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Today's featured company is:

NATIONAL RETAIL PROPERTIES
NYSE:NNN

Creating Value Is Business as Usual

National Retail Properties Inc. (NYSE: NNN) attributes its remarkable record of stability and shareholder return to portfolio diversity and the long-term relationships it maintains with more than 400 major national and regional retailers housed in single tenant retail properties on a triple net lease basis. This strategy has resulted in annual dividend increases for 28 consecutive years.

- Nearly 2,800 single-tenant retail properties across forty-eight states
- 276 properties acquired in 2017
- A portfolio average of 98% occupancy over fifteen years
- 8% average annual core FFO growth per share over the past six years

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 CEO **Jay Whitehurst** about the company's strategies and strengths.

Advisor Access: ***You've had a remarkable run in terms of dividend increases—now into your twenty-eighth consecutive year. That places you in the upper echelons of Dividend Achievers. What key elements of your business drive this growth?***

Jay Whitehurst: Yes, we have raised our dividend for twenty-eight consecutive years, a feat accomplished by only two other REITs and by fewer than ninety US public companies. We are positioned to maintain this impressive track record by continuing to focus on consistent, sustainable per-share growth of FFO (funds from operations; essentially a REIT's earnings), conservative balance sheet management, accretive acquisitions of new properties, and maintenance of a highly occupied, broadly diversified portfolio of single tenant retail properties leased to major national and regional operators on a triple net lease basis.

AA: ***Tell us about your property portfolio. Have you made additions to your total properties and geographic coverage over 2017 and moving into 2018? Describe how diversification of your customer base creates stability for your business.***

JW: We now have almost 2,800 single-tenant retail properties in our portfolio, after investing $754.9 million to acquire 276 properties during 2017. Our 2018 guidance anticipates investing another $500–$600 million in new properties this year. Our tenant base is spread out over thirty-seven different retail lines of trade, and our properties are leased to more than 400 retailers located in forty-eight states, so if any single tenant, industry or region has a problem, the entire portfolio is not impacted.

Just as important as the diversification of our customer base is the depth of our tenant relationships. Since 2010, we've invested $2.4 billion in properties leased to repeat customers. These relationship tenants represented approximately 75% of the dollars invested in new properties in 2017.

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AA: ***You experienced a management transition in 2017. Has the changeover resulted in any changes in the direction of the business?***

JW: I was appointed CEO at the end of April last year but it was really business as usual for us. We continue to focus on what we always have—creating long-term shareholder value and delivering safe and growing dividends. Our executive management team averages eighteen years with the company. We are a team that has been together a long time, with deep institutional knowledge and commitment to our business model and culture.

AA: ***Retail REITs have been under pressure from the increasing volume of Internet selling. How has that affected retail REITs, and National Retail Properties in particular?***

JW: First, I want to point out that single-tenant retail properties have fared much better than malls or shopping centers in this challenging environment for retailers. If you look at our portfolio, you will see that most of our tenants are in lines of trade that involve customer services, customer experiences, or e-commerce-resistant consumer necessities. We have very little exposure to apparel or other lines of trade that have been significantly impacted by e-commerce, as well as by the other retail disruptions getting headlines these days. Our portfolio has averaged 98 percent occupancy for the past fifteen years.

Also, pundits too often assume that retail operators are willing to throw in the towel because of the threat of e-commerce growth. Most management teams running retail companies are smart and creative, and they don't give up easily. They adapt operations to combat that threat. Many of the most successful retailers made changes to account for the e-commerce threat years ago, and have successfully integrated online shopping into their own execution.

AA: ***Describe your balance sheet. What are its strengths?***

JW: We have a strong, low-leverage balance sheet that provides us with great flexibility to fund future acquisitions, quickly take advantage of opportunities, and successfully weather potential economic and capital market turmoil. Our net debt-to-gross book assets ratio is 35.3%. Our debt is almost exclusively long term, unsecured, and fixed rate, with an average interest rate (excluding our line of credit) of 3.9% and laddered maturities averaging 6.9 years. We also maintain tremendous capacity with a $900 million line of credit. All of this puts National Retail Properties in a great position to confront a challenging capital market environment.

AA: ***Would you like to share anything else about National Retail Properties with investors?***

JW: First, per-share results are what really matter. You'll never meet a management team more concerned about generating positive per-share results and less concerned with growth for the sake of appearances. REIT headlines are often devoted to the volume of acquisitions in any quarter or year. To us, what matters is consistent, multi-year growth in per-share results, while maintaining a conservative balance sheet.

"You'll never meet a management team more concerned about generating positive per-share results and less concerned with growth for the sake of appearances."

Second, not all retail is toxic. Our tenants typically operate large national or regional businesses. Our top twenty-five tenants (representing approximately 60% of our base rent) average over 1,100 stores each. The primary lines of trade in our portfolio are expanding and adding stores, and our major tenants are in growth mode.

Third, not all portfolios are equal. Our focus is on good real estate locations at reasonable rents. By concentrating on underwriting these factors, we create an enduring margin of safety that better withstands turmoil in the general economy—or in any tenant's individual business. Our long-term occupancy average of 98% proves the viability of our single tenant retail investment strategy.

Last, and most important, our associates make all the difference. More than half of our associates have been with the company ten years or longer. That deep experience and expertise has produced a culture of professional excellence and commitment. We all put shareholders' interests first.

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

Julian E. ("Jay") Whitehurst has served as president of NNN since May 2006 and as chief executive officer of the company since April 2017. Mr. Whitehurst previously served as chief operating officer from June 2004 to April 2017 and as executive vice president and general counsel 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.

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, http://www.nnnreit.com, and Securities and Exchange Commission filings.

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