



Agree Realty Corporation's  
Third Quarter 2024 Earnings Conference Call  
Wednesday, October 23, 2024, 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

**Nick Joseph** | Citigroup

**Brad Heffern** | RBC Capital Markets

**Ronald Kamdem** | Morgan Stanley

**Eric Borden** | BMO Capital Markets

**John Kilichowski** | Wells Fargo

**Linda Tsai** | Jefferies

**RJ Milligan** | Raymond James

**Joshua Dennerlein** | Bank of America

**Michael Goldsmith** | UBS

**Rob Stevenson** | Janney Capital Markets

**Ravi Vaidya** | Mizuho

**Spenser Allaway** | Green Street

**Upal Rana** | KeyBanc Capital Markets

## PRESENTATION

### Operator

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

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

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

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

Please note that during this call, we will make certain statements that may be considered forward-looking under federal securities law. Our actual results may differ significantly from the matters discussed in any forward-looking statements for a number of reasons. Please see yesterday's earnings release and our SEC filings, including our latest Annual Report on Form 10-K, for a discussion of various risks and uncertainties underlying our forward-looking statements.

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

I'll now turn the call over to Joey.

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

Thanks, Reuben and thank you all for joining us this morning.

Before running through our standard update, I'd like to take a step back to provide our perspective on the current state of the market and how we have taken steps to proactively fortify our balance sheet and portfolio in this dynamic environment.

As the markets have readjusted to changing expectations around inflation and employment, our cost of capital has improved significantly. We've been able to capitalize on this shift, bolstering our fortress balance sheet during the quarter with nearly \$470 million of forward equity raised via our ATM program. This brings our total outstanding forward equity to approximately \$725 million with total liquidity approaching \$2 billion. We now enjoy significant runway to execute on our growing pipeline into 2025 without any equity capital needs.

At quarter end, leverage stood at just 3.6 times proforma net debt to recurring EBITDA. During the quarter, S&P upgraded our credit rating to BBB+ while recognizing the strength of our balance sheet and high-quality nature of our portfolio.

We continue to maintain a high level of discipline in our underwriting process. This patient approach has paid off as we've been able to capitalize on distressed sellers while leveraging our asymmetric data sets and relationships to identify unique opportunities. Our team's continued efforts to create value and identify these opportunities, combined with our improved cost of capital, have opened a larger opportunity set, and resulted in accelerated deal flow.

Given these market dynamics and our well-positioned balance sheet, we are increasing our acquisition guidance to approximately \$850 million for the full year. With that said, we will continue to be disciplined capital allocators and maintain our stringent real estate quality underwriting standards. Our portfolio and pipeline remained balanced with a variety of differentiated opportunities.

Given our liquidity profile, balance sheet and portfolio performance, we have raised the lower end of our AFFO per share guidance to a range of \$4.12 to \$4.14 for the year. This represents approximately 4.6% year-over-year growth at the midpoint. Peter will provide more details on our guidance momentarily.

Turning to our three external growth platforms, during the third quarter, we invested approximately \$237 million in 93 high-quality retail net lease properties across our three external growth platforms. This includes the acquisition of 66 assets for over \$215 million. The properties acquired during the third quarter are leased to leading operators operating in sectors including general merchandise, warehouse clubs, home improvement, auto parts, tire and auto service, as well as grocery stores.

During the quarter we executed on an array of transactions including the acquisition of three high-performing Walmart and Sam's Club stores, located in Elmsford and Kingston New York, as well as Anderson, South Carolina, further expanding upon our relationship with the largest retailer in the U.S. Also included in the quarter were select off-market sale leasebacks with relationship tenants with whom we continue to enjoy a strong partnership.

The acquired properties had a weighted-average cap rate of 7.5%, a 60-basis point increase year-over-year, and a weighted-average lease term of 9.8 years. Investment grade retailers accounted for over 60% of the annualized base rent acquired. As a reminder, we do not impute credit ratings for non-rated issuers.

Through the first nine months of the year, we've invested nearly \$580 million across 176 retail net lease properties spanning 40 states and 26 retail sectors. Approximately \$525 million of our investment activities originated from our acquisition platform. I anticipate that the upcoming quarter will be our most active of the year.

During the third quarter we commenced eight development and Developer Funding Platform (“DFP”) projects representing total committed capital of approximately \$34 million while completing six projects with total costs of \$19 million. In total, we had 33 projects either completed or under construction during the first nine months of the year, representing \$135 million of committed capital, inclusive of the approximately \$88 million deployed through September 30<sup>th</sup>. Our pipeline for both of these platforms continues to grow significantly, mirroring our efforts to solve the continued challenges that both our retail partners and merchant developers have in bringing new stores to fruition.

On the asset management front, we executed new leases, extensions or options on approximately 785,000 square feet of gross leasable area during the quarter including a 211,000-square foot Walmart Supercenter in Ohio, and a 70,000-square foot Marshalls & HomeGoods in Secaucus, New Jersey.

As a result of our asset management team’s efforts, our 2024 lease maturities now stand at just three leases representing less than 10 basis points of annualized base rents. During the quarter we also opportunistically disposed of two properties for total gross proceeds of over \$7 million, with a weighted-average cap rate of 5.8%. Both of these non-core dispositions were Florida-based assets, which continue to command a strong bid from 1031 capital.

Given the questions that we’ve received, I wanted to address the status of our existing Big Lots stores post filing for Chapter 11 bankruptcy. As discussed before, we have limited Big Lots exposure with less than 40 basis points of annualized base rent as of quarter end, paying just over \$6 per square foot on average which should provide upside in the event of rejection given our confidence in the underlying real estate.

Only two of our stores have been rejected to date, Manassas, Virginia and Grand Rapids, Michigan. We purchased the Manassas lease at auction, effectively terminating it, and have executed a letter of intent with a leading operator in the discount retail space with an anticipated recapture of over 150% on net effective rent. We are negotiating multiple letters of intent for our Grand Rapids, Michigan location which should result in a strong recapture rate as well. We look forward to providing further updates in the coming quarters on our progress driving value via our leasing capabilities.

Similar to Bed Bath & Beyond, Big Lots is another example of our ability to recapture embedded value within the portfolio when credit issues infrequently arise. This is a testament to our disciplined bottoms up real estate underwriting approach and proactive asset management efforts. Our best-in-class portfolio now spans over 2,270 properties across all 49 continental states, including 223 ground leases comprising nearly 11% of annualized base rents. Our investment grade exposure at quarter end stood at 67.5% 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 quarter in the capital markets, raising nearly \$470 million of forward equity and upsizing our revolving credit facility to \$1.25 billion.

In July, as Joey mentioned, S&P upgraded our issuer rating to BBB+ from BBB with a stable outlook. The improved investment grade credit rating is a testament to the strength of our balance sheet and reflects the thoughtful and disciplined manner in which we’ve grown the Company. Since achieving our initial rating over four years ago, we’ve tripled the size of our best-in-class retail portfolio while simultaneously increasing our investment grade concentration and deleveraging our fortress balance sheet.

We also entered into \$200 million of forward starting swaps during the quarter, effectively fixing the base rate for a contemplated 10-year unsecured debt issuance at approximately 3.7%. Combined with our outstanding forward equity, this provides us with \$925 million of hedged capital to fund investment activity into 2025.

During the quarter we sold over 6.6 million shares of forward equity via our ATM program, raising net proceeds of approximately \$470 million. As of September 30<sup>th</sup>, we had approximately 10.8 million shares remaining to be settled under existing forward sale agreements, which are anticipated to raise net proceeds of \$725 million upon settlement.

Additionally, as previously announced, we recast our revolving credit facility, increasing commitments from \$1 billion to \$1.25 billion. The facility 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 September 30<sup>th</sup>, we have north of \$1.9 billion of total liquidity, including \$1.2 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 3.6 times, which is down half a turn from last quarter. Excluding the impact of unsettled forward equity, our net debt to recurring EBITDA was 4.9 times. Our total debt to enterprise value was approximately 25%, while our fixed charge coverage ratio, which includes principal amortization and the preferred dividend, is very healthy at 4.5 times.

We had de minimis floating rate indebtedness of only \$49 million at quarter end consisting of our revolver balance, and as a reminder, we have no material debt maturities until 2028. We are very well positioned to execute on our pipeline and stay well within our stated leverage range without raising any additional uncommitted capital.

Moving to earnings, Core FFO for the third quarter was \$1.01 per share, representing a 2.2% year-over-year increase. AFFO per share for the third quarter increased 2.8% year-over-year to \$1.03.

As Joey mentioned, we have increased the lower end of our full-year 2024 AFFO per share guidance range to \$4.12 to \$4.14, representing approximately 4.6% year-over-year growth at the midpoint. We provide parameters on several other inputs in our earnings release, including acquisition and disposition volume, general and administrative expenses, non-reimbursable real estate expenses, plus income tax and other tax expenses.

As a reminder, the treasury stock method impact is included in our diluted share count prior to settlement if ADC stock trades above the net price of our outstanding forward equity offerings. The aggregate dilutive impact related to these offerings was over a penny in the third quarter. Our updated guidance range contemplates similar treasury stock method dilution in the fourth quarter if our stock continues to trade near current levels. Under that scenario, again assuming a stock price in line with current levels, we anticipate treasury stock method dilution will have an impact of over one penny on AFFO per share in the fourth quarter.

Our guidance further demonstrates our ability to drive consistent earnings growth, which supports a growing and well-covered dividend. During the third quarter, we declared monthly cash dividends of 25 cents per common share for each of July, August and September. On an annualized basis, the monthly dividends represent a 2.9% increase over the annualized dividend from the third quarter of 2023.

Our dividend is very well covered with a payout ratio of 73% of AFFO per share for the third quarter. Subsequent to quarter end, we increased the monthly cash dividend to 25.3 cents per common share for October. The monthly dividend equates to an annualized dividend of almost \$3.04 per share and represents a 2.4% year-over-year increase.

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

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

Thank you, Peter. With a robust and growing investment pipeline and nearly \$2 billion in liquidity, we are in tremendous position to execute in the fourth quarter and into 2025. At this time, operator, we will open it up for questions.

---

## QUESTIONS AND ANSWERS

**Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) First question comes from Smedes Rose at Citi.

**Nick Joseph | Citigroup**

It's Nick Joseph here for Smedes. Joey, just maybe just starting on the cap rate movement. We obviously saw a 20-basis point sequential decline in the third quarter to 7.5%. The 10-year has obviously moved back up to 4.25% right now. So curious your thoughts on where cap rates could move from here, particularly obviously in the fourth quarter, but just the sensitivity to that movement on the 10-year.

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

Yes. Nick, it's been a pretty wild ride with the 10-year treasury, obviously with everybody eagerly awaiting the Fed rate cut and then the 10-year doing the opposite, obviously, on the yield front here.

So I think -- you saw, as you mentioned, a 20 basis point compression in Q3. We've seen, generally speaking, about, prior to the 10-year elevating in the last, let's say, 30 days, another 60, 55, 60 basis points, we saw about a 20, 25-basis point compression. We'll see some compression in our cap rates in Q4. But I'll tell you that will be focused on only the highest quality opportunities where we leaned into effectively leveraging our cost of capital. I think Q4 will not only be the largest quarter for us of the year, as indicated by our guidance, but it will also be the highest quality quarter for us for the year.

As we move into Q1 now, when Q1 sourcing effectively starts this week, it's going to be interesting to see if sellers' expectations in terms of cap rates and overall asking prices in this environment are going to adjust again given the 10-year backing up to that 4.25%, 4.24% that you mentioned.

So it's moved very quickly. I'll tell you, this market doesn't move, as you're well aware, in unison, given the fragmented nature and small price point nature. But we'll begin pushing back on cap rates once again here with the elevated 10-year yield.

**Nick Joseph | Citigroup**

Thanks. That's helpful. And then just curious if there's been any changes on the watch list and your thoughts as you talk to tenants on consumer health more broadly.

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

No changes to the watch list. I mentioned in the prepared remarks for Big Lots, we actually purchased the Manassas, Virginia lease, effectively terminating it at auction and are negotiating a lease there where we have a significant recapture opportunity.



And I'll be on the road as early as next week meeting with a number of tenants. Tenants in the sectors that we are effectively focused, the nondiscretionary, nonexperiential and, of course, nonluxury space, are still eager to grow. And those challenges in their growth, given the liquidity challenge, illiquidity in the merchant builder market based on the regional and local banks, provide a huge opportunity for us to continue to step in. Those tenants include the general merchants all the way from Walmart down to large-format C-stores, Wawa, QuikTrip, Sheetz and the like of the world, but then the off-price retailers as well.

We've added a number of TJXs both through the acquisition as well as our development and DFP pipeline. Burlington continues to grow aggressively. Ross continues to grow aggressively. And as I indicated on the last call, this is the first time in my career since pre-GFC that Walmart, Target, Home Depot and Lowe's are all looking to do new stores.

So, in those respective sectors, tenants still want to grow effectively. And I would attribute that less to the consumer environment and, frankly, more to the pendulum swinging back from the years of investment in e-commerce and frankly neglecting the brick-and-mortar experience and now tenants' realization that to fulfill the true omnichannel future that we're headed toward, they're going to have to continue to invest. And that includes adding store counts to their fleet.

### Operator

Next question comes from Brad Heffern at RBC Capital Markets.

### Brad Heffern | RBC Capital Markets

It sounds like the opportunity set has opened up meaningfully. I'm just curious why you think that is. Is that happening because sellers are more confident in where rates and macro are going? Is it happening because they think pricing is going to get significantly better? Or is there some other reason you would point to?

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

It's a great question, Brad. I think there's a multitude of reasons here. Amongst them, we've had a reset. We've had a reset obviously post-COVID and post that low-rate environment that we all enjoyed with free money flying around. So we've had a reset, which effectively flushed out a lot of buyers in this space and brought sellers' expectations to reality.

We've had a reset in terms of the 1031 capital because of the lack of overall commercial real estate transactional activity. And so that number continues to be fractional, and I don't anticipate it increasing.

We've had a reset in our cost of capital, obviously, with the increase in our stock price. So, our cost of capital makes us obviously more competitive in assets that we want to choose. And then we've had a reset in terms of developers' capability as I just mentioned in Nick's question, developers' capability to match retail or store growth just because of the challenges in that market.

And so, as we discussed in the prepared remarks, I'll say our interim goal here medium term is to put \$250 million in the ground through development and our developer funding platform on an annual basis. We see a huge opportunity there, not only in acquisitions, but also to continue to grow our relationships with our sandbox retailers through the production of net new stores for them through those two platforms. And so, it's a whole different world. There are different participants in this world.

We've also seen obviously on the public side different focuses, whether it's international or casinos or experiential or noncredit. And so, it's a very different paradigm we're operating in today than, I'll call it, pre-COVID.

**Brad Heffern** | RBC Capital Markets

Okay. Got it. And then if conditions stay similar to this in 2025, similar cost of capital, similar opportunity sets, similar cap rates, do you think volumes could go back to the levels that you did in, say, 2020 to 2022?

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

Yes. And I think we could put more on the ground, as I mentioned, through the other two external growth platforms. And I think we can continue to take market share.

**Operator**

Next question comes from Ronald Kamdem at Morgan Stanley.

**Ronald Kamdem** | Morgan Stanley

Two quick ones for me. Just going back to the ramp in inactivity. Maybe could you talk about is it just you guys are seeing more shares and so forth? Do you think that the entire market is just there's more product out there? And again, what do you think is driving that?

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

Ronald, it feels like there's more product out there. I don't have any quantitative data. Most of the transactions we do aren't market listed product out there. I'm sure CoStar or one of the services can aggregate the total volume on market or transactions available on market relative to call it 60, 90, 120 days ago.

I would attribute our success more just to our value proposition being understood by retailers, developers, owners and brokers as well, that the ability for us to move quickly, close quickly and act decisively has really, across all three platforms, has really taken hold.

And so it's a pleasure to watch all three platforms. We've invested in all three, most notably this year, development and developer funding platform, all three platforms firing on all cylinders. If we hearken back to the beginning of the year, we started with the do-nothing scenario. We're obviously way far from that today. And frankly, we're doing a whole hell of a lot.

**Ronald Kamdem** | Morgan Stanley

Great. And then I know you said no change to the watch list. One, can you just remind us what bad debt has been year-to-date and what you baked into the guidance?

And would love just some updated thoughts on whether it's pharmacies or some of the furniture or some of the dollar stores -- just three months ago, there was a lot of talk about that. Maybe can you just give us some updated thoughts and how you're thinking about those sectors going forward?

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

Yes. Peter, want to hit the bad debt part?

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

Sure. Ron, in terms of credit loss, we've experienced roughly 30 basis points of credit loss year-to-date, which is slightly above our longer-term average. But overall, the portfolio continues to perform very well. And in instances where we have experienced downtime, such as Bed Bath & Beyond or Big Lots, as Joey mentioned in the prepared remarks, we're seeing very healthy recapture rates, which should bode well for future earnings.



In terms of what's contemplated in guidance at the low end of our guidance range, we're still assuming approximately 50 basis points of credit loss for the year. But at the higher end of that guidance range, we're assuming credit loss that's more in line with our year-to-date average.

#### **Operator**

The next question comes from Eric Borden at BMO Capital Markets.

#### **Eric Borden | BMO Capital Markets**

Joey, with the acquisition market seemingly opening up, in the asset that you're targeting, are you seeing larger portfolio deals come to market? Or is it mainly more singles and doubles?

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

I tell you, it's a myriad of opportunities, single credit portfolios, sale leaseback opportunities, which we anticipate closing in Q4 or into Q1 due to smaller-scale sale leaseback in Q3 here, one-off opportunities directed from retailers, all different types.

So I'll tell you, this is the largest breadth of opportunity set that we've seen that I can recall. And so it's all over the board. I tell you, we're not paying portfolio premiums at this point by any means, but it's really all over the board today.

#### **Eric Borden | BMO Capital Markets**

That's helpful. And then more of a bigger picture question. Just with natural disasters becoming a bigger threat today, how are you thinking about your current exposure to states with higher risk, such as Florida and California? And how has the increasing probability of hurricanes and forest fires affected your thoughts on future acquisitions today?

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

It's definitely impacted. It's part of our underwriting. We're looking in those areas and, frankly, the occurrence or the potential occurrence of natural disasters. We're also looking at it from an insurance perspective.

And so it is definitely at the forefront. Peter has been working actively on the insurance program for 2025 for us, and so it's something that has to be considered. It would be negligent not to. And so if we get into those coastal areas or, as you mentioned, those fire zones, we're going to be pretty careful that we're covering all of our bases. And we're going to have the insurance program in place to make sure that we don't run into any challenges there.

#### **Operator**

The next question comes from John Kilichowski at Wells Fargo.

#### **John Kilichowski | Wells Fargo**

So, I'll start with there's been a fair bit of headline in credit issues in the space this year. How are you thinking about portfolio construction as we move into '25 in terms of changing preferences for top tenant sectors?

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

I think we're in tremendous position. I think what we've been talking about, a lot of these credit issues and in questioning the concentrations from both the tenant and sector perspective.

If you look at pharmacy, for example, we're at 4% pharmacy today. That that number was close to 50% when we launched the acquisition platform. I mean, there's one company that's been harping on Walgreens and divesting of Walgreens here for nearly a decade now.

If you go to our disposition slide and read the prior transcripts, we've been very clear. We'll acquire select CVS pharmacies, specific to the pharmacy space, of course, but select CVS pharmacies in the new world order.

And I think pharmacies are similar to the theaters today. Pharmacies aren't going away. Movie theaters aren't necessarily going away. We're over-pharmaced and we're over-screened in this country. And there are multiple avenues to fulfill your need for a pharmaceutical product or to go watch a movie, whether it's at home on Netflix or in the movie theater or on Apple TV.

And so we're going to continue to operate a balanced portfolio. No sector in our portfolio is over 10%. Grocery is obviously at the top of that list at about 9.4%, followed by home improvement and tire service. The only tenant in our portfolio north of 5% is Walmart, the biggest retailer in the country, which we added, as I mentioned in the prepared remarks, three opportunities and continues to thrive.

So I think ultimately a balanced portfolio, not taking unnecessary concentration risk from a tenant or sector has benefited us. I think that was, frankly, ignored by the investor community, or at least pushed to the side secondarily by the investor community for a while. And the headline risk comes, and bam, people suffer from it.

And so historically, those gray lines have been 5% from a tenant perspective, 10% from a sector perspective. And we've abided by that, absent Walmart, exceeding that 5% number. And we'll continue to operate a well-balanced portfolio with the leading operators in their respective sectors.

#### **John Kilichowski | Wells Fargo**

And on that, so 7-Eleven has been making its rounds with a large portfolio. That sounds like it's being marketed around a 6.5. And then also, 7-Eleven last week announced the closure of 444 stores.

So first part of my question would be, how do you think that kind of price discovery would impact some of your target acquisition verticals on yields going forward? And then two would be, have they communicated to you that any of those closures are yours?

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

To your second question, no. I'll actually be at 7-Eleven with the team next week. To your first question, I would tell you a large-scale sale leaseback that you're referring to doesn't impact price discovery at all.

I think you have institutional capital that is chasing it, will compress cap rates, will pay a portfolio premium to drive the necessary volume that they think is appropriate in their pipeline. But that has no impact on our pricing, our price discovery. Frankly, a transaction of that size would be disproportionate to everything I just spoke of in terms of tenant concentration and sector concentration.

#### **Operator**

Next question comes from Linda Tsai at Jefferies.

#### **Linda Tsai | Jefferies**

Just on the topic of credit, what was it that made S&P want to increase your credit rating to a BBB+? And then does this impact your debt cost of capital?

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

I'll let Peter talk about the impact to the cost of capital. I'll tell you, we think it was a long time coming. And we've been pretty clear with the fixed income market. I think the fixed income market has agreed with us. When S&P initially rated the company, Peter, in -- we were the last meeting they had at the onset of COVID in -- when was that?

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

March of 2020.

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

Yes. March of 2020. We were 1/3 the size. I'll let you take it from here. I'm just going to --

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

Sure. Yes. Linda, to answer your question, we were initially rated back in early 2020. We've since, as I mentioned in the prepared remarks, tripled the size of our portfolio. We've increased the investment grade concentration in our portfolio. We've deleveraged the balance sheet.

So to Joey's point, I think this has been a long time coming. I think we view our credit metrics as indicative, frankly, of a company that's stronger than BBB+. And we're going to continue to maintain a very conservative and well-positioned balance sheet.

In terms of the impact to our debt cost of capital, I think most investors viewed us as, frankly, a BBB+ company before we got the upgrade. And we were on a positive outlook. And so we haven't necessarily seen a material impact to our debt cost of capital from the upgrade alone. But we continue to maintain attractive spreads in the unsecured markets because of the way that we maintain the balance sheet, and we'll continue to do so.

**Linda Tsai** | Jefferies

Thanks. And then, Joey, you always have a good perspective on tenant credit. We're seeing some weakness in the restaurant space. There's a headline this morning that Denny's is closing 150 stores. Can you opine on what's happening with the restaurant chains?

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

I continue to eat at them, not specifically Denny's. But Linda, we've been pretty clear that restaurants are not in our sandbox. Our restaurant exposure is on ground leases. We'll take the building back for free. But specifically, the furniture; the fixtures; the mechanical, electrical and plumbing; the build-outs, all amortized into the rental rates.

In one of the two probably most difficult retail sectors to operate in, the restaurant business is not our forte. Again, we're focused on fungible rectangles here. And generally, those rents are elevated and they're tenant-specific.

And so our focus has not been in the restaurant space. We didn't acquire one in Q3. I don't anticipate us acquiring one in Q4. We'll continue to enjoy the food and stay away from the real estate.

**Linda Tsai** | Jefferies

But any general thoughts on why they might be struggling now?

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

Oh, certainly. I mean, if you look at the elevated labor costs, the constrained consumer at the low end. I mean, there's different value propositions here, but elevated labor costs led by the state of California, elevated consumers.

Also, just the elevated consumer preference, frankly, excuse me, for eating at home, utilizing things such as DoorDash and Uber Eats. Those numbers have not come down to pre-COVID levels. And it's a difficult business, undeniably.

But I would tell you it's just not restaurants. What we're seeing today is a shakeout in that post-COVID free money world of retailers that probably had no value proposition in the first place but had access to cheap capital that elongated their life cycle. And we'll see continued elevated bankruptcies now while they have to refinance their ongoing obligations, and their sales continue to erode. And so, we're going to see that in the pet space, in the office supply space, in the sporting goods space, in the restaurant space.

These are things that were inevitably delayed by free capital or nearly-free capital that was out there. And now we're seeing the shakeout. And so, it's back to capitalism, which I think is healthy.

**Operator**

Next question comes from RJ Milligan at Raymond James.

**RJ Milligan** | Raymond James

Joey, just a bigger picture question as we're looking into 2025. I'm curious where you think the potential upside is from current expectations. Do you think that might be volume, or is it spreads in terms of what the potential upside is next year?

And then same question on the downside. Do you think it's potentially lower-than-expected volume, lower-than-expected spreads or higher credit loss?

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

RJ, I'm not honestly sure where expectations are today. Potentially get a better feel for it after Nareit in Las Vegas, where they are today. We've been focused on closing out 2024 here, including sourcing for the fourth quarter.

I think it's pretty clear we've built the war chest. With nearly \$2 billion in liquidity and a value proposition that's distinct in this space, we're going to execute. What those expectations are, they vary, obviously, across history. What those expectations are today, I'm not truly certain. But I think people can expect more of the same from us.

The second slide in our deck pretty much says it all. And so we are we're going to continue to execute. There won't be any surprises here. And I think that's it. We'll get a sense, obviously, as people turn their attention toward 2025 in the near future, I would assume.

**RJ Milligan** | Raymond James

I guess another way to ask it would be as you think about 2025 and you've often gotten the question as to what keeps you up at night, is it concerns about credit? Is it concerns about where the 10-year moves? What does keep you up?

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

I don't sleep much to begin with. Peter's done a tremendous job from a hedging perspective. We have \$200 million, as he mentioned in the prepared remarks, hedged at 3.7 for anticipated 10-year issuance in 2025. We have \$735 million of forward equity.

And so I'll tell you, the capital side of the balance sheet is not keeping me up. So, the sources are, and I'm very confident, that we're going to be able to find accretive opportunities that are high quality to invest in.

So, there's nothing here that keeps me up at night from a macro perspective. From an internal perspective, I think risk mitigation is critical in that lease. That's driven by having a hedging policy, whether it's forward equity or swaps, not trying to top the market, not trying to wait out for the last dollar or \$2.00 for a share price and then executing on a consistent basis with a strategy that's aligned with where you think the retail consumer is heading with sound underlying fundamental real estate.

And so, as Peter mentioned, Bed Bath & Beyond goes out. We have three of them. Great outcomes. Big Lots files bankruptcy. We buy the lease in bankruptcy. We'll buy them in Manassas. We'll have a 150% lift on a net effective basis, not just a gross basis here.

So, we're in tremendous position to execute for the remainder of this year. And I'm excited about the fourth quarter and 2025. And I think it's always good to have that visibility into your sources and cost of capital heading into the year.

**Operator**

Next question comes from Joshua Dennerlein at Bank of America.

**Joshua Dennerlein | Bank of America**

Joey, maybe just a follow up to John's question earlier. You mentioned getting ahead of tenant issues like Walgreens years before most others. What is it about your process for watching out for companies or sector issues that allows you to do that?

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

Well, I think we have a credit monitoring process in place here that reports, obviously, up through Peter that we're watching not only tenants in our portfolio, but the broader retail market. I wouldn't attribute just the Walgreens perspective to that.

I think if anybody took a step back and looked at the retail pharmacy space in this country for several years now, upwards of a decade, we were overstored. And I've talked about it at length. The front end of the store continued to lose shares, C-stores to Amazon, the back end of the pharmacy itself, generic pressures, alternative means of fulfilling pharmaceutical products, whether it's Walmart or it's Mark Cuban's startup or it's Amazon or any of the supercenters out there. I think it was very clear.

And then when you look at it from a real estate perspective, a 13,000 to 14,000 square foot rectangle is a difficult space to fill. It's a dollar store at the end of the day, generally speaking.

And so, I think the smell test is always probably the best test. Walk the store. Figure out what the value proposition is to consumers, what drives consumers to fill baskets at that store and make in-store or out-store purchases. And frankly, Walgreens hasn't passed that test.

I've said before, I think, on an earnings call. When I need toothpaste, I hit order again. It shows up the next day. And it's pretty efficient. And I don't have to go drive to a pharmacy and find the toothpaste and wait in line.

So really, if you look at the entire retail ecosystem and you say -- and there's lots of concentric circles here and lots of crossover and you look at the retail environment and you say, where else can this be replicated faster, cheaper or more efficiently? Pharmacy fell right in the middle of those concentric circles.

Compare and contrast that now to off price. We're one of TJX's largest landlords. They're our critical partner. We love their business. It's similar to Burlington as well. Where else can you fulfill that bargain hunting experience, whether it's a purse or a shirt or shoes? Where else can you fulfill that today? You can't do it at other retail outlets unless they're in the same sector, off price. You can't fill it online.

And so, again, the lack of competition, the lack of crossover there is critical. And so I think we quickly identified the challenges that Walgreens was facing. And then we also understood that getting that real estate back as opposed to Bed Bath & Beyond or Big Lots, which are paying \$6.00 a foot on marketable rectangles, would pose a challenge. Combine that with cap rates being artificially compressed, we thought, for Walgreens just due to their credit profile years ago, we chose to divest and recycle that capital.

### Operator

Next question comes from Michael Goldsmith at UBS.

### Michael Goldsmith | UBS

Joey, I believe you said that acquisitions in the fourth quarter would be the highest quality of the year. What do you mean by that? I know you always have a focus on tenant quality, but is that attention heightened in the current environment?

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

We've made a concerted effort to utilize our cost of capital advantage in distinct and discrete purposes. And that is to target the highest quality that's from a credit perspective, an underlying real estate perspective. There will be unique transactions with retailers in the quarter.

I anticipate just from optically, from an investment grade perspective, it will be the highest of the year. Weighted average lease term will be the highest of the year in the fourth quarter as well. There are some very unique transactions in the fourth quarter that we're actively working on that we're excited to talk about extending all the way into the first quarter now. So it's a function of the real estate, the store-level performance as well as the tenant credit profile.

### Michael Goldsmith | UBS

Got it. And then the second question is just on the guidance. You brought up the low end of your AFFO guidance, kept the high end.

Is that a function of just it's too late in the year to make a larger impact on the guidance and that all this acquisition activity in the fourth quarter is going to be more reflected in the growth rate in 2025? Is that right?

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

Yes. Anything acquired during the fourth quarter, if you just middle weight it, which is sometimes even difficult to do in the fourth quarter given the holidays, is de minimis in terms of accruing earnings for the year.

Secondarily, if you take the fourth quarter, in Peter's prepared remarks, with the third quarter, we have \$0.02 here of treasury method dilution. Those \$0.02 are incorporated into the guide inclusive of the \$0.01 in the fourth quarter. Peter, anything I missed?



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

No. I think that's right, Joey. Just from a timing perspective, Michael, our acquisitions are actually typically back weighted in any given quarter. Around 2/3 back weighted was the timing that we saw here most recently in the third quarter, which means that a lot of these acquisitions are really going to be closing in December or late November. And we're not going to get significant impact to 2024. To your point, it will be more so 2025.

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

Yes. Just to speak to the treasury method of dilution for a second. We were obviously the first the first company in the net lease space to utilize forward equity. Nearly 90% of equity raised in the space, correct me if I'm wrong, Peter, in the last two to three years has been on a forward basis.

Obviously, the impact to our earnings, because of the accounting methodology, is \$0.02 this year, we anticipate. We're perfectly fine with that.

We think that that is a part of the virtuous cycle of net lease, getting ahead of capital raising needs. And if shareholders make money and we have to take \$0.01 or \$0.02 of dilution due to the treasury method, we are perfectly happy with that scenario.

And so we're not -- again, we're not trying to top the market. We don't have a crystal ball. We're just dumb real estate guys over here. What we are trying to do, again, is get medium-term visibility, utilizing hedging opportunities such as forward equity as well as swaps on the -- forward starting swaps on the 10-year treasury to have that visibility so we can run into 2025 with a full head of steam and not worry about what our cost of capital is going to be.

**Operator**

Next question comes from Rob Stevenson at Janney Capital Markets.

**Rob Stevenson** | Janney Capital Markets

I don't think you've acquired any ground leases year-to-date. Can you talk about what's going on in that market? Is it more of a lack of product, or pricing has been too high that's kept you largely on the sidelines?

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

It's a combination. You'll see ground leases in Q4. We have a number of them in the pipeline currently. But we've been very discerning with what we're going to acquire given that minimum 100-basis point spread that we started the year with on a leverage neutral basis. We weren't going to sacrifice anything even to the tune of 10 or 20 basis points at that point in time. But there are a number of ground leases in the pipeline in Q4. We'll continue to look for them and to source them.

But if you look at the first half of the year, frankly, there wasn't much product on the market. Sellers were extremely hesitant. Buyers, inclusive of us, were extremely hesitant.

So I tell you, it's really the tale of two halves. The first quarter is generally sourced predominantly in the fourth quarter of the prior year. And so it's just a function of timing as well as the market conditions.

**Rob Stevenson** | Janney Capital Markets

Okay. And then how are your theaters doing today versus pre-COVID? Are we getting closer to seeing nonvacant or distressed assets, a normal operating asset, trade at normal cap rates? Or is it still some way out into the future given the stigma in the marketplace on theaters?

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

I don't think it ever comes back. Thank God we don't have too many of them. We had one Regal that went through the bankruptcy that was affirmed. It's a high performer with tremendous underlying real estate. We have one Cinemark that's a high performer and a couple AMCs. But we have no interest in the theater space. And I think anticipating a rebound in the theater space is probably wishful thinking.

**Rob Stevenson** | Janney Capital Markets

Is that something that's sooner or later from a disposition standpoint for you guys?

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

If someone wants to buy a theater, direct them to us. We'd be happy to dispose of one. I don't think there's a real market for movie theaters today.

**Operator**

Next question comes from Haendel St. Juste at Mizuho.

**Ravi Vaidya** | Mizuho

This is Ravi Vaidya on the line for Haendel. You guys have massive liquidity and capacity in a widening opportunity set. But I just want to understand, what's your visibility on 4Q and 1Q right now given any interest rate volatility? Any potential election risks? What's under contract today? And what are the going-in cap rates for under contract?

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

Q4, obviously, as I mentioned, will be the largest quarter for us. We've increased the guidance to approximately 850, so you can deduce what we anticipate approximately in Q4.

Q1, we're just turning on the hose, frankly, this week, given our 70 days or 69 days of letter of intent execution to closing. We do have a couple of transactions already in Q1 that are either on a forward basis. But we'll be watching pricing very astutely here and, again, deploying capital we think that's accretive both to earnings as well as qualitatively accretive to the portfolio. Was there a second question there that I missed?

**Ravi Vaidya** | Mizuho

Anything with election risk? And what are the yields for your -- what do you have under contract in 4Q?

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

4Q, again, not done yet. We'll see when we report fourth quarter or sum up the year, actually, most likely in the beginning of January.

Election risks specifically related to real estate, the 1031 isn't on the table. But I think generally speaking, some of the spending policies out there, some of the tariff proposals that are out there, these are secondary effects, obviously, on fiscal policy and will impact monetary policy. But there's nothing specific to real estate that is on the table historically, such as the 1031 being eliminated or any tax motivation that we see, really, on the horizon.

That said, we have heard from a number of sellers that they're waiting for November 7<sup>th</sup> responses. And you may have to wait for November 9<sup>th</sup> or November 10<sup>th</sup>, actually, see how this election plays out, that they are waiting to see which way the election goes, but no direct policy implications. But you certainly can read into the secondary and tertiary impacts.

**Ravi Vaidya** | Mizuho

Got it. Just one more here. Can you offer any further commentary about the distressed opportunities that you're seeing and how you balance yield and tenant credit when evaluating them?

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

Yes. When we refer to distressed opportunities, generally, these are distressed sellers that have debt to pay off, either asset-specific or non-asset specific.

Or I'll give you an example. In Q3, one of the Sam's Clubs that we acquired that we referenced was in a trust. And the trust was liquidating, obviously -- most likely for tax reasons. So, we're not buying distressed real estate or distressed credit. We're out there targeting, utilizing different data sets, distressed sellers.

**Operator**

Next question comes from Spenser Allaway at Green Street.

**Spenser Allaway** | Green Street

Just going back to the development landscape. Can you just provide some color on construction costs as they've been really topical and then where yields are today?

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

Yes. Spenser, construction costs remain extremely elevated with no end in sight. As I've mentioned in previous calls, construction costs for this country have gone up sequentially year-over-year for the last century while commercial rental rates across sectors have varied. And so we're not seeing any let-up in construction costs. Frankly, they're prohibitive on a number of projects, specifically if the tenant can't absorb it on an ST&L deal.

And I think the secondary real driver here is the lack of liquidity in the regional and local banking system, which finance, generally, merchant builders and developers. And so it's provided us a tremendous opportunity when those costs make sense, but you can't build anything expansive without a TIF here in place or some type of subsidy. But it's provided us a tremendous opportunity to not only step in as an organic developer, which we're doing for a number of retailers, but also to leverage our developer financing platform to step into third-party opportunities and/or bridge the relationship with retailers.

And so as I said, that pipeline is growing. We anticipate next year most likely being if not a record year, close to it, with a medium-term target of putting \$250 million in the ground annually.

**Spenser Allaway** | Green Street

Okay. Thank you. That's really helpful. I was actually going to ask, I know you outlined that annual target. But I was wondering if in the future years, you think that this could tick up. And if not, do you guys have any implied cap on this investment vertical?

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

Yes. Generally, we're looking for a spread over where we can buy like-kind product. And that is based off of the duration and scope of the project.

So, for example, when we work with Gerber or Sunbelt or an off-price retailer, if we can jump into a building, a structure that's existing, modify it, retrofit it, turn it over in 90 days, that spread can go down to 50 basis points. Let's call that a 90 to 120-day project duration. Now we have internal expenses and things like that relative to an average of 70 days closing a stabilized acquisition. If we're going to go

through an extensive entitlement process and this is an 18-month project, you can double or triple that return, that spread there.

So, it's really the scope and duration. Obviously, we're doing credit and lease term and real estate neutral there. But we really price it off of where we can buy stabilized product. That said, when our retail partners get in a pinch, we will step in and help them. We enjoy tremendous relationships. We're amongst the largest, if not the largest landlord for all of our retail partners. And they understand that we view this as, really, a true partnership, not just a landlord-tenant relationship here.

And so those projects, we actually have two more team members joining our development platform, both in construction and development here. One actually joined, and another one joining in the next week. We're scaling it both from a -- continue to scale it, I should say, from a systems, a process as well as a human resource perspective. And we continue to see, really, a flood of opportunities there.

### Operator

And the next question comes from Upal Rana at KeyBanc.

### Upal Rana | KeyBanc Capital Markets

So Joey, your portfolio's investment rate profile has come down in recent years -- in recent quarters. But you've talked about 4Q going to be one of your highest quality acquisition quarters. Do you expect the IG profile to begin to trend higher going forward given your improved cost of capital?

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

Peter, I'm not sure. In recent years, it's come down, you said? I think it's --

### Upal Rana | KeyBanc Capital Markets

In recent quarters.

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

Yes. Recent quarters, you've seen some changes and some deviations. But I'll tell you, let's just take Q3, for example, which was approximately 60% investment grade. The remainder of that 40% -- we don't impute credit ratings with Hobby Lobby, Gerber Collision, you can see their balance sheet, Boyd Group, what are they, 2x lease adjusted leverage?

### Peter Coughenour | Agree Realty Corporation | CFO

Correct.

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

Hobby Lobby, which is a private company with effectively no long-term debt. David Green doesn't really need anybody else's money. He's the owner of Hobby Lobby. He's doing just fine. And then a Giant Eagle, a high-performing Giant Eagle, which is a \$10 billion revenue company, grocer, and doesn't have any.

And so again, credit ratings, to us, are an output of the biggest and best retailers, the majority of them in the country. But we're not going to shy away from Publix or Aldi or Chick-fil-A or Hobby Lobby or any of those -- or Gerber Collision, those leading operators that don't have public debt out there outstanding and have a credit rating.

And so there's a number of retailers that are in our sandbox that don't have credit ratings. There are retailers in our sandbox that are today's sub-investment grade, notably Burlington, a tremendous partner for us. We work across all three platforms with Burlington, most recently upgraded, I believe, one notch

below investment grade, on the trajectory to being a real player, the third player in this off-price space as they surpass their goal of 1,000 stores here.

So that's really not the driver. It's an output for us. That said, as I mentioned earlier, Q4 will be the highest investment grade exposure of the year just due to the complexion of the transactions in the pipeline.

**Upal Rana | KeyBanc Capital Markets**

Got it. Okay. Thanks for the color. And then last one for me. You mentioned a number of tenants in sectors that are growing or want to grow and have mentioned free capital elongating the life of some of these troubled tenants as well. But do you think that we are nearing an end of some of these heightened tenant credit concerns broadly or still have a ways to go?

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

Oh, I think we've got a ways to go. I think we're in the middle innings. But you can look around the retail landscape, and there's a number of third-party agencies, not necessarily Moody's or S&P, that do a tremendous job analyzing their basket size, their ticket size as well as their traffic. But I think we are just in the middle innings here.

I think, again, if you look at the pet space, if you look at the office supply space, if you look at the sporting goods space, the only true category killer where we have gone through a full cycle here is consumer electronics. And that's why we have selected Best Buy, a high investment grade rated company with a true value proposition inclusive of service and the Geek Squad and their health proposition.

CompUSA is gone. HHgregg is gone, all of their historical competition, Circuit City, if you remember them, gone. All of their historical competition is gone.

Now if you look at the other category killers, we haven't seen that. We haven't seen that. Today we still have Petco, PetSmart, Pet This, Pet That. At the end of the day, I think PetSmart is probably the winner. We're not going to increase material exposure there. But we're certainly not going to be investing in Petco. Sporting goods, Sportsman's Warehouse, amongst others, are on the ropes.

And so we're going to continue. The restaurant space, we talked about earlier. General merchants, of course, here. Anyone can follow the malls, but you can also look at Kohl's. If you're a general merchant that doesn't sell food and have no true value proposition to your consumers today, guess what? They're going to off price.

And so there is a lot of attrition that is going to continue to happen. And there's going to be winners and losers. Again, our focus with our sandbox tenant is on those winners.

**Operator**

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

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

Thank you, everybody, for joining us. And we look forward to seeing you in Las Vegas or any of the upcoming conferences. Have a great one. Thank you.

**Operator**

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