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Today's featured company is:

NATIONAL RETAIL PROPERTIES
NYSE:NNN

Resilient Performance for Steady Returns

National Retail Properties Inc. (NYSE: NNN) owns approximately 2,500 retail properties triple-net-leased over long terms to tenants in a variety of industries. The diversification of the portfolio translates to stable generation of dividend income for investors and the ability to withstand volatility in the real estate market.

- Annual dividend increases for 27 consecutive years
- ~2,500 retail properties in 48 states with a 99% occupancy rate
- 25-year average annual total return of 15.5%
- $6.5 billion in total assets

Click here to view the National Retail Properties Fact Sheet.
Click here to view the National Retail Properties Investor Presentation.

Advisor Access spoke with president and incoming CEO **Jay Whitehurst** about National Retail Properties' diversified portfolio and how it plans to maintain its solid performance, including dependable dividend generation, going forward.

Advisor Access: ***National Retail Properties holds a broadly diversified portfolio. Can you describe what that is and why it is important?***

Jay Whitehurst: Our broad diversification by geography, retail line of trade, and individual tenant produces an incredibly consistent and dependable cash flow stream, which has allowed us to increase the annual dividend paid to our shareholders each year for the past 27 years. The diversification of our portfolio provides a "sleep well at night" safety net against fluctuations or changes in a particular line of trade, geographic region, or with any particular tenant, and has been likened to a mutual fund of income-producing properties.

National Retail Properties owns approximately 2,500 single tenant retail properties, which are triple-net-leased to more than 400 separate tenants doing business in more than 35 different lines of trade across 48 states and Puerto Rico. A triple net lease is a real-estate lease agreement where the tenant pays the ongoing expenses of the property, including real estate taxes, building insurance, and maintenance, in addition to paying the rent and utilities. The portfolio is 99% occupied, and the total rental revenue stream from these various retail properties is more than $525 million per year.

AA: ***In what ways do you consider National Retail Properties a superior investment to other types of REITs?***

JW: Single tenant retail real estate is a compelling investment. Our initial lease terms are for 15–20 years, and our average property costs $2.8 million. Our stores are well located along high traffic streets, often at signalized corners, with good access and visibility. Other property types, such as office and industrial properties, are usually more expensive and typically tend to have shorter initial lease terms. And their locations aren't as strategically integral to their tenants' operation, as is the case for retail locations. Retailers do not like to move because then customers must find the new store, so our lease renewal rates are very high. Also, our properties are generally fungible, so our occupancy rate remains very high.

Moreover, initial cash yields on our investments are much higher than most other REIT property types. When you add in the annual rent growth across the portfolio of approximately 1.5% per year, you'll see we achieve the kind of consistent, stable growth that most other REIT investments haven't been able to match.

"...our business model delivers above average performance while taking below average risk."

In short, we believe our business model delivers above average performance while taking below average risk. As of Sept. 30, 2016, National Retail Properties has outperformed the major REIT indices over the past 5-, 10-, 15-, 20- and 25-year periods, generating a 25-year average annual total return of 15.5%. These results are the outcome of a well-performing portfolio that is 99% occupied, and accretive acquisitions of new retail properties net-leased to creditworthy retailers. For the first three quarters of 2016, we acquired 249 new retail properties for $596.5 million at a cash yield of just under 7%, all supported by a strong and flexible balance sheet.

AA: ***How have you increased annual dividends for 27 consecutive years?***

JW: Our management philosophy is focused on consistent, sustainable growth in funds from operations (FFO) per share, thereby creating long-term shareholder value. The decisions we make regarding our investments and our balance sheet are predicated on a multiyear view. That long-term focus is also manifested in our dividend philosophy of consistent, sustainable, repetitive growth.

Over the last few years we have accomplished the competing goals of reducing the company's leverage and increasing the dividend per share, while simultaneously reducing the dividend payout ratio. With that goal achieved, our balance sheet has never been stronger and our payout ratio is at a very comfortable 75% of FFO. Going forward, our expectation is that the dividend will be able to grow at a rate in line with our FFO per share growth.

AA: ***As you transition into the CEO role following the retirement of Craig Macnab, what should we expect to see in terms of changes to the growth strategy or direction of the company?***

JW: The transition from Craig's leadership follows a thoughtful and well-structured succession plan involving our board as well as the members of our senior executive team. When Craig retires at the end of April, investors shouldn't expect any material change in direction or focus of the company.

I have been associated with National Retail Properties in various capacities since 1993, and our CFO, Kevin Habicht, has been with the company even longer. Our full executive team has an average of seventeen years of tenure with the company. Our focus will remain on building a diversified portfolio of triple-net-leased single tenant retail properties leased to creditworthy tenants, supported by a fortresslike balance sheet, and generating consistent and growing FFO per share over a multiyear time period.

AA: ***Will there be any impact on National Retail Properties or REITs in general following Donald Trump's election to the presidency?***

JW: It is too early to make any definitive predictions about the effects of the election. A pro-business environment is likely to help our retailer tenants generally, while higher interest rates and inflation tend to drive investors to options other than REITs.

"We enter 2017 with one of the strongest balance sheets in REITdom."

In this uncertain environment, however, there is no better place to be than at National Retail Properties. Our long-term net leases with creditworthy retail tenants outlast most economic and real estate cycles; and our balance sheet reflects no reliance on short-term or variable rate debt. Over the past few years, we have raised well-priced, long-term capital when it was available, including the recent issuance of $334.3 million of Series F Preferred stock at a coupon of 5.2%, which was the second lowest rate for any REIT Preferred equity ever. We also had strong demand for $350 million in 3.6% 10-year notes issued in early December.

Because we take a multiyear perspective, we are willing to endure some short-term dilution to maintain a low cost of capital for the long term. We enter 2017 with one of the strongest balance sheets in REITdom, which provides us with the ability to withstand market turmoil while continuing to make accretive investments and grow both our FFO per share and our dividend.

AA: ***What else would you like investors to know about National Retail Properties?***

JW: When evaluating whether National Retail Properties should be part of a portfolio, investors should remember that we are focused on delivering long-term shareholder value through all economic cycles. Our annual total shareholder return over 25 years has consistently been in the mid-teens—as I stated earlier, our 25-year average is 15.5%—and consists of both dividends (cash in hand) and stock price appreciation. These levels of return have consistently outperformed the general REIT index, as well as broader equity indices such as the S&P 500. We believe National Retail Properties delivers above average returns while taking below average risk.

AA: ***Thank you, Jay.***

Julian E. ("Jay") Whitehurst has served as president of NNN since May 2006 and as chief operating officer of the company since June 2004. He has been appointed chief executive officer effective April 28, 2017. Mr. Whitehurst previously served as executive vice president and as general counsel for the company from 2003 to 2006. Prior to February 2003, Mr. Whitehurst was a shareholder at the law firm of Lowndes, Drosdick, Doster, Kantor & Reed, P.A. He has been a member of the board of directors of InvenTrust Properties Inc., since 2016. Mr. Whitehurst is also a member of ICSC and NAREIT, and serves on the board of trustees and on the executive committee of Lake Highland Preparatory School.

Analyst Commentary

"NNN is focused on delivering per share accretion as it executes on its acquisition strategy, and is seeing good deal flow that would allow it to achieve its 2017 goals."

—Colin Mings, Raymond James
December 20, 2016

"We have been waiting for a more attractive entry point into this blue-chip name and believe the current valuation is compelling enough to get off the sidelines... despite several peers taking down huge portfolios over the years, NNN stuck to its knitting, hitting singles and doubles at higher going-in yields and mining its existing tenant relationships for the bulk of its external growth."

—RJ Milligan, Baird Equity Research
November 21, 2016

"We continue to believe NNN will drive stable organic growth near 1.5% annually and healthy external growth through accretive acquisitions... we believe that the company will be able to continue to be active acquirers, deploying $700 million annually through 2018."

—Michael Carroll, RBC Capital Markets
November 10, 2016

"NNN announced that Chairman and CEO Craig Macnab, 60, will retire effective April 2017. Macnab has been a strong leader and executive and will be missed. However, we believe that NNN will remain in good hands, as current President and COO Jay Whitehurst, 58, will become CEO."

— Michael Bilerman, ***Citi***
September 29, 2016

DISCLOSURE

Investors and others should note that National Retail Properties posts important financial information, including non-GAAP reconciliations, using the investor relations section of the National Retail Properties website, www.nnnreit.com, and Securities and Exchange Commission filings.

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