both at the individual and institutional level. Again, I can't stress enough, a fortress balance sheet with a locked-in cost of capital is a massive advantage today.

**Sheryl Kaul** | Wells Fargo

Thank you so much.

**Operator**

Thank you. The next question comes from Upal Rana at KeyBanc Capital Markets. Please go ahead.

**Upal Rana** | KeyBanc Capital Markets

Thanks for taking my question. Could you guys remind us how much bad debt was embedded into guidance in 2024 and how much came to realization last year and then how much is embedded this year?

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

Sure. This is Peter. In terms of our guide for 2025, that includes an assumption for 50 basis points of credit loss. And that compares to the roughly 35 basis points of credit loss that we incurred in 2024, which is slightly above our longer-term average. In 2024 our guide also included an assumption for 50 basis points of credit loss. I would say that this year the 50 basis points allows for a worst-case scenario, if you

will, with Big Lots. And in addition to that, it includes an allowance for other potential credit issues that may arise during the year.

**Upal Rana** | KeyBanc Capital Markets

Okay. Great. That was helpful. And then the other guidance question was, you know, dispositions this year could be a little less than last year. What are your thoughts there and what kind of types of tenants or industries are you targeting for dispositions this year?

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

If we roll back the clock approximately, call it, 14, 16 months, 16 months we were talking about a do-nothing scenario, then we came out in January with a leverage-neutral \$500 million scenario, which included approximately \$100 million in dispositions, which we hit, which was effectively driven by capital recycling for low-yield assets in Florida. We saw some oddball transactions in Florida, capital flowing into Florida, paying aggressive cap rates, and we took the opportunity to recycle assets there throughout the year. This year dispositions will really focus on non-core assets or, frankly, if someone values a property more than we do. They're all for sale, all 2,400 of them, for the right price. But it's certainly not a necessary source of capital given the \$2 billion in liquidity that we entered the year with.

**Upal Rana** | KeyBanc Capital Markets

Okay, great. Thank you.

**Operator**

Thank you. The next question comes from Linda Tsai at Jefferies. Please go ahead.

**Linda Tsai** | Jefferies

Hi. When you look across the landscape of retailers, where are you seeing rent coverages improving or deteriorating on the margin versus a year ago?

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

Good morning, Linda. We don't get rent coverage from most of our tenants at the EBITDA store level. That's not something that Walmart or O'Reilly or TJX is going to provide at the store level. That's generally situated in a small middle-market sale-leaseback transaction. But I think we can look across sectors today and see experiential retail, car washes, restaurants, and this isn't, obviously, really it's not relevant to our portfolio, but we can see the rent coverages there having challenges given the highly levered balance sheets and the top line degradation of operators like Topgolf that report publicly through Callaway.

**Linda Tsai** | Jefferies

And then what metrics or aspects pushed you to a BBB and how far are you from another rating upgrade?

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

So BBB+ we got upgraded to last year. Honestly, it's just size. The rating agencies, frankly, are fairly slow. S&P, my opinion, was two to three years too late to upgrade us to BBB+. So today we sit at Baa1, BBB+. I think this is the best balance sheet, frankly, probably in all of REITdom. If not, it's top three. We have no material debt maturities until 2028 with a war chest. You combine that with our portfolio, the diversity from a geographic, tenant, and sector perspective, the size of our assets and the cash flows related to them and then just the nature of the recession resistance of our portfolio and it's pretty difficult to argue against an A- credit rating. So, it will come in due course. We don't control the timing with either of the rating agencies. But it's really just size at this point and they continue to move that barometer. It used to be \$5 billion, then \$10 billion, and they continue to move that threshold around.

**Linda Tsai** | Jefferies

Thanks.

**Operator**

Thank you. The next question comes from Wes Golladay at Baird. Please go ahead.

**Wes Golladay** | Baird

Good morning, guys. Can you talk about how the sandbox is evolving, maybe the few tenants you no longer do business with, but then conversely, you're now a one-stop shop [inaudible] interest with you and you did do a new deal with NAPA?

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

Look, we're always looking at the sandbox. There's nothing static. We're following retailers, consumer trends, sectoral trends, all those relevant data points. The evolution of the sandbox, frankly, to get in or out is pretty slow. I mean we're dealing with the biggest retailers here in the world, but there are retailers, such as I mentioned in the prepared remarks, Boot Barn, which we're a big fan of, which we're actively doing a project with. But the evolution of the sandbox is slow. Right? I mean we are methodically watching the credit profile, consumer trends, and all of those relevant data points to either enter or and/or exit the sandbox.

The second driver of that is just exposure overall in the portfolio. We want to have a well-balanced portfolio. We don't think it's appropriate to take tenants up to 10% or 9%, absent maybe Walmart or somebody of that ilk. We want to have a well-balanced portfolio from a tenant perspective, a sector perspective, as well as geographic.

**Wes Golladay** | Baird

Okay. And then a quick question on G&A. One of the big parts of the story has been scaling the G&A in the last few years. This year it's sort of flatlining. What is driving that increase and how much is due to cash versus non-cash?

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

I'll let Peter speak to the cash versus non-cash. Obviously, we started last year with the do-nothing scenario. We made significant investments once we activated during the second half of last year both to finalize the year in terms of people and systems and then in preparation for 2025. We've onboarded a number of new team members here that will be here for full year 2025. Have a few positions that we're hiring for still in 2025. I think you'll see ultimately that number scale would be driven down. Our initial guidance, obviously, as you mentioned, is in line there. In terms of the cash versus non-cash, Peter, I'll let you take that.

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

Yeah, Wes, just to clarify, we guide to total G&A as a percent of adjusted revenue and that includes non-cash G&A. To the point of your question, we've seen greater growth in our non-cash G&A expense relative to cash G&A over the last couple of years, and so when thinking about the impact to AFFO, we're continuing to see cash G&A scale as a percent of adjusted revenue and as we continue to scale the business we would anticipate that that trend continues.

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

Yeah, and I would note that the non-cash G&A, really the driver of that is the function of going from a five-year restricted time-based stock to a three-year, which we thought, in terms of talent management purposes, was critical. We made that change, Peter, in 2020...

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

2023. A couple of years ago.

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

2023. That we didn't think that team members fully valued the five-year vesting period and three years was more in line with industry standards and, frankly, with just mobility today in terms of jobs we wanted, obviously, to retain our team here.

**Wes Golladay** | Baird

Got it. Thanks, everyone.

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

Thanks, Wes.

**Operator**

Thank you. The next question comes from Eric Borden at BMO Capital Markets. Please go ahead.

**Eric Borden** | BMO Capital Markets

Good morning. Just on the 2025 lease expirations, of the 41 leases set to expire this year, are there any known move-outs or are any of the 41 on the disposition target list today?

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

Really no known material move-outs. Most of them will exercise contractual options. Those are rolling in, honestly, weekly, if not daily. And so no known material move-outs. Potentially if there was, we would have some, ah, we're excited about it. We'll see if they exercise their option. That's in Provo, Utah to an A+ piece of real estate. Since subsequent to reporting we've had some options exercised, including the Walmart in Rancho Cordova with a five-year option exercise. That's a ground lease. And so that list continues to dwindle subsequent to 12/31.

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

Eric, I would just add in terms of, you know, agree with Joey there's nothing material in terms of lease roll there, but to the extent we've identified anything, that would be captured within our credit loss guide for the year as well.

**Eric Borden** | BMO Capital Markets

That's helpful. And then just on capital allocation, I know that liquidity is full and that you don't need to access the equity markets to acquire any of the 2025 potential acquisitions, but as you look to replenish the war chest for 2026 and beyond, how are you thinking about the capital mix? I think, Peter, you had mentioned a potential long-term debt issuance, but yeah, any color on that would be appreciated.

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

We have a 10-year swap to the tune of \$200 million at 3.7% for any future issuance this year in the unsecured debt markets, but in reality, we don't need the dollars. As we mentioned in the prepared remarks, we can stay sub-5 times by investing \$1.5 billion this year without any incremental dispositions. So this is a pre-equitized balance sheet that doesn't need a dollar, that has a swap in place to access the unsecured markets in a 10-year treasury market that's highly volatile.

**Eric Borden** | BMO Capital Markets

Thank you very much.

**Operator**

Thank you. The next question comes from Farrell Granath at Bank of America. Please go ahead.

**Farrell Granath | Bank of America**

Good morning. Thanks for taking my question. I was wondering if you could make a few comments on how you were thinking about the health of the consumer, specifically the lower end, and how that may impact the retail that you're exposed to.

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

Look, we continue to see pressure on the low-income cohort undoubtedly with inflation and eggs obviously back in the news, with goods and services that are necessity-based. The high-end consumer looking at their 401(k)s and looking at their portfolio still feels well. And then trade down in, let's call it, the 150 median household income to Walmart and Walmart continuing to take share. And so that will continue to evolve throughout the year, obviously subject to inflation and subject to macroeconomic factors, but we see a bifurcated if not trifurcated consumer today.

**Farrell Granath | Bank of America**

Thank you. And also, in terms of competition in the market, are you seeing any shifts today and going forward compared to the last few quarters?

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

Our competition continues to dwindle. Again, at the end of an interest rate super cycle with 1031 transactions lagging, obviously, with the transactional market cut by 45% over the past couple of years from historic averages, we are seeing less and less institutional competition, individual competition, tax-motivated competition, DST motivated competition. The competition today is with sellers' expectations themselves and where they think pricing should be in this new world order of 2025 that we're in. And so we encourage brokers all the time, sellers all the time, to wake up to February of 2025 and stop pretending it's 2023.

**Farrell Granath | Bank of America**

Okay. Thank you very much.

**Operator**

Thank you. The next question comes from Rich Hightower at Barclays. Please go ahead.

**Rich Hightower | Barclays**

Good morning, guys. Thanks for taking the question here. I guess, Joey, you spent a lot of time this morning talking about DFP and how it's kind of a unique solution in the marketplace for retailer store growth. What are the gating factors to that becoming, you know, within the size of your business, multiples of what it is today? Is it simply demand on the retailer side? Is it a concentration issue in terms of how the company allocates capital? Maybe spend a little time on that if you don't mind.

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

Sure. One thing, returns, as well as they fit into our sandbox. We are not going to deploy capital into Development Funding Platform or development to returns that we can execute in 67 days in the acquisition space. Danielle Spehar, our General Counsel here, did a tremendous job in 2024 compressing our days to close down to that 66, 67, and her team. But again, duration equals risk and we need a premium based upon that risk and duration. And so, as we've talked about, if we can churn and burn, take a building that an existing structure, get in there, add on to it, do a renovation, improve site improvements and expansion and the tenant is going to be paying rent in 120 days rather than 67 days, that can be a tighter spread, call it 50 basis points, to where we can acquire a like-kind asset. If we're

going to go through a 12-month to 18-month entitlement, permitting and construction process, that spread is going to be wider. And so that's the true gating factor here for us is developers, returns on cost, where they have projects, retailers' expectations for return on cost. And we sort through hundreds if not thousands of projects annually to decide which ones we think make sense given kind of those brackets.

**Rich Hightower | Barclays**

Okay. That's very helpful. And I'm going to ask another question, which I think has been asked in different ways, but as we start to think about 2026 funding sources and uses, and I appreciate that it's hard to make predictions, especially about the future, but just given the choppiness of the last few months, for pretty obvious reasons, what are the chances in your mind that 2026 could be a do-nothing scenario all over again?

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

Wow, you really asked me... I don't think it's going to be... Look, I don't think it's going to be a do-nothing scenario in 2026. I think we are sitting in the pole position right now. I'm not concerned about, again, as I've said in the prepared remarks, a penny here or a penny there. I will take potential treasury method dilution versus a pre-funded war chest in the 10-year swap to 3.7 10 out of 10 times for a potential dilution of a penny or two for accounting methodologies. What we're sitting on in terms of this portfolio and this balance sheet, inclusive of its maturity schedule, is truly unprecedented, I think, in this space and I think it's going to continue to inure value. And 2026 I wouldn't anticipate would be a do-nothing scenario, but it's only February 2025 so we'll see what executive orders are signed today and throughout the year.

**Rich Hightower | Barclays**

Got it. Thanks for the comments.

**Operator**

Thank you. And the last question comes from Haendel St. Juste at Mizuho. Please go ahead.

**Haendel St. Juste | Mizuho**

Hey, guys. Thanks for squeezing me in. Two quick ones for me. First, I wanted to follow up on the earlier comments on the 50 basis points of credit reserve. I was hoping you could add some color on ballpark exposure to not just Big Lots but also to Joann's, Party City, Family Dollar. I guess I'm trying to get a better sense of the categories and tenants specifically in the portfolio you're watching a bit more closely here. Thanks.

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

Yeah, Haendel, it's really the Big Lots scenario as this continues to play out. We have two Party Cities in the portfolio that we'll be thrilled to get back. One is that a Target-anchored shopping center in Davenport, Iowa and one is in Texas in Port Arthur. We'd be thrilled to get those back and have tenants lined up and waiting. We don't own any Joann's. Not sure, frankly, why anyone would in today's environment in a net lease structure. Probably the worst retail bankruptcy of all time. All the stores were making money. Nine months later, we file again. We didn't even reject one lease. We expect them to effectively liquidate at this point just to inure Hobby Lobby, who's our favorite. But that's, I mean that's really it. A couple of movie theaters we're always watching. I saw the Oscars come out. I don't know one of the best titles, so that always concerns me. One of the best films, didn't see any of them. Besides that, we're in a great place.

**Haendel St. Juste | Mizuho**

Got it. Got it. I appreciate that. I also wanted to ask about what you might be hearing about the potential impact of tariffs to some of your tenants. I was looking at some of your tenant categories like home improvement, auto parts, farm supply and was curious if you think that they could be more at risk, because a number of them have items that are produced/assembled in Mexico, Canada, China, and so

curious how that might be impacting your thinking and maybe your underwriting in some of these categories.

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

Look, the non-stop tariff talk, which doesn't appear to be going anywhere, is going to affect effectively all consumer categories and retail categories today and ultimately flow down to the consumer. That's the bottom line, whether it's Bill Ford talking about cars or any other components that are manufactured and/or imported into this country. The good news is that most retailers, the national retailers, due to the first Trump presidency and the tariffs, they really diversified their sourcing. And so coming from now it seems like only Australia won't have tariffs. Looking across their global procurement efforts, TJX, for example, which would be a beneficiary from these tariffs, because I think you'll see trade down has, I believe, it's 16 global, purchasing offices in 16 countries around the globe. Those efforts that came from the 2016 administration and those tariffs hopefully, and I think did, give, frankly, retailers the opportunity to diversify their procurement sources and their purchasing.

That said, ultimately, tariffs flow down to the consumer unless retailers want to eat it at the margin. We have the biggest retailers in the country in our portfolio for a reason. They have the liquidity and the balance sheet to invest in labor, to invest in price, which directly can be, right, related to tariffs. Walmart can choose, TJX can choose not to move price and to take share. Now if I'm a small middle market retailer and I'm subject to those tariffs and I don't have a multibillion-dollar balance sheet, I'm going to have to pass that through somehow or find some savings in SG&A. And so look, tariffs will continue to be in the news, the impact of them, we're going to see what those are as they work through and they get resolved, but it will be the small middle market retailers that suffer the greatest consequences from any tariffs here.

**Haendel St. Juste | Mizuho**

Appreciate the thoughts. Thanks, guys.

**Operator**

Thank you. And the last question now is from Omo Cayo, an investor. Please go ahead.

**Sam Ohiomah | Deutsche Bank**

Hello?

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

Tayo? We hear you.

**Sam Ohiomah | Deutsche Bank**

Hey. This is Sam on for Tayo. I just wanted to ask you guys if you can give us an update on some of the retail categories experiencing headwinds, specifically talking about dollar stores and on pharmacies.

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

We saw CVS' print this morning which beat guidance and a strong outlook for 2025. That's just CVS specifically. The pharmacy sector, obviously—if you look year over year, pharmacy for us is down 10% almost. That's without any material dispositions year over year. And so those sectors that were in the news will continue to experience some of those headwinds, absent, obviously, some macroeconomic changes. We'll continue to invest in what we think are the best retailers in a recession-resistant environment, same sticking to our sandbox. So you won't see us move into experiential. You won't see us ramp our dollar store exposure. That's just going down every single day. You won't see us increase our pharmacy exposure. We're focused on the best and brightest categories in our opinion, whether that's off-price, general merchandise, Walmart, tire and auto service, auto parts like we talked about earlier,

dominant grocers in this country such as Kroger, all the Wegmans, HEB, Publix. We'll be focused on the best of the best here and we're going to let really everything else shake out.

**Sam Ohiomah** | Deutsche Bank

Right. That makes sense. And I guess the last question, I hope I didn't miss it, but are you guys seeing anything change from your watch list to tenant credit perspective?

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

No. As I mentioned earlier, we're just continuing to navigate and watch. We really can't do much through this Big Lots bankruptcy with the few Big Lots that we have. With the next lease auction they continue just to go through different hands but our portfolio, we feel like, is in great shape.

**Sam Ohiomah** | Deutsche Bank

All right. That's all I've got. Thanks, guys. I appreciate the time.

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

Thank you.

**Operator**

Thank you. We have no further questions. I will turn the call back over for closing comments.

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

Thank you all for joining us this morning. We look forward to seeing you at upcoming conferences and we appreciate everybody's time. Thanks again.

**Operator**

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and we ask that you please disconnect your lines.