EDITED TRANSCRIPT

Agree Realty Corporation's
Second Quarter 2015 Earnings Conference Call
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CONFERENCE CALL PARTICIPANTS

Collin Mings; *Raymond James & Associates*
Wilkes Graham; *Compass Point Research & Trading*
Rob Stevenson; *Janney Montgomery Scott*

PRESENTATION

Operator
Good morning, ladies and gentlemen, and welcome to the Agree Realty Corporation's second-quarter 2015 earnings conference call. During today's presentation, all parties will be in a listen-only mode.

Following the formal presentation, the conference will be open for questions. As a reminder, this conference is being recorded. It is now my pleasure to introduce Joey Agree, President and Chief Executive Officer of Agree Realty Corporation. Mr. Agree, you may begin.

Joey Agree *Agree Realty Corporation - President & CEO*
Thank you, operator. Good morning, everyone. And thank you for joining us for Agree Realty's second-quarter 2015 conference call. Joining me today is Brian Dickman, our Chief Financial Officer, as well as Ken Howe, who will step in as Interim Chief Financial Officer on August 4th.

For those of you that aren't familiar with Ken, he has been with the Company since our IPO in 1994 and served as Chief Financial Officer for over 16 years until late 2010. Since that time, he's remained on board as our Director of Tax. Ken has a very long history and deep understanding of the Company.

I am very pleased to report our second-quarter results and believe that our performance further establishes the unique capabilities of our retail net lease platform. During the quarter we continued to scale the Company by sourcing attractive real estate investment opportunities that also remain focused on actively managing the existing portfolio and maintaining a strong credit profile.

The result was record year-over-year per-share FFO as well as AFFO growth, 35% revenue growth, and the third dividend increase in the past six quarters.

At the end of the quarter our real estate portfolio consisted of 250 properties located in 41 states and encompassing over 4.9 million square feet of gross leasable area. As of June 30th, the total portfolio had a weighted average remaining lease term of 11.8 years, and investment-grade retailers generated 53.4% of annualized rent.

Excluding the five remaining community shopping centers, the net lease portfolio had a weighted average remaining lease term of 12.2 years, and investment-grade retailers generated 56.2% of annualized rents. At quarter end, the portfolio was 99.4% occupied. These metrics reflect the high-quality nature of our portfolio that continues to be among the strongest of its peers.

On the acquisition front, during the second quarter we acquired 19 properties net leased to 14 retail tenants, operating in 11 ecommerce-resistant sectors. These properties are located in 11 states and are occupied by leading national and super-regional retailers, several of which are new to our portfolio including Aaron's, HEB, IHOP, KeyBank, Maurices, Party City, and Sleepy's.

The weighted average cap rate on our second-quarter investments was 7.9%. And the weighted average lease term was 12.5 years. Year to date we have acquired 47 properties for a total purchase price of approximately $126 million. These properties were acquired at a weighted average cap rate of just over 8%.

We remain on track to achieve our targeted 2015 acquisition volume of $175 million to $200 million and are currently conducting diligence on a number of opportunities including potential investments in the apparel, auto service, casual dining, crafts and novelties, health and fitness, home furnishing, and specialty retail sectors among others.

We also continue to make significant progress on our two additional external growth platforms, development and growth venture capital solutions. As we recently announced, we've closed on a parcel of land in Salem, Oregon that will be the site of a new Cash & Carry Smart Foodservice store. The project is expected to be completed during the first quarter of 2016 and has a total cost of approximately $5.8 million.

Cash & Carry will operate under a 15-year net lease as part of a larger shopping center shadow anchored by Walmart. This is our third project with our partner, Real Estate Affiliates, and we are please to get another exciting opportunity kicked off.

We also just recently announced a project in Springfield, Ohio where the Company will be developing a Hobby Lobby store. This is our second such project with Hobby Lobby. Total costs are anticipated to be approximately $5 million, and we expect to complete the project by the second quarter of 2016.

The development is located in a fantastic trade area, once again, shadow anchored by a Walmart Super Center in addition to a number of major retailers including Home Depot, Lowe's, Meyer, and Kohl's among others.

We are also very close to announcing an additional development project with a leading convenience store operator and expect to be in a position to provide further details in the next 45 days.

The outlot development in our Capital Plaza shopping center continues to proceed on track. We have executed a 20-year ground lease with an industry-leading fast food operator who will build and construct their own restaurant. The tenant is currently in their permitting period and the transaction is still subject to customary approvals.

At our North Lakeland shopping center, we are nearing execution of a lease with an industry-leading coffee retailer to construct a free-standing facility at a newly created outlot. While both of these opportunities are subject to customary diligence and closing conditions, we are excited about their prospects and look forward to being able to discuss them in greater detail in the coming weeks.

In total, our near-term development and JVCS pipeline is approximately $15 million with anticipated returns of approximately 9%.

Turning to asset management, we were very active during the second quarter on both on the disposition and leasing fronts. We sold three properties for gross proceeds of $8.2 million including a Kmart anchored shopping center in Marshall, Michigan, a former Borders store in Laurence, Kansas, and an outlot to our Meyer's store in Plainfield, Indiana.

We remain on track to achieve our previously stated goal to raise at least $25 million through dispositions this year via sales of both non-core community shopping centers and select net lease assets.

While we remain focused on scaling the portfolio, we are also continuously evaluating all of our real estate assets and will consistently pursue the disposition of properties that do not meet our objectives.

During the second quarter, we executed new leases or lease extensions on over 106,000 of square feet on existing space within the portfolio. Most notable were J.C. Penney's five-year extension to October

2020 at Central Michigan Commons, as well as 10-year lease extensions to February 2020 and February 2029 for Walgreens properties in Waterford, Michigan and Grand Blanc, Michigan respectively.

The Walgreens extensions were made possible by the previous prepayment of a secured loan in January of 2015 that unencumbered the properties. We also completed a 10-year lease with Planet Fitness to occupy a previously vacant space at Central Michigan Commons.

Lastly, we had an active quarter in the capital markets. We executed on our first [debt] private placement transaction, and also put in place at-the-market equity offering program. These are two additional sources of capital for the Company that we now have in our tool belt.

We certainly have a few objectives here -- reduce our overall cost of capital and improve our efficiency when raising capital, maintain our overall balance sheet strength and continue to preserve asset-level flexibility and long-term tenor.

As we begin the second half of 2015, we are excited about the potential for our platform to continue creating outstanding value for our shareholders. The market remains competitive, but we are confident that our distinct approach to retail net lease real estate will continue to produce superior investment opportunities.

With a first-class portfolio and a clean balance sheet, we are well-positioned to take advantage of those opportunities as they arise. With that, I'll turn it over to Brian to discuss our financial results.

Brian Dickman Agree Realty Corporation – CFO

Thanks, Joey. Good morning, everyone. As a reminder, please note that during this call we will make certain statements that may be considered forward-looking under federal securities law. Our actual results may differ significantly from the matters discussed in any forward-looking statements.

In addition, we discuss non-GAAP financial measures including funds from operation, or FFO, and adjusted funds from operations, or AFFO. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in our earnings release.

As announced yesterday, for the second quarter of 2015, we reported total rental revenue of $16.1 million, an increase of 35% over Q2 2014. FFO for the quarter was $11.1 million, an increase of 37%. And AFFO was $11 million, an increase of 33%, both over second quarter of 2014.

On a per-share basis, FFO of $0.62 was an increase of 14.8% over Q2 of 2014. And AFFO of $0.62 was an increase of 12.7%. It's prudent to note that our results were enhanced by carrying a larger than normal balance on our revolving credit facility throughout the quarter.

This was due to having committed financing in place related to our private placement of unsecured notes, and added approximately $0.02 to $0.025 per share to FFO and AFFO as compared to having a more normalized capital structure with permanent debt in place and reduced usage of our revolver.

Adjusting for more normalized capital structure would have still yielded FFO and AFFO of per-share growth of over 10% and over 8% respectively, which we are very pleased with.

G&A expenses were approximately 10.1% of total revenue for the quarter as compared to 12.5% in Q2 of 2014. For the full year 2015, we expect G&A as a percentage of total revenue to be less than 10.5%. In 2016, we anticipate G&A as a percentage of total revenue to be in the single digits. This would represent a 600-basis point improvement since 2011 as we continue to gain operating leverage as the Company scales.

Moving on to the balance sheet. As Joey mentioned earlier, we are quite active in the capital markets this quarter, implementing a $100 million ATM program, and issuing $100 million of senior unsecured notes in a private placement transaction.

We utilized the ATM to raise approximate $13.9 million of gross equity proceeds during the quarter, and believe this program will be an effective complement to traditional follow-on equity offerings as well as targeted asset sales as we look to minimize our cost of capital.

The $100 million of senior unsecured notes were issued in two tranches, $50 million of 10-year notes at 4.16%, and $50 million of 12-year notes at 4.26%. We're very happy with this transaction, and think that the blended term of 11 years and blended coupon of 4.21% represent attractive long-term debt capital.

The Company continues to maintain a strong credit profile. Total debt to total market capitalization at June 30th was 37.2%. And debt to recurring EBITDA was 5.4 times. These metrics are well within our targeted leverage levels.

Fixed-charge coverage, which includes principal amortization, remained robust at 3.9 times. From a liquidity standpoint, we had $135 million of capacity on our revolver at the end of the quarter. The Company has no debt maturing in 2015 and only $8.6 million coming due in 2016.

Finally, as Joey mentioned earlier, our Board of Directors increased the dividend to $0.465 per share in the second quarter, or $1.86 on an annualized basis. This was the 85th consecutive cash dividend paid since our IPO in 1994.

Our payout ratios for the quarter, which were 75% of both FFO and AFFO, are at the low end of our target range and [imply] a very well-covered dividend.

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

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

Thank you, Brian. Again, I am extremely pleased with our performance for the quarter. We delivered record earnings growth while continuing to execute on unique real estate investment opportunities that complement our best-in-class net lease portfolio.

We remain focused on creating long-term value for our shareholders and look forward to building on our success during the second half of the year.

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions) Collin Mings, Raymond James.

Collin Mings*; Raymond James; Analyst*

Hey, good morning, guys. A couple of questions. I think as far as the first question from me, it's just on the guidance – it really sounds like it's unchanged at that $175 million to $200 million range. Should we interpret that, Joey, as you seeing a slowdown in the back half of the year? Or is it just you not having a lot of visibility, call it, beyond the next quarter or so?

Joey Agree, *Agree Realty Corporation - President & CEO*
Good morning, Collin. That's a good question. I think it would be the latter. You know, we don't really have visibility truly into the fourth quarter of this year. Most importantly, we're going to continue to stress quality over quantity and continue to underwrite from a bottoms-up approach.

It's easy to acquire assets in the net lease space. It's more difficult to acquire assets that fit within the context of our portfolio. So we're going to continue to stress quality. We've acquired $126 million year to date as announced in the press release and we're going to continue to maintain our investment parameters.

Collin Mings; *Raymond James; Analyst*
Okay. And then I guess just along those lines, call it, average cap rate of the quarter of 7.9%, just as we think about the back half of the year, should we think about that staying fairly consistent based on what you're seeing in the pipeline?

Joey Agree, *Agree Realty Corporation - President & CEO*
Yes, I think consistency is really paramount for us. We've been consistent since we launched the acquisition platform in 2010. And we'll maintain that consistency through the back half of the year.

Collin Mings; *Raymond James; Analyst*
Okay.

Then, switching gears, Joey -- just comment a little bit on how the CFO search is going, and just what maybe you're looking for as you look to backfill for Brian.

Joey Agree, *Agree Realty Corporation - President & CEO*
Sure. Look, we will undertake, really, an exhaustive and methodical search to find a successor to Brian, whose last day will be Tuesday of next week. Brian has done a fantastic job over the course of the last 18 months. And our goal is to find a successor that can continue to build upon everything that Brian and the team here have accomplished, and will continue to work with us to grow and evolve this company as we move forward.

Collin Mings; *Raymond James; Analyst*
Okay.

And then, I guess another one, Joey -- just curious your thoughts, as it relates to Darden expecting, call it, a 5.5% cap on some of the properties it's looking to sell. What do you think that type of pricing -- at least, that type of expectation for pricing -- says about the acquisition market right now? And is that really just kind of being driven by demand from 1031 buyers? Just trying to connect the dots between the cap rates that they're highlighting versus what you're transacting at.

Joey Agree, *Agree Realty Corporation - President & CEO*
Yes, that's a great question. As I've commented previously before, we're probably -- and we take pride in it -- the worst indicator of the net lease market in the space. That said, there is obviously a lot of capital in the space, a lot of capital that has return requirements that are obviously well below ours.

I would tell you that you really have to look at the price point of those assets to really determine who the buyer pool is. I would anticipate Darden's expectation of mid-5s in terms of cap rates is driven by private 1031 purchasers, inclusive of 1031 purchaser and private capital. I can't imagine any REIT owners or institutional capital acquiring Darden assets at those cap rates.

Collin Mings, *Raymond James - Analyst*
Okay. No, that's helpful.

Then, just one last one from me, as far as the ATM in place now, how much equity do you think you can raise in any given quarter, just in context of the liquidity of your stock?

Joey Agree, *Agree Realty Corporation - President & CEO*
That's a great question. I think obviously, the ATM is still new for us. I think we're going to use the ATM selectively. We're going to use it obviously to reduce our overall cost of capital, our cost of equity capital and also to improve the timing and efficiency of raising capital.

We are, really, by definition an aggregator of assets. And to be able to raise capital more contemporaneously with the deployment of that capital, obviously, provides some efficiency.

I think it will remain to be seen how effective the ATM is. We're going to be selective. When we do deploy the ATM, we will keep it in line with trading volume on any given day.

Collin Mings, *Raymond James - Analyst*
Okay. Well, I guess, maybe thinking about that -- so in context, I think it was $14 million or so, or just shy of $14 million in the second quarter. Should we think about calling in that $10 million to maybe $20 million in any sort of quarter?

Joey Agree, *Agree Realty Corporation - President & CEO*
Yes, look, I think the lower end of that is reasonable. Again, I think we're going to continue to learn how effective that platform and that tool can be. Most importantly, we put it in our tool belt during the quarter. As you mentioned, we were able to raise a little over $14 million.

I think the effectiveness of it -- we'd have to kind of look forward into the crystal ball. We don't really control that -- we don't really control both sides of that equation. But I think the lower end, the $10 million dollar range of the EAM, probably makes sense.

Collin Mings, *Raymond James - Analyst*
Okay. Thanks, Joey. And good luck, Brian, in your new position.

Brian Dickman, *Agree Realty Corporation - CFO*
Thanks, Collin.

Joey Agree, *Agree Realty Corporation - President & CEO*
Thanks, Collin.

Operator
Wilkes Graham, Compass Point.

Wilkes Graham; *Compass Point; Analyst*
Good morning, Joey and Brian. And Brian, good luck at Seritage.

Brian Dickman, *Agree Realty Corporation - CFO*
Thanks, Wilkes.

Joey Agree, *Agree Realty Corporation - President & CEO*
Good morning, Wilkes.

Wilkes Graham*; Compass Point; Analyst*
Good morning.

I think Collin asked most of my questions. But I think the only real question I have is -- do you think that, at least in the near term, you can fund your acquisition strategy with asset sales and with the ATM, as opposed to outright common equity raises, given, as you said, you don't have control over the stock price? Just curious, how far can you take your acquisition strategy in the future with those tools, or perhaps with other tools, such as other private raises?

Joey Agree, *Agree Realty Corporation - President & CEO*
Yes, look, that's a great question. There are obviously multiple inputs to that equation. The amount of proceeds that we raise from dispositions -- we've given guidance for the $25 million this year. We've already transacted or disposed of over $9 million. So I think that will be a significant factor.

And then, on the flipside -- I'll put the ATM aside -- how the pipeline materializes y for Q4 of this year. We have some visibility into the remainder of the Q3 pipeline. But Q4 is off in the distance still.

So I think it is feasible for us to raise those proceeds, both via the ATM as well as disposition activity. It will be highly dependent upon also acquisition activity on the other side.

Wilkes Graham*; Compass Point; Analyst*
Great, thank you.

Joey Agree, *Agree Realty Corporation - President & CEO*
Thanks, Wilkes.

Operator
(Operator Instructions) Rob Stevenson, Janney.

Rob Stevenson*; Janney Montgomery Scott; Analyst*
Joey, when you think about all of the developments and the potential developments that you talked about earlier, what's the overall capital commitment at the high end that you think about over the next six to nine months on the development side, both between the joint venture and the straight ADC development?

Joey Agree, *Agree Realty Corporation – President & CEO*
We've talked previously, and we discussed in this call, about the $15 million near-term development pipeline. We obviously recently released the Hobby Lobby as well as the Cash & Carry projects, and given a little bit more color on two new developments at North Lakeland and Capital Plaza. I will tell you, that number, looking out six to nine months, obviously includes that $15 million. And then it would be upside from there.

I will tell you that in our shadow pipeline there are some exciting opportunities with existing retailers as well as new potential entrants to our portfolio. And we'll see -- we don't control the entitlement pace, we don't control the pace at which tenants approve projects. But there's exciting opportunities that we hope to get announced in 2015, if not early in 2016.

Rob Stevenson*; Janney Montgomery Scott; Analyst*
And does that bring you more into the sort of $45 million, $50 million range? Or is it significantly smaller than that, if some of those things were to hit? I'm trying to think about what the upward end of a development pipeline in aggregate could wind up being for you guys, if everything starts to hit.

Joey Agree, *Agree Realty Corporation – President & CEO*
Well, I think that would be a high number in terms of the short term. If we look out medium and long term, our goal is to continue to grow and to scale all three of our external growth platforms. So acquisitions, development, as well as joint venture capital solutions -- we think we have the ability over the medium term to materially scale the latter two there.

So we've grown the acquisition platform to the guidance of $175 million to $200 million this year. Our goal also is to continue to scale organic development as well as joint venture capital solutions. And the team here, the development team, is working diligently to do so.

So they're in conversations with some new and exciting tenants, as well as existing tenants. How quickly we are able to scale that will be frankly project- and relationship-specific.

Rob Stevenson*; Janney Montgomery Scott; Analyst*
Okay.

And then, just lastly -- when you think about the balance sheet today, it's in pristine shape. I mean, what's the sort of level, without corresponding equity, of additional debt issuance that you guys would feel comfortable with in the near term?

Joey Agree, *Agree Realty Corporation – President & CEO*
Yes, from a debt-to-recurring EBITDA perspective, we've always said that our target is really five to six times. We're right in the middle at 5.4 times at quarter end. So we're right in the middle of that targeted range. We feel good about where we are. We don't have any preferred in the capital stacks, so our coverage is very strong across the board.

So we're right in the middle of that target range right now. Obviously, we'll have some acquisition activity and capital deployed via the joint venture as well as development platforms, and then hopefully some dispositions as well as a funding source.

Rob Stevenson*; Janney Montgomery Scott; Analyst*
Okay. Thanks, guys.

Joey Agree, *Agree Realty Corporation – President & CEO*
Thank you.

Operator
Having no further questions, this concludes our question-and-answer session. I would like to turn the conference back over to Mr. Agree for any closing remarks.

Joey Agree, *Agree Realty Corporation – President & CEO*
Well, thank you. That about wraps it up.

Again, I'd like to thank everybody for joining us. And we look forward to speaking with you upon our third quarter results.

Thanks, everybody.

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