

AGREE REALTY CORP  
Form 10-Q  
April 22, 2019  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 Q

Mark One

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2019, or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 1 12928

AGREE REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Maryland 38 3148187  
State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)  
Organization

70 E. Long Lake Road, Bloomfield Hills, Michigan 48304

(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (248) 737 4190

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller reporting company	Emerging growth company
-------------------------	-------------------	-----------------------	---------------------------	-------------------------

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 18, 2019, the Registrant had 38,467,282 shares of common stock, \$0.0001 par value, issued and outstanding.



Table of Contents

AGREE REALTY CORPORATION

Index to Form 10 Q

	Page
<u>PART I</u> <u>Financial Information</u>	
<u>Item 1</u> <u>Interim Condensed Consolidated Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018</u>	1
<u>Condensed Consolidated Statements of Income and Comprehensive Income for the three months ended March 31, 2019 and 2018</u>	3
<u>Condensed Consolidated Statement of Equity for the three months ended March 31, 2019</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 3</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	37
<u>Item 4</u> <u>Controls and Procedures</u>	38
<u>PART II</u>	
<u>Item 1</u> <u>Legal Proceedings</u>	39
<u>Item 1A</u> <u>Risk Factors</u>	39
<u>Item 2</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 3</u> <u>Defaults Upon Senior Securities</u>	39
<u>Item 4</u> <u>Mine Safety Disclosures</u>	39
<u>Item 5</u> <u>Other Information</u>	39
<u>Item 6</u> <u>Exhibits</u>	40
<u>SIGNATURES</u>	41



Table of Contents

## AGREE REALTY CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per-share data)

(Unaudited)

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

	March 31, 2019	December 31, 2018
ASSETS		
Real Estate Investments		
Land	\$ 588,295	\$ 553,704
Buildings	1,287,700	1,194,985
Less accumulated depreciation	(106,670)	(100,312)
	1,769,325	1,648,377
Property under development	11,444	12,957
Net Real Estate Investments	1,780,769	1,661,334
Cash and Cash Equivalents	22,325	53,955
Cash Held in Escrows	3,024	20
Accounts Receivable - Tenants	23,695	21,547
Lease intangibles, net of accumulated amortization of \$68,985 and \$62,543 at March 31, 2019 and December 31, 2018, respectively	289,928	280,153
Other Assets, net	30,596	11,180
Total Assets	\$ 2,150,337	\$ 2,028,189

See accompanying notes to condensed consolidated financial statements.

Table of Contents

## AGREE REALTY CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per-share data)

(Unaudited)

	March 31, 2019	December 31, 2018
<b>LIABILITIES</b>		
Mortgage Notes Payable, net	\$ 60,303	\$ 60,926
Unsecured Term Loans, net	256,244	256,419
Senior Unsecured Notes, net	384,117	384,064
Unsecured Revolving Credit Facility	71,000	19,000
Dividends and Distributions Payable	21,535	21,031
Accounts Payable, Accrued Expenses, and Other Liabilities	39,843	21,045
Lease intangibles, net of accumulated amortization of \$16,291 and \$15,177 at March 31, 2019 and December 31, 2018, respectively	27,873	27,218
<b>Total Liabilities</b>	<b>860,915</b>	<b>789,703</b>
<b>EQUITY</b>		
Common stock, \$.0001 par value, 45,000,000 shares authorized, 38,454,782 and 37,545,790 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	4	4
Preferred Stock, \$.0001 par value per share, 4,000,000 shares authorized	—	—
Additional paid-in-capital	1,334,952	1,277,592
Dividends in excess of net income	(45,940)	(42,945)
Accumulated other comprehensive income	(1,950)	1,424
<b>Total Equity - Agree Realty Corporation</b>	<b>1,287,066</b>	<b>1,236,075</b>
Non-controlling interest	2,356	2,411
<b>Total Equity</b>	<b>1,289,422</b>	<b>1,238,486</b>
<b>Total Liabilities and Equity</b>	<b>\$ 2,150,337</b>	<b>\$ 2,028,189</b>

See accompanying notes to condensed consolidated financial statements.





Table of Contents

## AGREE REALTY CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands, except share and per-share data)

(Unaudited)

	Three Months Ended	
	March 31, 2019	March 31, 2018
Revenues		
Rental Income	\$ 42,345	\$ 32,280
Other	3	46
Total Revenues	42,348	32,326
Operating Expenses		
Real estate taxes	3,622	2,377
Property operating expenses	1,739	1,516
Land lease expense	195	163
General and administrative	4,035	2,862
Depreciation and amortization	9,864	7,761
Provision for impairment	416	—
Total Operating Expenses	19,871	14,679
Income from Operations	22,477	17,647
Other (Expense) Income		
Interest expense, net	(7,558)	(5,465)
Gain (loss) on sale of assets, net	3,427	4,598
Income tax benefit (expense)	170	(50)
Other (expense) income	—	(94)
Net Income	18,516	16,636
Less Net Income Attributable to Non-Controlling Interest	169	185
Net Income Attributable to Agree Realty Corporation	\$ 18,347	\$ 16,451
Net Income Per Share Attributable to Agree Realty Corporation		
Basic	\$ 0.49	\$ 0.53
Diluted	\$ 0.48	\$ 0.53
Other Comprehensive Income		
Net income	\$ 18,516	\$ 16,636
Other Comprehensive Income (Loss) - Change in Fair Value of Interest Rate Swaps	(3,405)	1,920
Total Comprehensive Income	15,111	18,556

Edgar Filing: AGREE REALTY CORP - Form 10-Q

Less Comprehensive Income Attributable to Non-Controlling Interest	138	206
Comprehensive Income Attributable to Agree Realty Corporation	\$ 14,973	\$ 18,350
Weighted Average Number of Common Shares Outstanding - Basic	37,487,851	30,801,471
Weighted Average Number of Common Shares Outstanding - Diluted	38,320,307	30,851,058

See accompanying notes to condensed consolidated financial statements.

3

---

Table of Contents

## AGREE REALTY CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(In thousands, except share and per-share data)

(Unaudited)

	Common Stock Shares	Additional Amount Paid-In Capital	Additional Paid-In Capital	Dividends in excess of net income	Accumulated Other Comprehensive Income (Loss)	Non-Control Interest	Total Equity
Balance, December 31, 2018	37,545,790	\$ 4	\$ 1,277,592	\$ (42,945)	\$ 1,424	\$ 2,411	\$ 1,238,486
Issuance of common stock, net of issuance costs	874,268	—	57,845	—	—	—	57,845
Repurchase of common shares	(21,868)	—	(1,398)	—	—	—	(1,398)
Issuance of restricted stock under the Omnibus Incentive Plan	56,592	—	—	—	—	—	—
Stock-based compensation	—	—	913	—	—	—	913
Dividends and distributions declared for the period	—	—	—	(21,342)	—	(193)	(21,535)
Other comprehensive income (loss) - change in fair value of interest rate swaps	—	—	—	—	(3,374)	(31)	(3,405)
Net income	—	—	—	18,347	—	169	18,516
Balance, March 31, 2019	38,454,782	\$ 4	\$ 1,334,952	\$ (45,940)	\$ (1,950)	\$ 2,356	\$ 1,289,422

See accompanying notes to condensed consolidated financial statements.



Table of Contents

## AGREE REALTY CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(In thousands, except share and per-share data)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Dividends in excess of net Capital income	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	Total Equity
Balance, December 31, 2017	31,004,900	\$ 3	\$ 936,046	\$ (28,763)	\$ 1,375	\$ 2,529	\$ 911,190
Issuance of common stock, net of issuance costs	—	—	(93)	—	—	—	(93)
Repurchase of common shares	(22,071)	—	(1,074)	—	—	—	(1,074)
Issuance of restricted stock under the Omnibus Incentive Plan	50,841	—	—	—	—	—	—
Forfeiture of restricted stock	(411)	—	—	—	—	—	—
Stock-based compensation	—	—	602	—	—	—	602
Dividends and distributions declared for the period	—	—	—	(16,137)	—	(181)	(16,318)
Other comprehensive income (loss) - change in fair value of interest rate swaps	—	—	—	—	1,899	21	1,920
Net income	—	—	—	16,451	—	185	16,636
Balance, March 31, 2018	31,033,259	\$ 3	\$ 935,481	\$ (28,449)	\$ 3,274	\$ 2,554	\$ 912,863

See accompanying notes to condensed consolidated financial statements.



Table of Contents

## AGREE REALTY CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	March 31, 2019	March 31, 2018
Cash Flows from Operating Activities		
Net income	\$ 18,516	\$ 16,636
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,864	7,761
Amortization from above (below) lease intangibles, net	3,276	2,243
Amortization from financing and credit facility costs	325	267
Stock-based compensation	913	602
Provision for impairment	416	—
(Gain) loss on sale of assets	(3,427)	(4,598)
(Increase) decrease in accounts receivable	(2,148)	(2,817)
(Increase) decrease in other assets	(1,169)	83
Increase (decrease) in accounts payable, accrued expenses, and other liabilities	(3,059)	(2,363)
Net Cash Provided by Operating Activities	23,507	17,814
Cash Flows from Investing Activities		
Acquisition of real estate investments and other assets	(142,269)	(99,392)
Development of real estate investments and other assets (including capitalized interest of \$90 in 2019 and \$144 in 2018)	(6,116)	(4,843)
Payment of leasing costs	(100)	(10)
Net proceeds from sale of assets	9,834	20,044
Net Cash Used In Investing Activities	(138,651)	(84,201)
Cash Flows from Financing Activities		
Proceeds from common stock offerings, net	57,845	(93)
Repurchase of common shares	(1,398)	(1,074)
Unsecured revolving credit facility borrowings (repayments), net	52,000	62,000
Payments of mortgage notes payable	(672)	(25,630)
Payments of unsecured term loans	(190)	(190)
Dividends paid	(20,838)	(16,122)
Distributions to Non-Controlling Interest	(193)	(181)
Payments for financing costs	(36)	(1)
Net Cash Provided by Financing Activities	86,518	18,709
Net Increase (Decrease) in Cash and Cash Equivalents	(28,626)	(47,678)

Edgar Filing: AGREE REALTY CORP - Form 10-Q

Cash and cash equivalents and cash held in escrow, beginning of period	53,975	58,782
Cash and cash equivalents and cash held in escrow, end of period	\$ 25,349	\$ 11,104
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest (net of amounts capitalized)	\$ 6,902	\$ 6,226
Cash paid for income tax	\$ 646	\$ 324
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Operating lease right of use assets added upon implementation of leases standard on January 1, 2019	\$ 7,505	\$ —
Additional operating lease right of use assets added under new ground leases after January 1, 2019	\$ 12,167	\$ —
Dividends and limited partners' distributions declared and unpaid	\$ 21,535	\$ 16,318

See accompanying notes to condensed consolidated financial statements.



Table of Contents

AGREE REALTY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2019

(Unaudited)

Note 1 – Organization

Agree Realty Corporation (the “Company”), a Maryland corporation, is a fully integrated real estate investment trust (“REIT”) primarily focused on the ownership, acquisition, development and management of retail properties net leased to industry leading tenants. The Company was founded in 1971 by its current Executive Chairman, Richard Agree, and our common stock was listed on the New York Stock Exchange (“NYSE”) in 1994.

Our assets are held by, and all of our operations are conducted through, directly or indirectly, Agree Limited Partnership (the “Operating Partnership”), of which Agree Realty Corporation is the sole general partner and in which it held a 99.1% interest as of March 31, 2019. Under the partnership agreement of the Operating Partnership, the Company, as the sole general partner, has exclusive responsibility and discretion in the management and control of the Operating Partnership.

The terms “Agree Realty,” the “Company,” “Management,” “we,” “our” or “us” refer to Agree Realty Corporation and all of its consolidated subsidiaries, including the Operating Partnership.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10 Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for audited financial statements. The unaudited condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim period presented. Operating results for the three months ended March 31, 2019 may not be indicative of the results that may be expected for the year ending December 31, 2019. Amounts as of December 31, 2018 included in the condensed consolidated financial statements have been derived from the audited consolidated financial statements as of that date. The unaudited condensed consolidated financial statements, included herein, should be read in conjunction with the audited consolidated financial statements and notes thereto, as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations, in our Form 10 K for the year ended December 31, 2018.

The unaudited condensed consolidated financial statements include the accounts of the Company, the Operating Partnership and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of (1) assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and (2) revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Reclassification

The Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification 842 Leases (“ASC 842”) using the modified retrospective approach as of January 1, 2019 and elected to apply the transition provisions of the standard at the beginning of the period of adoption. The Company adopted the practical expedient in ASC 842 that alleviates the requirement to separately present lease and non-lease rental income. As a result, all income earned pursuant to tenant leases is reflected as one line, “Rental Income,” in the 2019 condensed consolidated statement of operations. To

7

---

## Table of Contents

facilitate comparability, the Company has reclassified prior periods' lease and non-lease income consistently with the classification employed in 2019.

The Company recognizes above- and below-market lease intangibles in connection with most acquisitions of real estate (see Accounting for Acquisitions of Real Estate below). The capitalized above- and below-market lease intangibles are amortized over the remaining term of the related leases. The Company historically presented this amortization as a component of Depreciation and Amortization expense within the Consolidated Statement of Income and Comprehensive Income. During 2019, the Company changed this classification to recognize this amortization as an adjustment of Rental Income. The prior period results have been reclassified to conform to the current year classification. During the three months ended March 31, 2019 and 2018, the Company incurred \$3.3 million and \$2.2 million of amortization of capitalized above- and below-market lease intangibles, respectively.

## Segment Reporting

The Company is primarily in the business of acquiring, developing and managing retail real estate which is considered to be one reportable segment. The Company has no other reportable segments.

## Real Estate Investments

The Company records the acquisition of real estate at cost, including acquisition and closing costs. For properties developed by the Company, all direct and indirect costs related to planning, development and construction, including interest, real estate taxes and other miscellaneous costs incurred during the construction period, are capitalized for financial reporting purposes and recorded as property under development until construction has been completed. Assets are classified as held for sale based on specific criteria as outlined in ASC 360, Property, Plant & Equipment. Properties classified as "held for sale" are recorded at the lower of their carrying value or their fair value, less anticipated selling costs. Any properties classified as held for sale are not depreciated. Assets are generally classified as held for sale once management has actively engaged in marketing the asset and has received a firm purchase commitment that is expected to close within one year. The Company had no real estate held for sale at March 31, 2019 and December 31, 2018.

## Accounting for Acquisitions of Real Estate

The acquisition of property for investment purposes is typically accounted for as an asset acquisition. The Company allocates the purchase price to land, buildings and identified intangible assets and liabilities, based in each case on their relative estimated fair values and without giving rise to goodwill. Intangible assets and liabilities represent the value of in-place leases and above- or below-market leases. In making estimates of fair values, the Company may use a number of sources, including data provided by independent third parties, as well as information obtained by the Company as a result of its due diligence, including expected future cash flows of the property and various characteristics of the markets where the property is located.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, in-place lease intangibles are valued based on the Company's estimates of costs related to tenant acquisition and the carrying costs that would be incurred during the time it would take to locate a tenant if the property were vacant, considering current market conditions and costs to execute similar leases at the time of the acquisition. In-place lease intangible assets are amortized to amortization expense over the remaining term of the related leases. Above- and below-market lease intangibles are recorded based on the present value of the difference between the contractual amounts to be paid pursuant to the leases at the time of acquisition and the Company's estimate of current market lease rates for the property. The capitalized above- and below-market lease intangibles are amortized over the non-cancelable term of the lease unless the Company believes it is reasonably certain that the tenant will renew the lease for an option term in

which case the Company amortizes the value attributable to the renewal over the renewal period. Above- and below-market lease intangibles are amortized as a net reduction of rental income (see Reclassifications above).

8

---

## Table of Contents

### Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of cash and money market accounts. The account balances periodically exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance coverage, and as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. We had \$24.0 million and \$52.7 million in cash and cash held in escrow as of March 31, 2019 and December 31, 2018, respectively, in excess of the FDIC insured limit.

### Accounts Receivable – Tenants

The Company reviews the collectability of charges under its tenant operating leases on a regular basis, taking into consideration changes in factors such as the tenant’s payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area where the property is located. In the event that the collectability with respect to any tenant changes, beginning with the adoption of ASC 842 as of January 1, 2019, the Company recognizes an adjustment to rental income. Prior to the adoption of ASC 842, the Company recognized a provision for uncollectible amounts or a direct write-off of the specific rent receivable. The Company’s review of collectability of charges under its operating leases includes any accrued rental revenues related to the straight-line method of reporting rental revenue.

The Company’s leases provide for reimbursement from tenants for common area maintenance (“CAM”), insurance, real estate taxes and other operating expenses. A portion of our operating cost reimbursements is estimated each period and is recognized as revenue in the period the recoverable costs are incurred and accrued. Receivables from operating cost reimbursements are included in our Accounts Receivable - Tenants line item in our condensed consolidated balance sheets. The balance of unbilled operating cost reimbursement receivable at March 31, 2019 and December 31, 2018 was \$3.8 million and \$3.3 million, respectively.

In addition, many of the Company’s leases contain rent escalations for which we recognize revenue on a straight-line basis over the non-cancelable lease term. This method results in rental revenue in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset which is included in the Accounts Receivable - Tenants line item in our condensed consolidated balance sheets. The balance of straight-line rent receivables at March 31, 2019 and December 31, 2018 was \$18.2 million and \$16.7 million, respectively. To the extent any of the tenants under these leases becomes unable to pay its contractual cash rents, the Company may be required to write-off the straight-line rent receivable from the tenants, which would reduce rental income.

### Sales Tax

The Company collects various taxes from tenants and remits these amounts, on a net basis, to the applicable taxing authorities.

### Unamortized Deferred Expenses

Deferred expenses recognized as Lease Intangibles and within Other Assets, net on the condensed consolidated balance sheets include debt financing costs related to the Company’s revolving credit facility, leasing costs and lease intangibles, and are amortized as follows: (i) debt financing costs related to the line of credit on a straight-line basis to interest expense over the term of the related loan, which approximates the effective interest method; (ii) leasing costs on a straight-line basis to amortization expense over the term of the related lease entered into; (iii) in-place lease intangibles on a straight-line basis to amortization expense over the remaining term of the related lease acquired; and (iv) above- and below- market lease intangibles on a straight-line basis as a net reduction of rental income over the

remaining lease term. See Reclassifications above regarding changes in presentation relating to above-and below-market lease intangibles.

9

---

Table of Contents

The following schedule summarizes the Company's amortization of deferred expenses for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended	
	March 31, 2019	March 31, 2018
Deferred Financing Costs	\$ 143	\$ 101
Leasing Costs	81	43
Lease Intangibles (In-place)	2,052	1,992
Lease Intangibles (Above-Market)	4,374	3,344
Lease Intangibles (Below-Market)	(1,098)	(1,101)
Total	\$ 5,552	\$ 4,379

The following schedule represents estimated future amortization of deferred expenses as of March 31, 2019 (in thousands):

Year Ending	2019						Total
December 31,	(remaining)	2020	2021	2022	2023	Thereafter	
Deferred Financing Costs	\$ 413	\$ 541	\$ 28	\$ —	\$ —	\$ —	\$ 982
Leasing Costs	241	365	346	334	300	1,085	2,671
Lease Intangibles (In-place)	7,001	8,805	8,295	7,482	6,806	38,401	76,790
Lease Intangibles (Above-Market)	13,005	17,338	17,150	16,857	16,056	132,732	213,138
Lease Intangibles (Below-Market)	(3,397)	(4,432)	(4,109)	(3,210)	(2,639)	(10,086)	(27,873)
Total	\$ 17,263	\$ 22,617	\$ 21,710	\$ 21,463	\$ 20,523	\$ 162,132	\$ 265,708

## Earnings per Share

Basic earnings per share has been computed by dividing net income less net income attributable to unvested restricted shares by the weighted average number of common shares outstanding less unvested restricted shares. Diluted earnings per share is computed by dividing net income by the weighted average common shares and potentially dilutive common shares outstanding in accordance with the treasury stock method.

Edgar Filing: AGREE REALTY CORP - Form 10-Q

The following is a reconciliation of the numerator and denominator for the basic net earnings per common share and diluted net earnings per common share computation for each of the periods presented: (in thousands, except for share data)

	Three months ended	
	March 31, 2019	March 31, 2018
Net income attributable to Agree Realty Corporation	\$ 18,347	\$ 16,451
Less: Income attributable to unvested restricted shares	(96)	(112)
Net income used in basic and diluted earnings per share	\$ 18,251	\$ 16,339
Weighted average number of common shares outstanding	37,688,915	31,013,545
Less: Unvested restricted stock	(201,064)	(212,074)
Weighted average number of common shares outstanding used in basic earnings per share	37,487,851	30,801,471
Weighted average number of common shares outstanding used in basic earnings per share	37,487,851	30,801,471
Effect of dilutive securities: Share-based compensation	65,781	49,587
Effect of dilutive securities: September 2018 forward equity offering	766,675	—
Weighted average number of common shares outstanding used in diluted earnings per share	38,320,307	30,851,058



## Table of Contents

### Forward Equity Sales

In September 2018, the Company entered into a forward sale agreement to sell an aggregate of 3,500,000 shares of our common stock at a public offering price of \$55.20 per share, before issuance costs, underwriters' discount, and further adjustments as provided for in the forward sale agreement. We are obligated to settle the forward sale agreement no later than September 3, 2019.

To account for the forward sale agreements, we considered the accounting guidance governing financial instruments and derivatives and concluded that our forward sale agreement was not a liability as it did not embody obligations to repurchase our shares nor did it embody obligations to issue a variable number of shares for which the monetary value was predominantly fixed, varying with something other than the fair value of the shares, or varying inversely in relation to our shares. We then evaluated whether the agreement met the derivatives and hedging guidance scope exception to be accounted for as an equity instrument, and concluded that the agreement can be classified as an equity contract based on the following assessment: (i) none of the agreement's exercise contingencies was based on observable markets or indices besides those related to the market for our own stock price and operations; and (ii) none of the settlement provisions precluded the agreement from being indexed to our own stock.

We also considered the potential dilution resulting from the forward sale agreement on the earnings per share calculations. We use the treasury stock method to determine the dilution resulting from the forward sale agreement during the period of time prior to settlement. The impact to our weighted-average number of common shares – diluted for the three months ended March 31, 2019, was 766,675 weighted-average incremental shares.

### Income Taxes (not presented in thousands)

The Company has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") and related regulations. The Company generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100% of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For the periods ending March 31, 2019 and December 31, 2018, the Company believes it has qualified as a REIT. Notwithstanding the Company's qualification for taxation as a REIT, the Company is subject to certain state taxes on its income and real estate.

The Company and its taxable REIT subsidiaries ("TRS") have made a timely TRS election pursuant to the provisions of the REIT Modernization Act. A TRS is able to engage in activities resulting in income that previously would have been disqualified from being eligible REIT income under the federal income tax regulations. As a result, certain activities of the Company which occur within its TRS entity are subject to federal and state income taxes. All provisions for federal income taxes in the accompanying consolidated financial statements are attributable to the Company's TRS.

As of December 31, 2018, the Company had accrued a deferred income tax liability in the amount of \$475,000. This deferred income tax balance represented the federal and state tax effect of deferring income tax in 2007 on the sale of an asset under section 1031 of the Internal Revenue Code. This transaction was accrued within the TRS entities described above. During the three months ended March 31, 2019, the Company restructured its ownership of the TRS to which the deferred tax liability was related, resulting in a reversal of the previously accrued amount. The Company recognized total federal and state tax benefit (expense) of approximately \$170,000 and (\$50,000) for the three months ended March 31, 2019 and 2018, respectively.

### Fair Values of Financial Instruments

The Company's estimates of fair value of financial and non-financial assets and liabilities are based on the framework established in the fair value accounting guidance. The framework specifies a hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. The guidance describes a fair value hierarchy based upon three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable. The following describes the three levels:

Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities.

11

---

## Table of Contents

Level 2 – Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques.

### Recent Accounting Pronouncements

In August 2018, the FASB issued ASU No. ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”). These amendments modify the disclosure requirements in Topic 820 on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty. ASU 2018-13 will be effective for all entities for fiscal years beginning after December 15, 2019, including interim periods in the year of adoption. Early adoption is permitted for any interim or annual period. The Company is in the process of determining the impact of the implementation of ASU 2018-13, but does not believe it will have a material effect on the Company’s financial statements.

In June 2018, the FASB issued ASU No. 2018-07, “Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting” (“ASU 2018-07”). These amendments expand the scope of Topic 718, Compensation—Stock Compensation, which currently only includes share-based payments to employees, to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned, and the ASU supersedes Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees. The Company adopted ASU 2018-07 on January 1, 2019. The adoption did not have a material effect on its financial statements.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities” (“ASU 2017-12”). The objective of ASU 2017-12 is to expand hedge accounting for both financial (interest rate) and commodity risks, and create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. The Company adopted ASU 2017-12 on January 1, 2019. The adoption did not have a material effect on the financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”), which changes how entities measure credit losses for most financial assets. This guidance requires an entity to estimate its lifetime “expected credit loss” and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. In November 2018, the FASB issued ASU 2018-19, “Codification Improvements to Topic 326, Financial Instruments – Credit Losses”, which clarified that receivables arising from operating leases are within the scope of the leasing standard (Topic 842). This new standard will be effective for the Company on January 1, 2020. The Company is evaluating the impact this new standard would have on its consolidated financial statements, in the event any of its leases ever were to be classified as sales-type or direct finance leases and become subject to the

provisions of ASU 2016-13.

In February 2016, the FASB issued ASU No. 2016-02 “Leases” (“ASU 2016-02”). The new standard creates ASC 842 and supersedes FASB ASC 840, Leases, which the company adopted on January 1, 2019 along with related interpretations. The adoption of the new Leases standard ASU 2016-02 generally had, and will have, the following impacts on the Company:

- Topic 842 requires a lessee to recognize right of use the assets and lease obligation liabilities that arise from leases (operating and finance). On January 1, 2019, the Company recognized \$7.5 million of right of use assets and lease liabilities, within Other Assets and Accounts Payable, Accrued Expenses, and Other Liabilities on the

12

---

## Table of Contents

Condensed Consolidated Balance Sheet. The Company was not required to reassess the classification of existing land leases and therefore these leases continue to be accounted for as operating leases. In the event the Company modifies existing land leases or enters into new land leases after adoption of the new standard, such leases may be classified as finance leases.

- Topic 842 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases and operating leases. Based on its election of practical expedients, the Company's existing retail leases, where it is the lessor, continue to be accounted for as operating leases under the new standard. However, Topic 842 changed certain requirements regarding the classification of leases that could result in the Company recognizing certain long-term leases entered into or modified after January 1, 2019 as sales-type leases, as opposed to operating leases.
- The Company elected an optional transition method that allows entities to initially apply Topic 842 at the adoption date (January 1, 2019) and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. However, the Company ultimately did not have any cumulative-effect adjustment as of the adoption date.
- The Company elected a practical expedient which allows lessors to not separate non-lease components from the lease component when the timing and pattern of transfer for the lease components and non-lease components are the same and if the lease component is classified as an operating lease. As a result, the Company now presents all rentals and reimbursements from tenants as a single line item Rental Income within the Condensed Consolidated Statement of Income and Comprehensive Income, and made certain reclassifications to prior periods for comparability. See Reclassifications above.
- Under Topic 842, beginning on January 1, 2019, changes in the probability of collecting tenant rental income will result in direct adjustments of rental income and tenant receivables. The Company no longer will recognize any separate specific bad debt provision or allowance for doubtful accounts. See Accounts Receivable – Tenants above.
- The Company elected an optional transition method allowing entities to not evaluate under ASC 842 land easements that existed or expired before the adoption of ASC 842 and that were not previously accounted for as leases under ASC 840.
- In connection with its adoption of Topic 842 the Company also began recognizing amortization of above- and below-market lease intangibles as a net reduction of Rental Income. See Reclassifications above.

### Note 3 – Leases

#### Tenant Leases

The Company is primarily focused on the ownership, acquisition, development and management of retail properties leased to industry leading tenants. As of March 31, 2019, our portfolio was approximately 99.7% leased and had a weighted average remaining lease term (excluding extension options) of approximately 10.2 years. A significant majority of our properties are leased to national tenants and approximately 52.4% of our annualized base rent was derived from tenants, or parent entities thereof, with an investment grade credit rating from S&P Global Ratings, Moody's Investors Service, Fitch Ratings or the National Association of Insurance Commissioners.

Substantially all of our tenants are subject to net lease agreements. A net lease typically requires the tenant to be responsible for minimum monthly rent and actual property operating expenses incurred, including property taxes, insurance and maintenance. In addition, our tenants are typically subject to future rent increases based on fixed

amounts or increases in the consumer price index and certain leases provide for additional rent calculated as a percentage of the tenants' gross sales above a specified level. Certain of our properties are subject to leases under which we retain responsibility for specific costs and expenses of the property.

Table of Contents

Our leases typically provide the tenant one or more multi-year renewal options to extend their leases, subject to generally the same terms and conditions, including rent increases, consistent with the initial lease term. Additionally, some of our tenant leases provide the tenant options to terminate, usually upon certain conditions or events occurring, such as a sales threshold not being met.

The Company attempts to maximize the amount it expects to derive from the underlying real estate property following the end of the lease, to the extent it is not extended. We maintain a proactive leasing and capital improvement program that, combined with the quality and locations of our properties, has made our properties attractive to tenants. We intend to continue to hold our properties for long-term investment and, accordingly, place a strong emphasis on the quality of construction and an on-going program of regular and preventative maintenance. However, the residual value of a real estate property is still subject to various market-specific, asset-specific, and tenant-specific risks and characteristics. As the classification of a lease is dependent on the fair value of its cash flows at lease commencement, the residual value of a property represents a significant assumption in our accounting for tenant leases. Similarly, the exercise of options is also subject to these same risks, making a tenant's lease term another significant variable in a lease's cash flows.

The Company has elected the practical expedient in ASC Topic 842 on not separating non-lease components from associated lease components. The lease and non-lease components combined as a result of this election largely include tenant rentals and maintenance charges, respectively. The Company applies the accounting requirements of ASC Topic 842 to the combined component.

The following table includes information regarding the Company's operating leases for which it is the lessor, for the three months ended March 31, 2019 and as of period end. (presented in thousands)

	Three months ended March 31, 2019
Total Lease Payments	\$ 44,361
Less: Variable Lease Payments	5,587
Total Non-Variable Lease Payments	\$ 38,774

	2019						
Year Ending							
December 31,	(remaining)	2020	2021	2022	2023	Thereafter	Total
Lease							
Payments							
Receivable	\$ 121,564	\$ 161,339	\$ 158,423	\$ 154,964	\$ 150,561	\$ 998,473	\$ 1,745,324

## Land Lease Obligations

The Company is the lessee under land lease agreements for certain of its properties, all of which qualify as operating leases as of March 31, 2019. Our land leases are net lease agreements and do not include variable leasing payments. These leases typically provide multi-year renewal options to extend term as lessee at the Company's option. Option periods are included in the calculation of the lease obligation liability only when options are reasonably certain to be exercised.

In calculating the Company's lease obligations under the ground leases, the Company uses discount rates estimated to be equal to what the Company would have to pay to borrow on a collateralized basis over a similar term, for an amount equal to the lease payments, in a similar economic environment.



Table of Contents

The following tables include information on the Company's land leases for which it is the lessee, for the three months ended March 31, 2019 and as of period end. (presented in thousands)

	Three months ended March 31, 2019	
Operating Lease Costs	\$ 202	
Variable Lease Costs	—	
Total Non-Variable Lease Costs	\$ 202	
Supplemental Disclosure		
Cash paid for amounts included in the measurement of lease liabilities	\$ -	
Operating cash flows from operating leases	\$ 198	
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 19,672	
Weighted-average remaining lease term - operating leases (years)	37.1	
Weighted-average discount rate - operating leases	4.13	%

## Maturity Analysis of Lease Liabilities (presented in thousands)

Year Ending	2019						
December 31,	(remaining)	2020	2021	2022	2023	Thereafter	Total
Lease Payments	\$ 934	\$ 1,245	\$ 1,191	\$ 965	\$ 965	\$ 35,883	\$ 41,183
Less: Imputed							
Interest	(601)	(785)	(766)	(753)	(744)	(17,983)	(21,632)
Total Lease							
Liabilities	\$ 333	\$ 460	\$ 425	\$ 212	\$ 221	\$ 17,900	\$ 19,551

## Note 4 – Real Estate Investments

## Real Estate Portfolio

As of March 31, 2019, the Company owned 694 properties, with a total gross leasable area of approximately 11.9 million square feet. Net Real Estate Investments totaled \$1.8 billion as of March 31, 2019. As of December 31, 2018, the Company owned 645 properties, with a total gross leasable area of approximately 11.2 million square feet. Net Real Estate Investments totaled \$1.7 billion as of December 31, 2018.

## Acquisitions

During the three months ended March 31, 2019, the Company purchased 48 retail net lease assets for approximately \$141.7 million, which includes acquisition and closing costs. These properties are located in 22 states and are leased

for a weighted average lease term of approximately 12.8 years.

The aggregate acquisitions for the three months ended March 31, 2019 were allocated \$34.9 million to land, \$92.4 million to buildings and improvements, and \$14.4 million to lease intangibles. The acquisitions were all cash purchases and there were no contingent considerations associated with these acquisitions. None of the Company's acquisitions during the first three months of 2019 caused any new or existing tenant to comprise 10% or more of our total assets or generate 10% or more of our total annualized contractual base rent at March 31, 2019.

## Table of Contents

### Developments

During the three months ended March 31, 2019, the Company completed or had under construction nine developments or Partnership Capital Solutions projects.

### Dispositions

During the three months ended March 31, 2019, the Company sold two properties for net proceeds of \$9.8 million and the Company recorded a net gain of \$3.4 million.

### Provision for Impairment

The Company reviews long-lived assets, including intangible assets, for possible impairment when certain events or changes in circumstances indicates that the carrying amount of the asset may not be recoverable through operations. Events or changes in circumstances may include significant changes in real estate market conditions and an expectation to sell assets before the end of the previously estimated life. Impairments are measured to the extent the current book value exceeds the estimated fair value of the asset less disposition costs for any assets classified as held for sale. During the three months ended March 31, 2019, the Company recognized provisions for impairment of \$0.4 million. There were no provisions for impairment for the three months ended March 31, 2018.

The valuation of impaired assets is determined using valuation techniques including discounted cash flow analysis, analysis of recent comparable sales transactions, and purchase offers received from third parties, which are Level 3 inputs. The Company may consider a single valuation technique or multiple valuation techniques, as appropriate, when estimating the fair value of its real estate.

### Note 5 – Debt

As of March 31, 2019, the Company had total indebtedness of \$775.2 million, including (i) \$60.8 million of mortgage notes payable; (ii) \$258.4 million of unsecured term loans; (iii) \$385.0 million of senior unsecured notes; and (iv) \$71.0 million of borrowings under our Credit Facility.

### Mortgage Notes Payable

As of March 31, 2019, the Company had total gross mortgage indebtedness of \$60.8 million which was collateralized by related real estate and tenants' leases with an aggregate net book value of \$107.3 million. Including mortgages that have been swapped to a fixed interest rate, the weighted average interest rate on the Company's mortgage notes payable was 4.10% as of March 31, 2019 and 4.13% as of December 31, 2018.

Table of Contents

(not presented in thousands)	March 31, 2019	December 31, 2018
	(in thousands)	
Note payable in monthly installments of interest only at 3.32% per annum, with a balloon payment due October 2019	\$ 21,500	\$ 21,500
Note payable in monthly installments of \$153,838, including interest at 6.90% per annum, with the final monthly payment due January 2020	1,491	1,922
Note payable in monthly installments of \$23,004, including interest at 6.24% per annum, with a balloon payment of \$2,781,819 due February 2020	2,848	2,872
Note payable in monthly installments of interest only at 3.60% per annum, with a balloon payment due January 2023	23,640	23,640
Note payable in monthly installments of \$35,673, including interest at 5.01% per annum, with a balloon payment of \$4,034,627 due September 2023	4,914	4,959
Note payable in monthly installments of \$91,675 including interest at 6.27% per annum, with a final monthly payment due July 2026	6,454	6,626
Total principal	60,847	61,519
Unamortized debt issuance costs	(544)	(593)
Total	\$ 60,303	\$ 60,926

The mortgage loans encumbering our properties are generally non-recourse, subject to certain exceptions for which we would be liable for any resulting losses incurred by the lender. These exceptions vary from loan to loan, but generally include fraud or material misrepresentations, misstatements or omissions by the borrower, intentional or grossly negligent conduct by the borrower that harms the property or results in a loss to the lender, filing of a bankruptcy petition by the borrower, either directly or indirectly, and certain environmental liabilities. At March 31, 2019, there were no mortgage loans with partial recourse to us.

We have entered into mortgage loans which are secured by multiple properties and contain cross-default and cross-collateralization provisions. Cross-collateralization provisions allow a lender to foreclose on multiple properties in the event that we default under the loan. Cross-default provisions allow a lender to foreclose on the related property in the event a default is declared under another loan.

## Senior Unsecured Notes

The following table presents the Senior Unsecured Notes balance net of unamortized debt issuance costs as of March 31, 2019, and December 31, 2018 (in thousands):

Edgar Filing: AGREE REALTY CORP - Form 10-Q

	March 31, 2019	December 31, 2018
2025 Senior Unsecured Notes	\$ 50,000	\$ 50,000
2027 Senior Unsecured Notes	50,000	50,000
2028 Senior Unsecured Notes	60,000	60,000
2029 Senior Unsecured Notes	100,000	100,000
2030 Senior Unsecured Notes	125,000	125,000
Total Principal	385,000	385,000
Unamortized debt issuance costs	(883)	(936)
Total	\$ 384,117	\$ 384,064

Table of Contents

In May 2015, the Company and the Operating Partnership completed a private placement of \$100.0 million principal amount of senior unsecured notes. The senior unsecured notes were sold in two series; \$50.0 million of 4.16% notes due May 2025 (the “2025 Senior Unsecured Notes”) and \$50.0 million of 4.26% notes due May 2027 (the “2027 Senior Unsecured Notes”). The senior unsecured notes were sold only to institutional investors and did not involve a public offering in reliance on the exemption from registration in Section 4(a)(2) of the Securities Act.

In July 2016, the Company and the Operating Partnership entered into a note purchase agreement with institutional purchasers. Pursuant to the note purchase agreement, the Operating Partnership completed a private placement of \$60.0 million aggregate principal amount of 4.42% senior unsecured notes due July 2028 (the “2028 Senior Unsecured Notes”). The senior unsecured notes were sold only to institutional investors and did not involve a public offering in reliance on the exemption from registration in Section 4(a)(2) of the Securities Act.

In August 2017, the Company and the Operating Partnership entered into a note purchase agreement with institutional purchasers. Pursuant to the note purchase agreement, the Operating Partnership completed a private placement of \$100.0 million aggregate principal amount of our 4.19% senior unsecured notes due September 2029 (the “2029 Senior Unsecured Notes”). Closing of the private placement was consummated in September 2017; and, on that date, the Operating Partnership issued the senior unsecured notes. The senior unsecured notes were sold only to institutional investors and did not involve a public offering in reliance on the exemption from registration in Section 4(a)(2) of the Securities Act.

In September 2018, the Company and the Operating Partnership entered into two supplements to uncommitted master note facilities with institutional purchasers. Pursuant to the supplements, the Operating Partnership completed a private placement of \$125.0 million aggregate principal amount of 4.32% senior unsecured notes due September 2030 (the “2030 Senior Unsecured Notes”). The senior unsecured notes were sold only to institutional investors and did not involve a public offering in reliance on the exemption from registration in Section 4(a)(2) of the Securities Act.

#### Unsecured Term Loan Facilities

The following table presents the Unsecured Term Loans balance net of unamortized debt issuance costs as of March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019	December 31, 2018
2019 Term Loan	\$ 18,353	\$ 18,543
2023 Term Loan	40,000	40,000
2024 Term Loan Facilities	100,000	100,000
2026 Term Loan	100,000	100,000
Total Principal	258,353	258,543
Unamortized debt issuance costs	(2,109)	(2,124)
Total	\$ 256,244	\$ 256,419

In August 2016, the Company entered into a \$20.3 million unsecured amortizing term loan that matures May 2019 (the “2019 Term Loan”). Borrowings under the 2019 Term Loan are priced at LIBOR plus 170 basis points. In order to fix LIBOR on the 2019 Term Loan at 1.92% until maturity, the Company had an interest rate swap agreement in place, which was assigned by the lender under the Mortgage Note to the 2019 Term Loan lender. As of March 31, 2019, \$18.4 million was outstanding under the 2019 Term Loan bearing an all-in interest rate of 3.62%, including the

swap.

In July 2016, the Company completed a \$40.0 million unsecured term loan facility that matures July 2023 (the “2023 Term Loan”). Borrowings under the 2023 Term Loan are priced at LIBOR plus 85 to 165 basis points, depending on the Company’s credit rating. The Company entered into an interest rate swap to fix LIBOR at 140 basis points until maturity. As of March 31, 2019, \$40.0 million was outstanding under the 2023 Term Loan, which was subject to an all-in interest rate of 2.40%, including the swap.

The amended and restated credit agreement, described below, extended the maturity dates of the \$65.0 million unsecured term loan facility and \$35.0 million unsecured term loan facility (together, the “2024 Term Loan Facilities”) to January 2024. In connection with entering into the amended and restated credit agreement, the prior notes evidencing the

18

---

## Table of Contents

existing \$65.0 million unsecured term loan facility and \$35.0 million unsecured term loan facility were canceled and new notes evidencing the 2024 Term Loan Facilities were executed. Borrowings under the unsecured 2024 Term Loan Facilities bear interest at a variable LIBOR plus 85 to 165 basis points, depending on the Company's credit rating. The Company utilized existing interest rate swaps to effectively fix the LIBOR at 213 basis points until maturity (refer to Note 7 – Derivative Instruments and Hedging Activity). As of March 31, 2019, \$100.0 million was outstanding under the 2024 Term Loan Facilities bearing an all-in interest rate of 3.13%, including the swap.

In December 2018, the Company entered into a \$100.0 million unsecured term loan facility that matures January 2026 (the "2026 Term Loan"). Borrowings under the 2026 Term Loan are priced at LIBOR plus 145 to 240 basis points, depending on the Company's credit rating. The Company entered into an interest rate swap to fix LIBOR at 266 basis points until maturity. As of March 31, 2019, \$100.0 million was outstanding under the 2026 Term Loan, which was subject to an all-in interest rate of 4.26%, including the swap.

### Senior Unsecured Revolving Credit Facility

In December 2016, the Company amended and restated the credit agreement (the "Credit Agreement") that governs the Company's senior unsecured revolving credit facility and the Company's unsecured term loan facility to increase the aggregate borrowing capacity to \$350.0 million. In July 2018, the Company elected to pursue commitments under the accordion option outlined in its senior unsecured revolving credit facility to increase the revolving commitments by \$75.0 million, raising the total revolving commitments under the amended and restated credit agreement from \$250.0 million to \$325.0 million. Including the increased commitments, the amended and restated credit agreement provides for a \$325.0 million unsecured revolving credit facility, a \$65.0 million unsecured term loan facility and a \$35.0 million unsecured term loan facility (referenced above as 2024 Term Loan Facilities). The unsecured revolving credit facility matures January 2021 with options to extend the maturity date to January 2022. The 2024 Term Loan Facilities mature January 2024. The Company has the ability to increase the aggregate borrowing capacity under the credit agreement up to \$500.0 million, subject to lender approval.

Borrowings under the revolving credit facility bear interest at LIBOR plus 85 to 155 basis points, depending on the Company's credit rating. Additionally, the Company is required to pay a facility fee at an annual rate of 0 to 55 basis points of the total amount of the revolving credit facility, depending on the Company's credit rating. The Credit Agreement contains certain financial covenants, including a maximum leverage ratio, a minimum fixed charge coverage ratio, and a maximum percentage of secured debt to total asset value. As of March 31, 2019, and December 31, 2018, the Company had \$71.0 million and \$19.0 million of outstanding borrowings under the revolving credit facility, respectively, bearing weighted average interest rates of approximately 3.49% and 3.38%, respectively. As of March 31, 2019, \$254.0 million was available for borrowing under the revolving credit facility and the Company was in compliance with the credit agreement covenants.

Concurrent with the amendment and restatement of the Company's senior unsecured revolving credit facility, conforming changes were made to the 2023 Term Loan and 2019 Term Loan.

The Company and Richard Agree, the Executive Chairman of the Company, are parties to a Reimbursement Agreement dated November 18, 2014. Pursuant to the Reimbursement Agreement, Mr. Agree has agreed to reimburse the Company for any loss incurred under the unsecured revolving credit facility in an amount not to exceed \$14.0 million to the extent that the value of the Operating Partnership's assets available to satisfy the Operating Partnership's obligation under the revolving credit facility is less than \$14.0 million.



Table of Contents

## Debt Maturities

The following table presents scheduled principal payments related to our debt as of March 31, 2019 (in thousands):

	Scheduled Principal	Balloon Payment	Total
Remainder of 2019	\$ 2,142	\$ 39,791	\$ 41,933
2020	1,100	2,767	3,867
2021 (1)	998	71,000	71,998
2022	1,060	—	1,060
2023	1,069	67,656	68,725
Thereafter	2,617	585,000	587,617
Total	\$ 8,986	\$ 766,214	\$ 775,200

(1)The balloon payment balance includes the balance outstanding under the Credit Facility as of March 31, 2019. The Credit Facility matures in January 2021, with options to extend the maturity for one year at the Company’s election, subject to certain conditions.

## Loan Covenants

Certain loan agreements contain various restrictive covenants, including the following financial covenants: maximum leverage ratio, maximum secured and secured recourse leverage ratios, minimum tangible net worth and consolidated net worth requirements, a minimum fixed charge coverage ratio, a maximum unencumbered leverage ratio, a minimum unsecured interest expense ratio, a minimum unencumbered interest expense ratio, and a maximum payout ratio. As of March 31, 2019, the most restrictive covenant was the minimum unencumbered interest expense ratio. We were in compliance with all of our loan covenants and obligations as of March 31, 2019.

## Note 6 – Common and Preferred Stock

## Shelf Registration

In June 2017, the Company filed an automatic shelf registration statement on Form S-3, registering an unspecified amount at an indeterminate aggregate initial offering price of common stock, preferred stock, depositary shares and warrants. The Company may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if these securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

## ATM Program

In May 2018, the Company entered into a \$250.0 million at-the-market equity program (“ATM Program”) through which the Company may, from time to time, sell shares of common stock. In addition to selling shares of common

stock, the Company may enter into forward sale agreements through its ATM Program.

During the year ended December 31, 2018, the Company issued 3,057,263 shares of common stock under the ATM Program. During the three months ended March 31, 2019, the Company issued an additional 874,268 shares of common stock under this program at an average price of \$66.79, realizing gross proceeds of approximately \$58.4 million. The Company had approximately \$10.4 million remaining under the ATM program as of March 31, 2019.

#### Forward Sale Agreement

In September 2018, the Company entered into a follow-on offering of 3,500,000 shares of common stock in connection with a forward sale agreement. As of March 31, 2019, the Company has not received proceeds from the sale of shares of its common stock by the forward purchaser. Selling common stock through the forward sale agreement enabled the Company to set the price of such shares upon pricing the offering (subject to certain adjustments) while delaying the

## Table of Contents

issuance of such shares and the receipt of the net proceeds by the Company. The forward sale agreement is required to be settled no later than September 3, 2019.

### Preferred Stock

During the three months ended March 31, 2019, the Company redesignated and reclassified all 200,000 authorized but unissued shares of the Company's Series A Junior Participating Preferred Stock as authorized but unissued and unclassified shares of preferred stock, par value \$.0001 per share, of the Company without further designation. The number of preferred shares the Company has the authority to issue remains at 4,000,000, all of which are unclassified and undesignated.

### Note 7 – Dividends and Distribution Payable

On February 26, 2019, the Company declared a dividend of \$0.555 per share (and distributions per unit) for the quarter ended March 31, 2019. The holders of limited partnership interests in the Operating Partnership ("OP Units") were entitled to an equal distribution per OP Unit held as of March 29, 2019. The dividends and distributions payable were recorded as liabilities on the Company's consolidated balance sheet at March 31, 2019. The dividend has been reflected as a reduction of stockholders' equity and the distribution has been reflected as a reduction of the limited partners' non-controlling interest. These amounts were paid on April 12, 2019. Dividends per share (and distributions per unit) declared for the quarter ended March 31, 2018 were \$0.520.

### Note 8 – Derivative Instruments and Hedging Activity

#### Background

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risk, including interest rate, liquidity and credit risk primarily by managing the amount, sources and duration of its debt funding and, to a limited extent, the use of derivative instruments. For additional information regarding the leveling of our derivatives (refer to Note 10 – Fair Value Measurements).

The Company's objective in using interest rate derivatives is to manage its exposure to interest rate movements and add stability to interest expense. To accomplish this objective, the Company uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed rate payments over the life of the agreement without exchange of the underlying notional amount.

#### Recent Activity

In March 2019, the Company entered into forward-starting interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates from the trade date through the forecasted issuance date of \$100 million of long-term debt. The Company is hedging its exposure to the variability in future cash flows for a forecasted issuance of long-term debt over a maximum period of one year. As of March 31, 2019, these interest rate swaps were valued as a liability of approximately \$0.5 million.

#### Prior Derivative Transactions

In April 2012, the Company entered into an amortizing forward-starting interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on \$22.3 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on one month LIBOR and pays to the counterparty a fixed rate of 1.92%. The notional amount as of March 31, 2019 is \$18.4 million. This swap effectively converted \$22.3 million of variable-rate borrowings to fixed-rate borrowings from July 1, 2013 to May 1, 2019. As of March 31, 2019, this interest rate swap was nominally valued as an asset.

## Table of Contents

In September 2013, the Company entered into an interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on \$35.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on one month LIBOR and pays to the counterparty a fixed rate of 2.20%. This swap effectively converted \$35.0 million of variable-rate borrowings to fixed-rate borrowings from October 3, 2013 to September 29, 2020. As of March 31, 2019, this interest rate swap was valued as an asset of approximately \$0.1 million.

In July 2014, the Company entered into interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates on \$65.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on one month LIBOR and pays to the counterparty a fixed rate of 2.09%. This swap effectively converted \$65.0 million of variable-rate borrowings to fixed-rate borrowings from July 21, 2014 to July 21, 2021. As of March 31, 2019, this interest rate swap was valued as an asset of approximately \$0.2 million.

In September 2017, the Company entered into an interest rate swap agreement to hedge against changes in future cash flows resulting from changes in interest rates on \$40.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreement, the Company receives from the counterparty interest on the notional amount based on one month LIBOR and pays to the counterparty a fixed rate of 1.40%. This swap effectively converted \$40.0 million of variable-rate borrowings to fixed-rate borrowings from August 1, 2016 to July 1, 2023. As of March 31, 2019, this interest rate swap was valued as an asset of approximately \$1.2 million.

In December 2018, the Company entered into interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates on \$100.0 million in variable-rate borrowings. Under the terms of the interest rate swap agreements, the Company receives from the counterparty interest on the notional amount based on one month LIBOR and pays to the counterparty a fixed rate of 2.66%. This swap effectively converts \$100.0 million of variable-rate borrowings to fixed-rate borrowings from December 27, 2018 to January 15, 2026. As of March 31, 2019, this interest rate swap was valued as a liability of approximately \$3.0 million.

## Recognition

On January 1, 2019, the Company adopted ASU No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities", which provided changes in hedge accounting recognition and presentation requirements. We now recognize all changes in fair value for hedging instruments designated and qualifying for cash flow hedge accounting treatment as a component of Other Comprehensive Income (OCI), as opposed to previously recognizing the ineffective portion, if any, directly in earnings. Upon adoption, there were no adjustments to recognize relating to previously recorded derivatives transactions or amounts. Net realized gains or losses resulting from derivatives that were settled in conjunction with planned fixed rate financings or refinancings continue to be included in accumulated OCI during the term of the hedged debt transaction.

Amounts reported in accumulated OCI related to currently outstanding interest rate derivatives are recognized as an adjustment to income as interest payments are made on our variable-rate debt. Realized gains or losses on settled derivative instruments included in accumulated OCI are recognized as an adjustment over the term of the hedged debt transaction. During the next twelve months, the Company estimates that an additional \$0.4 million will be reclassified as a reduction to interest expense.

The Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (in thousands, except number of instruments):

Edgar Filing: AGREE REALTY CORP - Form 10-Q

	Number of Instruments		Notional	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Interest Rate Derivatives				
Interest Rate Swap	13	10	\$ 258,353	\$ 258,543

Table of Contents

The table below presents the estimated fair value of the Company's derivative financial instruments, as well as their classification in the consolidated balance sheets (in thousands).

	Asset Derivatives	
	March 31, 2019	December 31, 2018
	Fair Value	Fair Value
Derivatives designated as cash flow hedges:		
Interest Rate Swaps	\$ 1,440	\$ 2,539

  

	Liability Derivatives	
	March 31, 2019	December 31, 2018
	Fair Value	Fair Value
Derivatives designated as cash flow hedges:		
Interest Rate Swaps	\$ 3,441	\$ 1,135

The table below displays the effect of the Company's derivative financial instruments in the consolidated statements of operations and other comprehensive loss for the three months ended March 31, 2019 and 2018 (in thousands).

Three Months Ended March 31,	Derivatives in Cash Flow Hedging Relationships	Amount of Income/(Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Income/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Income/(Loss) Reclassified from Accumulated OCI into Expense (Effective Portion)	
		2019	2018		2019	2018
	Interest rate swaps	\$ (3,216)	\$ 1,920	Interest Expense	\$ 188	\$ (83)

Credit-risk-related Contingent Features

The Company has agreements with its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

As of March 31, 2019, the fair value of derivatives in a net liability position related to these agreements, which includes accrued interest but excludes any adjustment for nonperformance risk, was \$2.5 million.

Although the derivative contracts are subject to master netting arrangements, which serve as credit mitigants to both us and our counterparties under certain situations, we do not net our derivative fair values or any existing rights or obligations to cash collateral on the consolidated balance sheets.

The table below presents a gross presentation of the effects of offsetting and a net presentation of the Company's derivatives as of March 31, 2019 and December 31, 2018. The gross amounts of derivative assets or liabilities can be reconciled to the Tabular Disclosure of Fair Values of Derivative Instruments above, which also provides the location that derivative assets and liabilities are presented on the consolidated balance sheets (in thousands):

Offsetting of Derivative Assets as of March 31, 2019

Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial	Net Amounts of Assets presented in the statement of Financial	Gross Amounts Not Offset in the Statement of Financial Position Financial	Cash Collateral
--	---	--	---	-----------------