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REITs

Price:	\$46.82
Fair Value Estimate:	\$53.00
52-Week Range:	\$30.36 - \$51.33
Equity Market Cap (M):	1,116.0
Shr.&Units O/S (M):	23.70
30-day Avg Daily Vol:	225,982
Dividend:	\$1.92
Yield:	4.1%

FYE: Dec	2015A	2016E	2017E
Prior FFO:		NC	NC

Quarterly FFO:

Q1	\$0.56A	\$0.61A	\$0.68E
Q2	\$0.62A	\$0.61A	\$0.69E
Q3	\$0.61A	\$0.63E	\$0.70E
Q4	\$0.60A	\$0.68E	\$0.70E
Year:	\$2.39A	\$2.53E	\$2.77E

October 17, 2016

Agree Realty Corporation (ADC) - BUY

Why ADC remains one of our favorite REIT names

Flash Takeaways

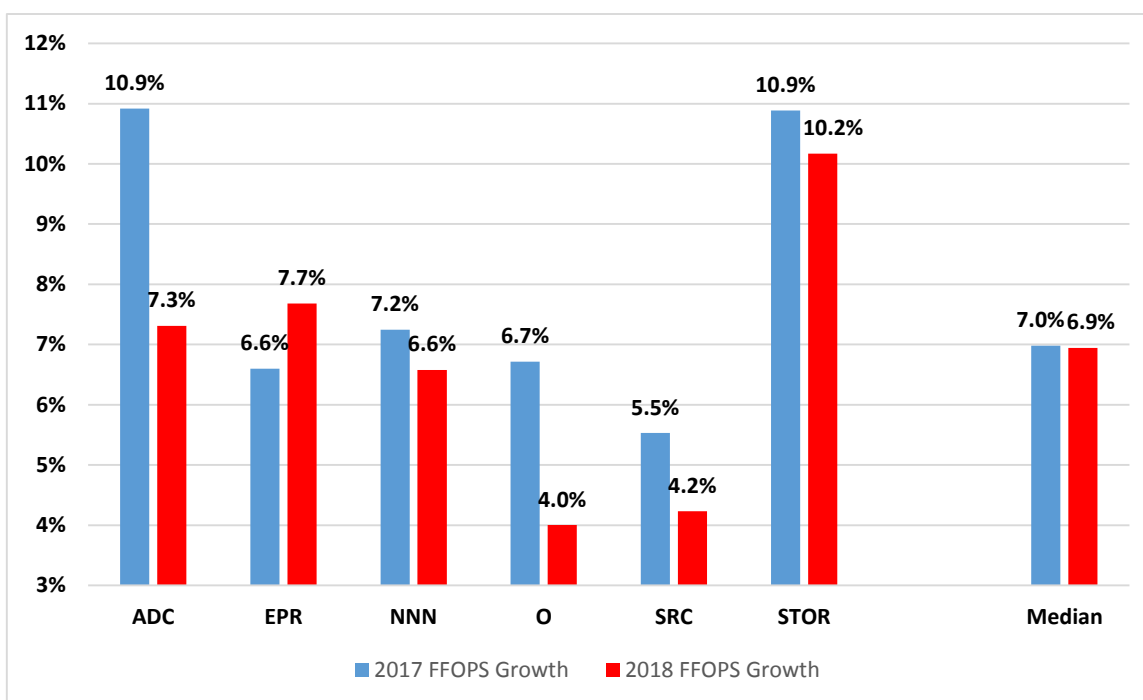
We believe ADC has one of the best retail-focused triple-net REIT portfolios. Today its portfolio of 341 properties is located across 43 states and accounts for over 6.7M of square feet. Importantly, 46% of revenue comes from investment grade tenants, and its average remaining lease term is just under 11 years. We continue to expect above average earnings and dividend growth over the next few years, and combined with an attractive valuation, ADC remains one of our favorite names.

Analysts Notes

- We expect ADC to maintain its strong growth profile. Despite its strong growth over the last few years, ADC is still under \$1.2B of equity market capitalization. With management expecting to acquire \$250M+ of assets at cap rates in the 7.5%-8.0% range, coupled with a modest level of internal growth, we expect ADC will continue to produce one of the strongest earnings growth rates in the retail-focused triple-net REIT space.
- While still a small part of the current growth story, we expect ADC to expand its development and partner capital solutions businesses in coming years. In addition to acquiring assets, ADC also develops assets for its own balance sheet, as well as partners with private developers to provide capital and control assets long-term. While still a small part of the growth story today (3 projects totaling \$14.5M were added to its pipeline in early October), we expect ADC to continue to grow this business over the next few years.
- We expect ADC will continue to lower its Walgreens (13%) and pharmacy (18%) exposures over the next few years. We expect greater diversification will come via both the disposition of selected Walgreens/pharmacy assets, as well as the acquisition of new assets. Overall, we view ADC's capital recycling activities favorably as the company seeks to take advantage of market inefficiencies.
- Maintaining our investment thesis. We believe that with continued strong earnings growth, a more diverse tenant base, a long history of dividend increases, and a BBB investment grade debt rating, ADC will be able to further close the valuation gap relative to industry leaders NNN and O.
- Maintaining our Buy rating and \$53 Fair Value estimate. Based on a 5.3% implied cap rate, a 4.1% dividend yield (that is well-covered), and 2017 FFO and AFFO multiples of 17.0x and 17.1x, respectively, we continue to believe ADC is attractively valued at the current stock price. ADC remains one of our favorite names, not only in the retail-focused triple-net space, but within the small-cap REIT space overall.



Appendix 1 Retail-Focused Triple-Net Lease REITs – Consensus 2016 & 2017 FFO Per Share Growth Estimates



Source: Company documents, Janney Montgomery Scott LLC E = Estimates A = Actual

Appendix 2 Retail-focused Triple-Net REIT 2016 management guidance

Mgt Guidance	ADC	EPR	NNN	O	SRC	STOR
Acquisition Volume	\$250M-\$275M	\$650M-\$700M	\$650M-\$750M	\$1.25B	\$240.6M*	\$1.06B-\$1.08B
Disposition Volume	\$20M-\$50M	\$75M-\$175M	\$85M-\$100M	\$50M-\$75M	\$227.5M*	\$60M-\$80M
2016 FFOPS	na	\$4.62-\$4.70	\$2.31-\$2.36	\$2.82-\$2.89	na	\$1.51-\$1.53
2016 AFFOPS	na	na	\$2.36-\$2.41	\$2.85-\$2.90	\$0.87-\$0.89	\$1.61-\$1.63

* SRC does not provide acquisition or disposition guidance. Mgt indicated on their 2Q16 earnings call they had acquired an additional \$145.3M in 3Q16 through 8/4/16

Source: SNL, FactSet, Janney Montgomery Scott LLC

Appendix 3 Agree Realty Corporation (ADC) – Income Statement

Year Ends December 31	1QA	2QA	2015A 3QA	4QA	2015A	1QA	2QA	2016E 3QE	4QE	2016E	1QE	2QE	2017E 3QE	4QE	2017E
Minimum rents	14,554	15,972	16,736	17,016	64,278	18,491	19,912	21,561	22,942	82,906	23,407	24,309	25,212	26,115	99,043
Percentage rents	10	141	38	(9)	180	183	7	43	46	279	47	49	50	52	198
Operating cost reimbursement	1,178	1,098	971	2,031	5,278	1,589	1,934	1,725	1,881	7,129	1,873	1,945	2,017	2,089	7,923
Development fee income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Real estate tax Expenses	(763)	(863)	(716)	(1,663)	(4,005)	(1,123)	(1,438)	(1,552)	(1,606)	(5,719)	(1,580)	(1,641)	(1,702)	(1,763)	(6,685)
Property operating expenses	(571)	(416)	(424)	(357)	(1,768)	(573)	(929)	(1,006)	(975)	(3,483)	(1,006)	(1,045)	(1,084)	(1,123)	(4,259)
Land lease payments	(132)	(137)	(174)	(163)	(606)	(163)	(163)	(177)	(188)	(690)	(192)	(199)	(206)	(214)	(811)
Net Operating Income (NOI)	14,276	15,795	16,430	16,855	63,356	18,404	19,323	20,595	22,100	80,422	22,548	23,418	24,287	25,157	95,410
General and administrative expenses	(1,668)	(1,744)	(1,769)	(1,808)	(6,989)	(2,045)	(2,042)	(2,286)	(2,329)	(8,701)	(2,387)	(2,480)	(2,572)	(2,664)	(10,102)
Other Items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Misc EBITDA Items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBITDA	12,608	14,051	14,662	15,047	56,368	16,359	17,281	18,309	19,772	71,721	20,161	20,938	21,716	22,493	85,307
Other income	1	8	106	116	231	(39)	(9)	(10)	(10)	(88)	23	24	25	26	99
Depreciation and amortization expense	(3,554)	(4,117)	(5,526)	(3,289)	(16,486)	(5,085)	(5,665)	(5,628)	(5,986)	(22,364)	(5,986)	(6,467)	(6,704)	(6,940)	(26,097)
Interest expense, net	(2,460)	(2,933)	(2,964)	(3,947)	(12,304)	(3,649)	(3,497)	(3,476)	(3,588)	(14,210)	(3,847)	(3,975)	(4,098)	(4,214)	(16,133)
Impairment charge	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Misc Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating Income	6,595	7,009	6,277	7,927	27,808	7,586	8,110	9,196	10,188	35,079	10,351	10,521	10,939	11,365	43,176
Gain/(Loss) on sale of asset	79	3,456	8,599	0	12,134	0	2,718	0	2,718	0	0	0	0	0	0
Gain on extinguishment of debt	(180)	0	0	0	(180)	0	0	0	0	0	0	0	0	0	0
Misc Items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Misc Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income From Continuing Operations	6,494	10,465	14,876	7,927	39,762	7,586	10,828	9,196	10,188	37,797	10,351	10,521	10,939	11,365	43,176
Gain on sale of assets from discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
(Loss) Income from discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Discontinued Ops	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	6,494	10,465	14,876	7,927	39,762	7,586	10,828	9,196	10,188	37,797	10,351	10,521	10,939	11,365	43,176
Less Net Income Attributable to Non-Controlling Interest	(126)	(201)	(281)	(137)	(745)	(125)	(167)	(181)	(192)	(665)	(164)	(170)	(176)	(183)	(693)
Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income Attributable to Agree Realty Corporation	6,368	10,264	14,595	7,790	39,017	7,461	10,661	9,015	9,995	37,132	10,187	10,351	10,762	11,182	42,483
Funds From Operations (FFO)															
Net income	6,494	10,465	14,876	7,927	39,762	7,586	10,828	9,196	10,188	37,797	10,351	10,521	10,939	11,365	43,176
Depreciation of real estate assets	2,555	2,923	3,221	2,768	11,467	3,362	3,595	3,571	3,799	14,327	3,951	4,268	4,425	4,580	17,224
Amortization of leasing intangibles	953	29	29	1,046	2,057	1,686	2,027	1,648	1,779	7,140	1,814	1,884	1,954	2,024	7,678
Impairment charge	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss (Gain) on sale of assets	(79)	(3,456)	(8,599)	0	(12,134)	0	(2,718)	0	0	(2,718)	0	0	0	0	0
Amortization of leasing costs	30	1,150	1,710	14	2,904	22	24	25	27	99	28	29	30	31	118
Misc FFO Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Funds From Operations (FFO)	9,953	11,111	11,237	11,755	44,056	12,656	13,756	14,440	15,793	56,645	16,144	16,703	17,348	18,001	68,196
Adjusted Funds From Operations (AFFO)															
Straight-line rental income	(598)	(608)	(610)	(634)	(2,450)	(649)	(656)	(695)	(751)	(2,751)	(765)	(795)	(824)	(854)	(3,238)
Stock-based compensation expense	524	521	477	470	1,992	708	601	637	688	2,633	701	728	755	782	2,967
Deferred revenue recognition	(116)	(116)	(116)	(116)	(464)	(116)	(116)	(123)	(133)	(488)	(135)	(141)	(146)	(151)	(573)
Amortization of financing costs	109	116	130	110	465	118	122	129	140	509	142	148	153	159	602
Capitalized Building Improvement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Misc AFFO Adjustments	180	0	0	0	180	0	19	0	0	19	0	0	0	0	0
Adjusted Funds From Operations (AFFO)	10,052	11,024	11,119	11,585	43,780	12,717	13,726	14,388	15,737	56,568	16,087	16,643	17,287	17,937	67,954
Gross Common Dividends	(7,994)	(8,340)	(8,562)	(9,057)	(33,952)	(9,685)	(10,854)	(10,970)	(11,158)	(42,667)	(11,395)	(12,168)	(12,467)	(12,767)	(48,796)
Retained Cash Flow	2,058	2,684	2,557	2,528	9,828	3,032	2,872	3,419	4,579	13,902	4,692	4,476	4,820	5,170	19,158
EPS - Diluted	\$0.37	\$0.58	\$0.81	\$0.41	\$2.16	\$0.36	\$0.48	\$0.40	\$0.44	\$1.68	\$0.44	\$0.43	\$0.44	\$0.44	\$1.75
FFO Per Share – NAREIT Definition (Diluted)	\$0.56	\$0.62	\$0.61	\$0.60	\$2.39	\$0.61	\$0.61	\$0.63	\$0.68	\$2.53	\$0.68	\$0.69	\$0.70	\$0.70	\$2.77
FFO Per Share – Normalized	\$0.56	\$0.62	\$0.61	\$0.60	\$2.39	\$0.61	\$0.61	\$0.63	\$0.68	\$2.53	\$0.68	\$0.69	\$0.70	\$0.70	\$2.77
AFFO Per Share	\$0.57	\$0.61	\$0.60	\$0.59	\$2.38	\$0.61	\$0.61	\$0.63	\$0.68	\$2.52	\$0.68	\$0.68	\$0.69	\$0.70	\$2.76
Dividends Declared Per Share	\$0.45	\$0.47	\$0.47	\$0.47	\$1.85	\$0.47	\$0.48	\$0.48	\$0.48	\$1.91	\$0.48	\$0.50	\$0.50	\$0.50	\$1.98
Payout Ratio - FFO	80%	75%	76%	77%	77%	77%	79%	76%	71%	75%	71%	73%	72%	71%	72%
Payout Ratio - AFFO	80%	76%	77%	78%	78%	76%	79%	76%	71%	75%	71%	73%	72%	71%	72%
Year-Over-Year FFOPS Growth	7%	16%	11%	6%	10%	8%	-2%	4%	13%	6%	12%	13%	10%	4%	9%
Weighted Average Number of Common Shares Outstanding - Diluted	17,416	17,587	18,064	19,129	18,065	20,480	22,265	22,505	22,897	22,037	23,391	23,987	24,585	25,186	24,287
Weighted average shares and OP units outstanding - Diluted	17,764	17,935	18,412	19,477	18,413	20,828	22,613	22,853	23,245	22,385	23,739	24,335	24,933	25,534	24,635

Source: Company documents, Janney Montgomery Scott LLC E = Estimates A = Actual

IMPORTANT DISCLOSURES

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Agree Realty Corporation currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Agree Realty Corporation.

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Agree Realty Corporation in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Agree Realty Corporation in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Agree Realty Corporation in the next three months.

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Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	124	52.54	28	22.58
NEUTRAL [N]	109	46.19	11	10.09
SELL [S]	3	1.27	0	0.00

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