EDITED TRANSCRIPT

Agree Realty Corporation's
Second Quarter 2018 Earnings Conference Call
Tuesday, July 24, 2018; 9:00AM ET

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

NYSE: ADC

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PRESENTATION

Operator
Good morning, and welcome to the Agree Realty fourth-quarter and full-year 2017 conference call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Joey Agree, President and CEO. Please go ahead, Joey.

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 2018 Earnings Call and mid-year update. Joining me this morning is Clay Thelen, our Chief Financial Officer.

I'm very pleased to report that we had another very strong quarter, with our team executing across all aspects of our operating strategy. In addition to reporting on our second quarter performance, I look forward to providing a mid-year update, and then lastly welcoming two fantastic additions to our Board of Directors. In conjunction with the call this morning, we have posted a few slides to our homepage as well as sec.gov.

Building upon our momentum from the first quarter, we continued to strengthen and diversify our industry-leading portfolio through strategic investment activity and proactive asset management.

Investment capital deployed across our three external growth platforms in the quarter totaled more than $104 million among 29 high-quality retail net lease properties. Of those 29 investments, 23 were sourced through our acquisition platform, representing total acquisition volume of approximately $102 million. The properties were acquired at a weighted-average cap rate of 7.2% and had a weighted-average remaining lease term of 12.4 years. Notably, more than 61% of the annualized base rent acquired during the quarter is derived from tenants with an investment-grade credit rating.

The acquired properties are located in 16 states operating in 12 diverse sectors, including home improvement, health and fitness, convenience stores, auto parts, and tire and auto service. Notable retailers acquired during the quarter include Home Depot, LA Fitness, Best Buy, O'Reilly Auto Parts and National Tire & Battery.

Through the first six months of the year, we've invested a record $207 million into more than 60 retail net lease properties geographically dispersed throughout 23 states. Of the $207 million invested during the first half of 2018, approximately $201 million was sourced through our acquisition platform. The 53 properties acquired in the first half of the year are leased to 30 leading retail tenants operating in 15 distinct sectors. These properties were acquired at a weighted-average cap rate of 7.2%, with a weighted-

average remaining lease term of 13.0 years. Approximately half of the annualized base rent acquired in the first two quarters comes from retailers with an investment-grade credit rating. Our focus is and will remain on industry leading operators where brick and mortar retail play an integral role in their omni-channel strategy.

Given our record acquisition volume through the first half of the year and our very strong pipeline, we are increasing our 2018 acquisition guidance to a range of $350 to $400 million. Our acquisition team and our many partners have done a fantastic job securing the highest quality opportunities.

While raising our acquisition guidance for the year, I want to reiterate that our investment standards are more rigorous than they have ever been. We remain intently focused on the best operators & on retail real estate fundamentals including adaptability, synergy, visibility, demographics, traffic patterns and access. This focus has further strengthened our best-in-class portfolio, which is of the highest quality it's ever been in the Company's history.

The quality of our portfolio is evidenced by the continued transformation of the Company's top tenant roster. In the past year, Academy Sports, Rite Aid, BJ's Wholesale, 24 Hour Fitness, and Burger King franchisee Meridian Restaurants have all been eliminated from our top tenants list.

This past quarter we are pleased to have added O'Reilly Auto Parts and Best Buy as top tenants in our portfolio. These two leading operators complement the recent additions of the TJX Companies, AutoZone and Dave & Buster's to our top tenants list. You can anticipate that our portfolio will continue to evolve, as we proactively embrace a dynamic retail environment. We intend to lead through this dynamic retail period through the acquisition of the highest quality real estate leased to the strongest omni-channel retailers or those that have a significant moat around their business model.

Turning to our development and Partner Capital Solutions platforms… During the first six months of the 2018, we had ten development and PCS projects either completed or under construction that represent total committed capital of approximately $52 million.

During the second quarter, we completed our third Camping World. The project, located in Grand Rapids, Michigan, is subject to a new 20-year net lease and had total costs of approximately $9.6 million.

The Company also commenced its second project with leading Burger King franchisee TOMS King during the second quarter, with total anticipated costs of approximately $2 million. The project is located in Aurora, Illinois and is subject to a new 20-year net lease.

Construction continued during the quarter on four projects. The developments include the Company's first PCS project with ALDI in Chickasha, Oklahoma; the Company's first project with Burlington Coat in Nampa, Idaho; and the Company's third and fourth developments with Mister Car Wash in Orlando and Tavares, Florida.

While we've had a record six months of investment activity across our three external growth platforms, we've also looked to strengthen and diversify our portfolio through proactive asset management and disposition efforts.

During this past quarter, we sold five properties for gross proceeds of approximately $11 million. These dispositions were completed at a weighted-average cap rate of 7.1%. Included in these dispositions was a Walgreens in Waterford, Michigan as well as a number of franchise fast food restaurants.

Through June 30th, we've now disposed of ten properties for gross proceeds of approximately $28 million and the weighted-average cap rate of these dispositions was roughly 7.3%.

Given our disposition activity through the first six months of the year and our increased visibility into these activities, we are increasing our 2018 disposition guidance to $50 million to $75 million for the year. The increased guidance highlights our commitment to proactively managing our portfolio in alignment with our previously stated goals.

This increase is supported by approximately $12 million in assets held for sale at the end of the second quarter. Subsequent to quarter end, we sold our only Shopko located in Mauston, Wisconsin, thereby eliminating any exposure to the Company. Additionally, post-quarter close we completed the disposition of a Walgreens in Delta Township, Michigan, further reducing our Walgreens exposure which currently stands at 6.7%. This is a decrease of approximately 210 basis points since the second quarter of last year and more than 2,000 basis points since the end of 2013.

Similarly, our pharmacy exposure stood at 10.7% at quarter end and now stands at 10.5% inclusive of the aforementioned sale of the Walgreens in Delta Township. This represents a reduction of approximately 320 basis points since the second quarter of 2017 and almost 2,700 basis points since the end of 2013.

Our asset management team has been focused on leveraging our relationships with our retail partners to proactively address upcoming lease maturities. As a result of these efforts, we have just three remaining lease maturities in 2018 representing 0.3% of annualized base rents. 80% of the annualized base rent expiring this year is attributable to our two Kmart locations in Mount Pleasant, Michigan and Frankfort, Kentucky. Kmart failed to exercise options at both locations and we look forward to the opportunities to redevelop both sites and create additional value.

As I mentioned on last quarter's call, we have executed a 15-year lease with Hobby Lobby in Mount Pleasant, MI for the construction of a new 50,000 square foot prototype. We anticipate demolition of the former Kmart will begin this quarter, with rent commencing in the second half of 2019.

As previously discussed we are also nearing announcement with several retailers in Frankfort, Kentucky. We have executed letters of intent with three tenants and look forward to updating you on our redevelopment progress next quarter.

As of June 30th, our growing retail portfolio consisted of 481 properties located in 44 states. Our tenants are comprised primarily of industry-leading retailers in over 28 diverse retail sectors, with more than 46% of annualized base rent coming from tenants that carry an investment-grade credit rating. The portfolio remains effectively fully occupied at 99.7% and has a weighted-average remaining lease term of 10.2 years.

We continue to believe that our ground lease portfolio presents an extremely attractive risk-adjusted investment for our shareholders. Our ground lease portfolio continues to represent more than 7% of annualized base rent and includes leading retailers such as Lowe's, Walmart, Home Depot, Wawa, ALDI, AutoZone, Chick-Fil-A, and McDonald's. At quarter-end, nearly 90% of our ground lease portfolio derived its rent from retailers that carry an investment-grade credit rating.

Before I turn the call over to Clay to discuss our second quarter and first half 2018 financial results, on behalf of the entire Board of Directors, I would like to welcome both Craig Erlich and Greg Lehmkuhl to our Board. After an in-depth vetting process, we are confident that both will provide unique perspectives that will be invaluable to our growing organization. By way of background -

Craig Erlich is a Senior Vice President and General Manager of the George P. Johnson Company, a global experiential marketing firm with 30 offices worldwide. George P. Johnson's clients include global leaders in manufacturing, finance, entertainment, and technology; and Craig has full responsibility for operations at its world headquarters, here in Detroit, and as well as its Nashville facility. Craig has deep leadership experience, notably in the context of a growing organization, and his entrepreneurial background is a great fit for our team.

Greg Lehmkuhl is President and Chief Executive Officer of Lineage Logistics and oversees all facets of the company's global operations. Many of you are most likely familiar with Lineage, which today is the 2nd largest cold storage provider in the world. Greg's operational expertise and background in LEAN continuous improvement is an ideal fit for our growing portfolio and organization.

With that, I'll turn the call over to Clay to discuss our financial results.

Clay Thelen - *Agree Realty Corporation - CFO*
Thank you, Joey. Good morning, everyone. I'll begin by quickly running through the cautionary language.

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 Operations, or FFO, and Adjusted Funds from Operations, or AFFO. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures can be found in our earnings release.

As announced in yesterday's press release, total rental revenue, including percentage rents, for the second quarter of 2018, was $32.1 million, an increase of 27.7% over the second quarter of 2017. Year-to-date, total rental revenue also increased 27.7% over the comparable period in 2017 to $63.1 million.

General and administrative expenses in the second quarter totaled approximately $3.2 million, or 8.9% of total revenue. G&A expenses were elevated in the quarter primarily due to a one-time fee related to our receipt of an investment-grade credit rating from Moody's Investors Service. We continue to anticipate G&A expenses will be approximately 8% of total revenues for the year.

Similarly, income tax expense was elevated in the quarter to $216,000, reflecting incremental state and local taxes. We anticipate that income tax expense will total between $500,000 and $550,000 for the year. Please note that prior to 2018, income tax expense was reflected in general and administrative expense and in 2018 we began disclosing the expense separately.

Funds from Operations for the second quarter was $22.3 million, representing an increase of 24.3% over the comparable period of 2017. On a per share basis, FFO increased to $0.71 per share, a 5.6% increase as compared to the second quarter of 2017.

Funds from Operations for the first six months of 2018 was $44.4 million, representing an increase of 26.8% over the comparable period of 2017. On a per share basis, FFO increased to $1.41 per share, a 7.4% increase as compared to the first six months of 2017.

Adjusted Funds from Operations for the second quarter was $22.2 million, a 24.5% increase over the comparable period of 2017. On a per share basis, AFFO was $0.70, a 5.7% increase as compared to the second quarter of 2017.

Adjusted Funds from Operations for the first six months of 2018 was $44.0 million, representing an increase of 26.1% compared to the first six months of 2017. On a per share basis, AFFO of $1.40 per share represented a 6.8% increase as compared to the first six months of 2017.

Our quarterly and year-to-date FFO per share and AFFO per share was impacted by dilution required under GAAP related to our forward equity offering. Treasury stock is to be included within our diluted share count in the event our stock trades above the deal price from the offering prior settlement. The dilutive impact related to these shares was roughly a penny to both FFO and AFFO per share for the three and six-month periods.

Now moving to our capital markets activities…

In May, we received an investment-grade credit rating of Baa2 with a stable outlook from Moody's Investors Service. The receipt of an investment-grade credit rating is a testament to the strength of our balance sheet and our conservative and disciplined approach to capital markets decisions. The Baa2 credit rating improves the cost of borrowing on our revolving credit facility and will further enhance our long-term access to capital. The private placement market has been and continues to provide efficient execution for us and I anticipate our credit rating to further drive pricing and accessibility.

As discussed on last quarter's call, in March we completed a follow-on public offering of 3.5 million shares of common stock in connection with a forward sale agreement. The offering is anticipated to raise net proceeds of approximately $163 million after deducting fees and expenses.

To date, the Company has not received any proceeds from the sale of shares of its common stock. While we have the ability to settle the transaction, in whole or in tranches, at any time between now and March 1st of 2019, given the continued strength of our investment pipeline, we anticipate settling the entire forward by the end of this year. Upon settlement of the forward offering, we anticipate being at or below the low-end of our stated leverage range of 5-to-6 times net debt to recurring EBITDA, putting our balance sheet in a strong position for 2019.

Subsequent to quarter end, we exercised the accordion option on our unsecured revolving credit facility, securing an additional $75 million of capacity, increasing our total facility from $250 million to $325 million. This increased capacity on our revolving credit facility is reflective of the Company's continued growth and increase in size since our credit facility was last amended in December 2016.

In addition to increasing the capacity of our revolving credit facility, we anticipate issuing long-term, fixed-rate, unsecured debt in the third quarter. We've had considerable dialogue with our existing private placement lenders and anticipate sizing to be between $100 million and $150 million. Combined with the settlement of the forward equity offering this year, this will bring total long-term capital sourced to approximately $300 million.

As of June 30th, our net debt to recurring EBITDA was approximately 5.4 times and within our stated range. Furthermore, our total debt to total enterprise value was approximately 28.1% and our fixed charge coverage ratio, which includes principal amortization, remains at a very healthy level at 4.2 times.

Our balance sheet continues to be well positioned for 2018 and beyond, with an increased revolving credit facility of $325 million, anticipated proceeds of more than $160 million from the forward equity offering, and two $100 million private placement shelf agreements. Our conservative approach to the balance sheet has allowed us to be opportunistic when making capital markets decisions.

The Company paid a dividend of $0.54 per share on July 13th to stockholders of record on June 29th, 2018. The quarterly dividend represents a 6.9% increase over the $0.505 per share quarterly dividend declared in the second quarter of 2017. This was the Company's 97th consecutive cash dividend since its IPO in 1994.

For the first six months of the year, the Company declared dividends of $1.06 per share, a 6.0% increase over the dividends of $1.00 per share declared for the comparable period in 2017.

Our quarterly payout ratios for the second quarter of 2018 were a conservative 76% of FFO and 77% of AFFO, respectively. For the first six months of 2018, our payout ratios were 75% of FFO and 76% of AFFO, respectively. These payout ratios are at the low end of the Company's targeted ranges and reflect a well-covered dividend.

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

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

To wrap things up, I'm very pleased with our performance during the first six months of the year. We're in a tremendous position for the second half of the year and I look forward to updating you on our progress next quarter.

At this time, operator, we will open it up for any questions.

QUESTIONS AND ANSWERS

Operator
Thank you. (Operator Instructions) The first question comes from Rob Stevenson with Janney.

Rob Stevenson *- Janney - Analyst*
Joey, can you talk a little bit about beyond the Kmart redevelopments that you talked about on the call here? How much is building in the development PCS pipeline beyond the five projects currently underway?

Joey Agree - *Agree Realty Corporation - President & CEO*
Good morning, Rob. Our pipeline continues to grow with both retailers that we have historical relationships with as well as some new retailers that we're working on everything from market research to site selection. So, we anticipate Q3 having some new announcements and some new projects slated to commence during the quarter. But again, our focus continues to be on leveraging all three of our external growth platforms with relationships across the spectrum.

Rob Stevenson *- Janney - Analyst*
Okay. And then in the slide deck that you guys put out, the Walgreens is now down -- I think effectively down to 6.7%. I think it was like 7% or something like that during the quarter. Given the acquisition pipeline and the acquisition guidance, where is the sort of pro forma? Assuming that you don't acquire any Walgreens throughout the rest of the year, where does the Walgreens and the pharmacy concentration sort of end the year if you do that sort of incremental $150 million, $200 million of acquisitions outside of pharmacy?

Joey Agree - *Agree Realty Corporation - President & CEO*Well, exclusive of any dispositions of any Walgreens or any additional pharmacies, I would expect, as we've telegraphed, that Walgreens will have

a 5 handle in front of it in terms of their exposure, and our pharmacy exposure should be a sub-10 or a sub-10% by year-end both through disposition activity, additional disposition activity, as well as just sheer denominator growth as we continue to bring new assets online.

Rob Stevenson *- Janney - Analyst*
And are you seeing any sort of difference in the demand for those assets as you go to sell Walgreens and any other pharmacy assets, at least relative to what it was last year, the year before?

Joey Agree - *Agree Realty Corporation - President & CEO*
We're not, and just for some really some pricing color, the Waterford Walgreens that we sold was effectively at a fixed 3 cap. That Walgreens had sub-10 years left of term. It was a mediocre performer. The Walgreens post-quarter close that we divested of in Delta Township was closer to a 6 cap, had a couple more years of term on it. So, we're not seeing any pricing discrepancy in terms of quarter-over-quarter here.

Operator
The next question comes from Collin Mings with Raymond James.

Collin Mings *– Raymond James - Analyst*
First question, can you just elaborate a little bit more on the move of Best Buy into the list of top tenants, particularly just given, Joey, your focus on looking to either reduce or avoid maybe some categories that have been less resistant to e-commerce?

Joey Agree - *Agree Realty Corporation - President & CEO*
Yes. No, it's a good question. And look, I've watched Best Buy for years as the consumer-electronics base went through some, obviously, some dynamic changes. We watched CompUSA file for Chapter 7 liquidation, likewise with Circuit City. H.H. Gregg appeared and then disappeared via Chapter 7 liquidation as well. Look, Best Buy's management team has done a fantastic job with a number of initiatives that, frankly, defied many expectations. You may have seen the Bloomberg article in the last couple days on their continued progress. They've built out a true omnichannel platform. They leverage their vendor relationships to create store-within-a-store concepts, which have driven incremental traffic. They've built out the Geek Squad and the service orientation of their business. They've entered aggressively into the appliance space with the downfall of Sears's market share. Their online growth continues while their same-store sales were plus 7% last quarter. So, I think that combined with their strong liquidity profile, their net debt to EBITDA just over 2x and balance sheets are critical in today's changing environment. We view them as an omnichannel leader today. We're excited to have them join our top tenant list. It took us a few years to watch them transform the business, and we're very pleased with where they are. I would note that the major Best Buy acquisition that we made during the quarter was a fantastic piece of real estate. It's located in Hillsboro, Oregon just outside of Portland. It's a relocation store, highly profitable for them. It's immediately adjacent to the top target in the market. It's 3 miles from Nike's global headquarters. I was at the site about six weeks ago, and it's a fantastic piece of real estate. So, Best Buy is the last man standing in the consumer-electronics space, and we feel that they have dynamically transformed their business to be successful in an omnichannel world.

Collin Mings *– Raymond James - Analyst*
Appreciate all the color there, Joey. Then maybe just following up a bit on Rob's question, just as far as dispositions, clearly increased guidance for the remainder of the year. Can you maybe just give us for modeling purposes on a blended basis how to think about the cap rate on dispositions here in the third quarter? And then as you look at additional dispositions, I mean, you've talked in the past about reducing restaurant exposure, obviously bringing down Walgreens and then you sold off the Shopko that you had exposure to. But maybe just any other buckets or sectors, tenants that you're looking to bring down exposure to as we go through the balance of the year?

Joey Agree - *Agree Realty Corporation - President & CEO*
No. I'll tell you, Collin, it's really more of the same. You'll continue to see us divest of franchise restaurant exposure simply because of the pricing that's out there that we're able to achieve, sub-6 or 6 cap. Pharmacy exposure, we'll continue to look at reducing specifically the Walgreens and redeploy that capital. You mentioned the Shopko. That was the only Shopko in our portfolio, obviously a higher-yield sale. It was part of a portfolio acquisition, call it, four years ago approximately. We thought it was appropriate, because it doesn't fit within the quality of our portfolio, to sell that asset. And so, there's a couple different buckets there. The majority of the assets that we're disposing of are opportunistic dispositions, then we can recycle the capital on an accretive basis into, frankly, higher-quality assets. That's our focus.

Collin Mings – *Raymond James - Analyst*
Okay. And then just as far as kind of a blended cap rate, any estimate that you can provide us for the back half of the year, the third quarter specifically?

Joey Agree - *Agree Realty Corporation – President & CEO*
I think mid-6s to low 7s on a GAAP basis is most likely on a cash basis, mid-6s, low 6s, depending on where some of these transactions play out. As we mentioned, we have $12 million, I think it is, held for sale at quarter-end there. It's 30 to Shopko, and the Walgreens obviously were in there. And so, we'll continue to opportunistically look to divest some of these assets.

Operator
The next question comes from Nick Joseph with Citi.

Nicholas Joseph – *Citi - Analyst*
Joey, you've been running at a run rate of about $100 million of acquisitions per quarter. Is that the right run rate going forward or is there anything about the pipeline that would indicate that the quarterly volume will either accelerate or slow from here?

Joey Agree - *Agree Realty Corporation – President & CEO*
Yes. Look, $100 million a quarter for Q1 and Q2 was really dead on. I would be hesitant -- look, there is cyclicality. There are seasonal changes. The team has done a fantastic job sourcing opportunities. They seem to come in waves. There's really no rhyme or reason for it. What we've found here is the key is that we get ahead of the following quarter. And so, when we're 60 days out -- our average transaction takes 71 days from LOI execution to close -- when we get to 60, 70 days out from quarter-end, we shift our focus. So, look, we've got a growing and dynamic and talented team here. We're still learning, frankly, about the capabilities, but we're very pleased with where we are midyear, and we have visibility into that $350 million to $400 million or else we wouldn't put it out there for anybody.

Nicholas Joseph – *Citi - Analyst*
Thanks. And then you added the two people to the board, so that brings it up to 10. Is this a permanent expansion or do you expect the number to go back down at some point?

Joey Agree - *Agree Realty Corporation – President & CEO*
Yes. No, it's a good question. First, look, we're really excited, as I mentioned in our prepared remarks, to have Craig and Greg both on board. They're both great leaders of their respect of organizations. This is a transitionary period for us. We anticipate going back down to 8, possibly 9 board members, but we thought it was appropriate for them to, no pun intended, to maintain their security clearances and have a transitionary period as we onboard them, and they can learn from the experiences of the board members that will be stepping off in the future.

Michael Bilerman – *Citi - Analyst*
And would you, at that point -- it's Michael Bilerman -- finally destagger the board consistent with the majority of all the REITs out there?

Joey Agree - *Agree Realty Corporation – President & CEO*
All right. Look, I would say the board continues to take appropriate steps at a consistent pace to improve all aspects of the company. So last year, we created a defined compensation plan with short- and long-term incentives for the named executive officers. To date this year, we've added two board members. We terminated a rights agreement this quarter as well. So, I think you can expect us to continue to look at the board, to continue to look at any and all ways to improve the organization including potentially destaggering the board at what they feel the appropriate time is.

Michael Bilerman – *Citi - Analyst*
Why would there be a hesitation when the vast majority of REITs and corporate America has destaggered boards? Why is there any hesitation whatsoever to not improve corporate governance, especially with your corporate governance scores?

Joey Agree - *Agree Realty Corporation – President & CEO*
I don't think there's any hesitation to improve corporate governance, and I think the board has taken a number of proactive steps, inclusive of these two new board members, in terms of governance and age and board tenure. I think there are multiple perspectives of staggered boards. There are merits and considerations to those staggered boards. This is a dynamically growing company with a lot of moving pieces, obviously, a lot of topline activity -- we're growing by nearly 30% a year -- and I think the board wants to take -- I'll speak on behalf of the entire board -- wants to take a measured and appropriate look at all aspects of corporate governance and not necessarily be reactionary, but do things at what they feel is the right time.

Michael Bilerman – *Citi - Analyst*
Right. I mean, as much as you're growing, you're in a business that's net lease. You're not operating any assets. It's not an extraordinarily complicated structure, right? You have to raise capital and put capital out. I don't see what that has to do with having annual elections for your board of directors, providing shareholders the ability to express their views on an annual basis. It just seems strange that you're one of very few companies that still is holding onto a relic in corporate governance.

Joey Agree - *Agree Realty Corporation – President & CEO*
Well, I think -- look, our business model, I agree, isn't overly complicated, but at the same term, it's a long-term business model. Our weighted average lease term of over 10 years, the nature of how we look at real estate, the nature of how we look at portfolio construction and frankly, our place in the net lease and overall retail universe has a long-term perspective. And so, I think there are merits to destaggering a board and annual elections. There are also considerations, and the last thing we want to do is encourage a short-term mentality, and I think that's a consideration. I think we want to have a mentality that's appropriate for the duration of our leases, for the "holding period" of our assets. And so again, I think there are merits and considerations of it, and I think the board has done and the company has done a fantastic job continuing to transform itself as a high-growth organization, albeit maybe in a simplistic business.

Michael Bilerman – *Citi - Analyst*
I would agree with you if it was a split 50-50 with companies out in corporate America, but what you find specifically, even when looking at the REIT area, the vast majority, 95% of the companies, have

destaggered boards. So, you're unfortunately in the minority, not in the majority, and there's a lot of companies that have much more complicated businesses that are much larger in size that have a lot more going on that have destaggered boards. So, I'll leave it there, but I don't think those are rationale relative to the vast majority of companies you're competing with for investor capital. You want to remove any potential overhang for someone to want to buy your shares, and that is typically an impediment to some investors.

Joey Agree - *Agree Realty Corporation – President & CEO*
Look, I think there are merits to everything you're saying, Michael. I would encourage people to look at our short-, our medium- and our long-term returns. And I don't believe it served necessarily as a direct impediment to the total returns that we've provided shareholders in those periods of time.

Operator
The next question comes from Ki Bin Kim with SunTrust.

Ki Bin Kim *- SunTrust - Analyst*
So, when Amazon bought PillPack I thought that was probably one of the more obvious verticals they would go into, yet Walgreens' stock was down around 10%. So, my question is, I know you've been talking about decreasing your exposure over time, but when that announcement came, did that at all change the way you thought about your overall longer-term exposure and the pace of where you want to take that exposure down to?

Joey Agree - *Agree Realty Corporation – President & CEO*
No, it really hasn't. I would tell as we mentioned in the prepared remarks and that people can see on the slides, our pharmacy concentration in 2013 was 37%. It's now down currently to 10 1/2%. Our Walgreens concentration in 2013 was 27 1/2%, now down to 6.7%. So that trend and trajectory will continue, both by denominator growth as well as capital recycling. In terms of the Amazon-PillPack acquisition, first I would tell you I don't think it is overly relevant to comment on the size of the acquisition or PillPack only doing $100 million in revenue or frankly the history of mail order pharmacy or Internet pharmacy, so I'll keep -- those comments to a minimum. I think pharmacy, like many retail industries, the vast majority of them today, is now in the headlines. And I would tell you that I wouldn't underestimate a few components of the pharmaceutical business and the retail pharmaceutical business, most notably the convenience, the urgency as well as the service component, on the same end, nor would I get too carried away with the headline risk. We've seen it basically with every retail sector in the past year, with Amazon potentially or inherently ending up entering into it through an acquisition or organically. What I do think is most relevant is the realization -- and it's something that we firmly believe here -- is that we're going through a dynamically changing retail world today, an omnichannel world. And so, for me, there's really three critical things. Number one, we have the best operators in any sector. We believe Walgreens and CVS are the two best operators. Two, that they occupy high-quality real estate with strong residuals, and these are hard corners. We frankly sold pharmacy exposure from the bottom of our portfolio. And then lastly and most importantly, we don't have a crystal ball, and we don't claim to. We want to diversify the portfolio from a tenant and sector perspective, and that's what we have been stating that we were going to achieve and what we've executed to. So, I'm very confident that we'll meet these objectives. We'll continue to adhere to them. I think all you have to do is follow the trends that I spoke to, and you can see visually on these slides kind of what that trajectory is. So, we have a clear strategy. We're going to execute it today. And again, Walgreens is down to 6.7% of our portfolio today, and you'll only see that number go down. And we're very comfortable with the real estate underlying.

Ki Bin Kim *- SunTrust - Analyst*
Okay. And the past couple of years -- or a couple years ago, you were probably buying about $200 million or so of real estate deals per year, and obviously you've grown that very methodically. Now you're at a base of about $400 million. Is there anything from a business standpoint or personnel or how you source things that has to be enhanced or changed as you have grown that pipeline over time?

Joey Agree - *Agree Realty Corporation – President & CEO*
No. Look, we've built for the future at this organization from people, processes and systems. Our acquisition and transactional team now is comprised of 11 people. That includes our diligence team. That team just two years ago was four or five people, and so we're built for growth. We've invested several hundred thousand dollars in systems in this organization, from CRM to database software to things, frankly, that I can't even operate. But the team here has done a fantastic job. Look, projecting forward, we anticipated this growth, we've anticipated the trajectory, and frankly, we're built to continue into the future to ADC 3.0.

Operator
The next question comes from Todd Stender with Wells Fargo.

Todd Stender *– Wells Fargo - Analyst*
Can we hear more details on the Camping World property developed, maybe size, expected yield -- I'm not sure if I missed that -- maybe your comfort level with the tenant? And then maybe, in comparison, how you're looking at the Aldi project, maybe some of the economics around that?

Joey Agree - *Agree Realty Corporation – President & CEO*
Yes, sure. So the Camping World in Grand Rapids is a about $9 million, $9.5 million project. This Camping World was a former -- it's really a retrofit and expansion of an existing operation. Camping World operated the retail store but didn't operate the motor vehicle dealership portion of it. So, the store is effectively complete now. It will be in line with our historical PCS yields. It's the third Camping World in our portfolio. The transactions we've done with Camping World now vary. Really, it's a good example of what we can provide retailers in terms of value. One ground-up build-to-suit in Georgetown, Kentucky, a Tyler, Texas effectively sale/leaseback with a renovation component and now the PCS project in Grand Rapids, Michigan. I would tell you don't expect us to do any large-scale sale/leasebacks, those types of financing transactions with Camping World. We're going to stick to our knitting and look to create and provide value to our shareholders.

In terms of the Aldi, that's a renovation of a former Staples box through our PCS platform with a private developer, just over about $3 million in costs, similar yield hurdles for that project. It's our first turnkey Aldi project. We're excited. All these in our portfolio currently, I believe, are ground leases, and so we're a big fan of Aldi. The discount grocery business we think -- as much headline as Amazon is getting in this country in terms of entering grocery with the acquisition of Whole Foods, Aldi is probably as or more disruptive as any of the grocers in this country today with their low price and efficient model. And so this will be a new Aldi prototype. The stores are absolutely beautiful on the inside, and we're excited for that store to get open and operating.

Todd Stender *– Wells Fargo - Analyst*
How big is that prototype, Joey?

Joey Agree - *Agree Realty Corporation – President & CEO*
It's about 20,000 feet. It's a former Staples box, so it's a retrofit of that Staples right off the freeway.

Todd Stender – *Wells Fargo - Analyst*
Okay. And thank you for that. And then how about the Shopko? You guys took an impairment on that asset. How many years were left on the lease, and how about the cap rate you got for it?

Joey Agree - *Agree Realty Corporation – President & CEO*
There was about -- let me double check, but I believe there was approximately 10, 11 years remaining on the lease. We took the impairment and subsequently sold it during the third quarter. That was an upper-single digits 10 cap rate there. We just, frankly, don't like holding assets if and until a tenant vacates through a bankruptcy or a lease expiration. We don't hold onto assets, and we don't believe in the residuals, and we don't hold onto assets, frankly, that we don't believe in the business model on a go-forward basis. So, it was an appropriate thing for us to do to eliminate our only Shopko exposure and keep our focus intently on the best operators in the respective sectors that we're focused on.

Operator
The next question comes from John Massocca with Ladenburg Thalmann.

John Massocca – *Ladenburg Thalmann - Analyst*
So given you've sold the Walgreens in the quarter at a -- I think it was a 6.3% cap if I remember hearing correctly, and you're selling franchise restaurants in the 6% range. What drove the 7.1% cap rate on total dispositions in the quarter and maybe some more detail on the higher cap rate assets you sold this quarter?

Joey Agree - *Agree Realty Corporation – President & CEO*
Yes. So, the quarter was really comprised of fast food restaurants, a Sonic restaurant, a fast food operator franchise, a couple Burger Kings and the Walgreens. The gap cap rate on those is really driven by the remaining lease term on the franchise restaurants, which gap out. On a cash basis, those dispositions were in the 6%, 7% range on a cash basis, so we look at it and say, you know what? It's an opportunity. These are opportunistic sales, and we think there is the appropriate thing to recycle the capital and reduce exposure.

John Massocca – *Ladenburg Thalmann - Analyst*
What would be the gap on the two Walgreens, both the one you sold this quarter and last quarter then?

Joey Agree - *Agree Realty Corporation – President & CEO*
Those are effectively flat. Waterford had a small bump that took it up into the mid-6s, 6.4%, 6.5%

John Massocca – *Ladenburg Thalmann - Analyst*
Okay. And then just to sneak one more in. Your exposure to grocery increased by almost $900,000. What acquisitions drove that? I don't think it was the new tenants in the top tenant list.

Joey Agree - *Agree Realty Corporation – President & CEO*
No, so our grocery exposure is really dominated by national operators, leading operators. We're not interested in second or third tier. We acquired a Stop & Shop on a ground lease during the quarter, so it's a ground lease Ahold Delhaize, high-performing store which we did some lease modifications with the tenant commensurate with the transaction. The remainder of our grocery exposure is geographically and tenant diverse. It's one Publix. It's Ruler Foods, Kroger's, Deep Discount. It's Walmart, Neighborhood Market, Dollar General Market, one Hy-Vee, an H-E-B in Texas, really those leading operators, national and regional. We're not interested in B or C operators in the grocery space.

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

Joey Agree, *Agree Realty Corporation - President & CEO*
Well, I want to thank everybody for their patience this morning and for joining us. And we look forward to speaking to you again with our third quarter results. Have a good week. Thank you, everybody.

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