



**STORE Capital**

**Fourth Quarter and Full Year 2021 Earnings Conference Call**

**February 24, 2022**

## C O R P O R A T E   P A R T I C I P A N T S

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**Mary Fedewa**, *President, Chief Executive Officer, and Director*

**Craig Barnett**, *Executive Vice President of Underwriting and Portfolio Management*

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## C O N F E R E N C E   C A L L   P A R T I C I P A N T S

**John Kim**, *BMO Capital Markets*

**Ronald Camden**, *Morgan Stanley*

**Ki Bin Kim**, *Truist Securities*

**Caitlin Burrows**, *Goldman Sachs*

**Todd Thomas**, *KeyBanc Capital Markets*

**Linda Tsai**, *Jefferies*

**Spenser Allaway**, *Green Street*

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**Sheila Mcgrath**, *Evercore*

## P R E S E N T A T I O N

### Operator

Hello, good day, and welcome to the STORE Capital's Fourth Quarter and Full Year 2021 Earnings Conference Call.

After today's presentation, there will also be an opportunity to ask questions. Please note, this event is being recorded.

I would now like to turn the conference over to Mrs. Megan McGrath, Investor Relations for STORE Capital. Please go ahead, ma'am. Thank you.

**Megan McGrath**

Thank you, Operator, and thank you all for joining us today to discuss STORE Capital's Fourth Quarter and Full Year 2021 financial results.

We issued our earnings release and quarterly investor presentation after the market closed yesterday, which includes supplemental information for today's call. These documents are available in the Investor Relations section of our website, at [ir.storecapital.com](http://ir.storecapital.com) under News and Results, Quarterly Results.

I'm here today with Mary Fedewa, President and Chief Executive Officer of STORE, Sherry Rexroad, Chief Financial Officer, Craig Barnett, EVP of Underwriting and Portfolio Management, and Tyler Maertz, EVP of Acquisitions.

On today's call, Management will provide prepared remarks, and then we will open up the call for your questions. In order to maximize participation while keeping our call to an hour, we will be observing a two-question limit during the Q&A portion of the call. Participants can then re-enter the queue if you have follow-up questions.

Before we begin, I would like to remind you that today's comments will include forward-looking statements under Federal Securities laws. Forward-looking statements are identified by words such as will, be, intend, believe, expect, anticipate, or other comparable words and phrases. Statements that are not historical facts such as statements about our expected acquisitions, dispositions, or our AFFO per share guidance for 2022 are also forward-looking statements.

Our actual financial condition and results of operations may vary materially from those contemplated by such forward-looking statements. Discussion of the factors that can cause our results to differ materially from these forward-looking statements are contained in our SEC filings including our reports on Form 10-K and Form 10-Q.

With that, I would like to now turn the call over to Mary Fedewa, STORE's Chief Executive Officer. Mary, please go ahead.

**Mary Fedewa**

Thank you, Megan.

Good morning, everyone. Welcome and thank you for joining us today.

I'll begin the call with an overview of our fourth quarter and 2021 year-end performance. Craig will provide an update on the additions we made to the portfolio and our portfolio Management activities, and then Sherry will review our financial results and our guidance for 2022. Following our prepared remarks, we will open the call up to questions.

As you've read in our press release, momentum continued to build through 2021. We capped off the year with a very strong fourth quarter, delivering quarterly AFFO of \$0.56 per share, the highest in our history. For the full year, AFFO was \$554 million, or \$2.05 per share, a 12% increase from 2020, which exceeded the high end of our guidance by \$0.05.

Over the course of 2021, many business owners returned to growth mode, and looked to STORE for our customized financing solutions to fund organic growth and their M&A opportunities. This growing demand resulted in a strong fourth quarter acquisition volume of \$486 million at an initial cap rate of 7.2%, and weighted average annual lease escalations of 1.9%.

Our investment spread for the quarter also remained healthy at well over 4%. For the full year, we invested \$1.5 billion in profit-centered real estate at an average cap rate of 7.5%. We mentioned on our second quarter earnings call that we expected tailwinds in the back half of 2021 related to both COVID deferral paybacks and lower property cost. Both of these tailwinds materialized in the fourth quarter, and at the same time, we continued to improve the efficiency of our overall cost structure, and our portfolio continues to perform exceptionally well.

Sherry and Craig will share more about these positive trends in their remarks, and Craig will also provide more color on our portfolio in a moment. Our fundamentals are effective and remained strong in 2021, and we carry that strength into 2022.

I now want to touch on the macro environment. As we all know, inflation is the highest it has been since 1982, and as a result, we are anticipating a rising interest rate environment while cap rates are compressing. Let's start with a couple of thoughts on inflation in our business. Triple net lease REITS do not generally incur property-related operating expenses. Our contractual rent escalations are meant to provide a natural hedge, allowing us to manage well in the current inflationary period. In addition, inflation has the potential to drive up the value of our real estate portfolio.

As it relates to an anticipated rising interest rate environment, STORE has significant financial flexibility which includes: access to the unsecured bond market where we have completed four public issuances and currently have a BBB rating with a positive outlook from S&P; and our Master Funding program which has access to both AAA and single-A paper; the flexibility to prepay tranches two and three years before maturity without penalty; and in 2022 we have over \$300 million in Master Funding notes that are available to prepay that have existing interest rates between about 4% and 5%. Refinancing these tranches at current rates would result in an interest savings of over \$3 million annually. Therefore, we have an embedded reduction in our interest cost that we can realize in 2022 even in the anticipated rising rate environment. Finally, we have long-term fixed rate debt with a weighted average maturity of seven years.

Now turning to cap rates. In the fourth quarter we experienced further compression in our initial cap rates. However, we believe our business model enables us to source opportunities directly with tenants that are relationship-based and not subject to broadly marketed auctions where we are seeing increased levels of bidding wars.

Our approach gives us flexibility to price each new investment individually, with the potential to raise lease rates which can mitigate a rising interest rate environment. In addition to our direct origination approach, since our inception, we have been consistently doing a large volume of granular transactions in vital industries with an average deal size of around \$10 million. This is a niche or lane that requires a solid infrastructure to efficiently process each transaction. STORE has built this infrastructure over the past 11 years, creating a leg up on any new capital coming into our sector.

To conclude on cap rates, our direct approach and our granular investment strategy give us an advantage in an anticipated rising interest rate environment and from the increasing competition in the market as well. As a result, we are confident STORE can continue to generate strong returns in almost any environment. In fact, periods of uncertainty and complexity in the capital markets can create opportunities for STORE, as our customers need our unique financing solutions and partnership more than ever.

Now I'll turn the call over to Craig.

**Craig Barnett**

Thank you, Mary.

I'll take a few minutes to cover what we added to our portfolio and our portfolio management activities for the fourth quarter.

In the fourth quarter our acquisitions continued to be diverse and granular, spanning a wide range of industries including restaurants, early child education, auto service, health clubs, and several manufacturing businesses that serve a variety of vital-end markets. These investments had a weighted average lease term of 17 years and an average deal size of under \$10 million.

New business from our existing customers was about 45%, which is above our historical average of about one third of our investments. The strong relationships we've established over the past decade provide a solid foundation in an increasingly competitive marketplace.

Now turning to the portfolio. We have intentionally built a diverse portfolio that is designed to deliver consistent and attractive risk adjusted returns to our shareholders. At the end of 2021 our overall portfolio mix was 65% in the service sector, 20% in manufacturing, and 15% in service-oriented retail. Our portfolio consists of 556 national and regional customers in more than 2,800 properties operating in 120 industries.

More than 85% of the portfolio was comprised of businesses that individually represent less than 1% of our annual base rent and interest. There is no change in our top 10 customers, with our largest customer representing approximately 3% of base rent and interest, and our top 10 customers account for only 18% of base rent and interest.

During the quarter, we sold 21 properties, 12 of which were sold strategically for \$58 million in proceeds, or a 22% gain over our original investment at a 6.6% cap rate. The remaining nine properties were sold as part of our ongoing property management activities, garnering proceeds of \$27 million. Our occupancy remains high at 99.5%.

Overall, our customers' financial performance continues to remain strong, and our portfolio continues to perform well. Our customers are experiencing robust top-line growth and improved profitability. This is demonstrated by the improvement in our weighted average 4-Wall unit FCC for the portfolio, from 3.9 times pre-COVID to 4.6 times for the most recent financials received.

This improvement is being felt across all of our sectors, with our service sector experiencing a 41-basis point increase to 3.7 times. Our manufacturing sector had an 83-basis point increase to 6.5 times, and service-oriented retail had 164-basis point increase to 5.9 times. This demonstrates the strength of our portfolio through a global pandemic, and its ability to thrive beyond it.

Our confidence in our customers stems from our deep relationships with them. We communicate with them on a regular basis regarding their financials and the performance of their businesses. Most recently, we have been monitoring and discussing the macro environment, including inflation, labor, and supply chain disruptions. Our customers have adapted in various and creative ways to respond to the specific impacts on their industry. Some customers have augmented staff with technology to make them more productive. Some have invested in automation to reduce physical labor, and others have instituted hedging strategies or changed pricing terms to mitigate supply chain risk.

As the customers in our portfolio are a diverse group of regional and national businesses, their experiences mirrored what has been seen by U.S. corporations in 2021. Though faced with higher costs, corporations were able to raise prices and saw operating profits near record highs in 2021. The strong performance of our portfolio is no accident. We directly attribute it to the attention and effort we place on validating and underwriting the creditworthiness of our tenants on an ongoing basis.

I would now like to turn the call over to Sherry.

**Sherry Rexroad**

Thank you, Craig.

First, I would like to say how grateful I am for the warm welcome I have received over the past few months, not only here at STORE, but from our investors and analysts as well. I am thrilled to be here and look forward to working with all of you.

Now, turning to the business at hand, I'll begin by discussing our financial results for the Fourth Quarter and Full Year 2021, including an update on our capital markets activity, balance sheet, and our 2022 guidance. Please note, all comparisons are year-over-year unless otherwise noted.

Beginning with our income statement, our fourth quarter revenues increased 21% from the year-ago quarter to \$209 million, primarily reflecting the growth in our real estate portfolio. Revenue from net acquisition activity increased approximately \$23 million, representing a full quarter's revenue from third quarter acquisition activity, plus a partial contribution from our large volume of fourth quarter acquisitions. More than half of the \$486 million in acquisitions in the fourth quarter closed in the last half of December, so this external growth is providing nice momentum into the first quarter of 2022.

A portion of the increase in revenues during the quarter resulted from the increased level of cash payments collected on our rent receivables, which allowed us to release reserves we had previously posted, and this is a positive trend for our revenue projections going forward.

Turning now to expenses. Interest expense increased by \$2.2 million from the year-ago quarter, reflecting borrowings we made to support growth in our real estate portfolio, partially offset by a lower overall cost of debt. As a result of our capital markets activities in 2021, the weighted average interest rate on our long-term debt was 3.9% as of December 31, a marked decrease from 4.2% a year ago.

Property costs, which totaled \$4.1 million for the fourth quarter, were down significantly from \$7.4 million a year ago. This decrease was largely due to the reversal of property tax accruals made during the pandemic, demonstrating our customer's strengthening performance.

For the year, property costs were \$18.2 million, as compared to \$22 million in 2020. Excluding the amounts reimbursed by our tenants, property costs for 2021 represented about 13 basis points of our average portfolio assets, down from 19 basis points in 2020. We expect that property costs will return to pre-pandemic levels as we move into 2022.

Fourth quarter G&A expenses increased \$11.6 million. Of that amount, \$7.8 million was related to management severance and transition costs, and \$3.2 million related to accelerated amortization, a stock-based compensation award associated with executive severance and retirement. As noted on page 10 of our press release, these one-time costs are added back in our AFFO calculation.

For the year, there was an increase in G&A of \$34.4 million, of which \$11 million was due to the fourth quarter management transition item, and \$17 million was due to the impact of the accounting for certain

long-term incentive compensation awards granted in 2018 and 2019. To refresh everyone's memory, the LTIP has both an AFFO and a relative performance component. Per GAAP rules, the AFFO portion must be evaluated each quarter as to how much expense should be recognized.

In March of 2020, as COVID shutdowns were being implemented, it was determined we would not achieve our AFFO target. Therefore, we reversed the then \$6.7 million of expense we had recognized for these awards. We reinstated the expense in the first quarter of 2021, which by then amounted to \$10.1 million. Excluding non-cash stock-based compensation expense and one-time severance and transition costs from both periods, G&A expenses for the full year of 2021 were 44 basis points of average portfolio assets, down from 47 basis points for the full year of 2020. This trend illustrates the increased efficiencies we gained from our scalable platform as the portfolio continues to grow.

During the fourth quarter, we recognized an aggregate \$7.6 million impairment provision which includes \$1 million, recognized on our portfolio of loans and financing receivables, and an aggregate \$6.5 million real estate impairment provision associated with fixed properties.

Fourth quarter AFFO increased to \$153 million from \$115 million. On a per share basis, AFFO increased 27% to \$0.56 per diluted share from \$0.44 a year ago. The increase in AFFO primarily reflects higher revenue from our growing real estate portfolio, and lower property costs. As Mary mentioned, Full Year 2021 AFFO increased to \$554 million, or \$2.05 per basic and diluted share.

I'd like to provide more color on the AFFO beat for the year over our 2021 guidance. Compared with the high end of our guidance of \$2 per share, the primary drivers were: about \$0.02 from higher-than-expected portfolio revenues as a result of improved cash collections on our receivables; approximately \$0.02 from lower-than-expected general and administrative expenses; and about \$0.01 from lower interest and property costs.

We are very pleased with the strong momentum in AFFO growth generated by the performance of our portfolio. As many of you know, we declared a fourth quarter 2021 dividend of \$0.385 per share, which we paid on January 18 to shareholders of record on December 31.

Now, turning to the balance sheet and our capital markets activity. We are fortunate to have multiple and flexible options available to fund our growth. For the full year, we closed \$1.5 billion of acquisitions with about 32% of the acquisition activity closing in the fourth quarter. We funded this strong acquisition activity with a variety of sources, including cash from operations, proceeds from our Master Funding issuance in the second quarter, and proceeds from the public debt offering in November, the sale of equity through our ATM program, and borrowings on our revolving credit facility.

During the quarter, we issued approximately 1.7 million shares of common stock under our ATM program at an average price of \$33.91 per share, raising net equity proceeds of \$55 million. We are mindful of where our cost of equity is today, given the macro headwinds. Our business model allows us to continue to make accretive acquisitions at the current stock price. We look forward to improving investor sentiment as the Fed begins its anticipated interest rate hikes, turning speculation into certainty and allowing the market to stabilize.

In November, we took advantage of an attractive debt market by issuing \$375 million of senior unsecured 10-year investment grade-rated notes at a coupon of 2.7%. We used a portion of the proceeds from this issuance to prepay without penalty \$86 million in STORE Master Funding debt that had a coupon of 5.21%, providing us an opportunity to further lower our cost of capital.

At December 31, we had approximately \$4 billion of long-term fixed-rate debt outstanding with a weighted average maturity of about seven years, and as noted earlier, a weighted average interest rate of 3.9%.



Leverage is at the low end of our target range at 5.6 times net debt to EBITDA on a run rate basis or about 40% on a net debt to portfolio cost basis.

Our debt maturities are intentionally well laddered. As Mary mentioned, with the flexible prepayment windows under our Master Funding program, we will have the opportunity during 2022 to prepay three additional series, which have coupons ranging from about 4% to 5% and therefore allow us to further lower our debt cost from the current 3.9%.

We closed the year with a strong balance sheet. We have ample access to capital, with \$64 million in cash, approximately \$540 million available under our ATM program, and \$470 million of immediate borrowing capacity under our revolving credit facility.

Now, turning to guidance. We are encouraged by the solid performance of our portfolio and as a result anticipate that we will continue to realize benefits from increased cash payments on our rent receivables and reductions in property cost as well. Coupled with our strong acquisition activity and pipeline, and the efficiencies we are seeing in our cost structure, we are raising our 2022 AFFO per share guidance to be in the range of \$2.18 to \$2.22, which represents a range of 6.3% to 8.3% growth over 2021.

Guidance continues to be based on an expected acquisition volume, net of anticipated sales for 2022, of \$1.1 billion to \$1.3 billion. Today, we would also like to provide cap rate guidance of 7% to 7.2% for the year. AFFO per share in any period is sensitive not only to the amount, but also to the timing of acquisitions, property dispositions, and capital markets activities. As we move through the year, we'll continue to assess our outlook and update guidance as needed.

With that, I'll turn the call back to Mary.

**Mary Fedewa**

Thank you, Sherry.

Twenty twenty-one was a very productive year for STORE and our future is incredibly bright. Co-founding the Company nearly 11 years ago, I am so fortunate to have been part of making sure we have always had the right strategy, the right team, and the right resources to support our future growth.

As you read in our recent press releases, we are excited to announce that we have promoted Alex McElyea to EVP of Data, Analytics and Business Strategy, and Lori Markson to EVP of Portfolio Operations. Alex brings a wealth of knowledge and experience in building and deploying advanced analytic capabilities, and Lori has been overseeing our portfolio operations for nearly six years, from funding transactions to ensuring our customers' experience is superior. Both Alex and Lori further strengthen our bench of diverse leadership talent.

We also added two new independent Board Members: David Edwards, a PhD with a specialty in econometrics, and Jawad Ahsan, the CFO of a publicly traded company. Both bring exceptional backgrounds and skills that complement our existing Board and can assist management in guiding our growth strategy.

I would also like to add that we are proud to be included in the Bloomberg Gender-Equality Index for the second consecutive year. While we've made significant headway towards gender equality, we are actively focused on nurturing a culture that is rooted in diversity, equity, and inclusion at all levels of our organization. In summary, we address a very large and inefficient market and fill an important need for real estate capital financing.



Our acquisition activity is in full swing. The lane we play in and our direct approach are mitigants to both an anticipated rising rate environment and the increased level of competition we are seeing in the sector, allowing us to continue to generate healthy spreads. Our pipeline is robust, diverse, and growing, at \$13 billion. We are continuing to focus on improving our cost structure, both operationally as well as our financing costs. Our portfolio continues to perform exceptionally well, and all of this positions us for strong AFFO growth while maintaining our disciplined investment approach in 2022 and beyond, and we look forward to keeping you updated on our progress.

With that, I'll turn the call over to the operator for questions.

**Operator**

Thank you very much.

Our first question today comes in from John Kim of BMO Capital Markets. John, your line is now open. Please go ahead with your question.

**John Kim**

Thanks. Good morning.

Can you help us understand how the mechanics of your CPI-based leases work? I noticed in your last 10-K, 85% of your leases are CPI-based. We now have inflation above 7.5%, so I'm wondering if there's a catch-up to that, or if a lot of those leases are capped, essentially.

**Mary Fedewa**

Hey, John. It's Mary.

The majority of our rent escalations are the lesser of 1.25 times CPI, or it's fixed leg, which, in the fourth quarter was 1.9%. With inflation and as high as it is today, we are definitely getting our fixed leg at 1.9%.

**John Kim**

Okay.

Is there a catch-up mechanism for that?

**Mary Fedewa**

No, there is not one, but I would say, John, that in the environment today, with our business model and the fact that we're calling directly on customers, we are able to have conversations with customers that talk about inflation is rising, etc., and we do ask for escalations, and we ask for frequent escalations. We are able to have those conversations.

We are mindful of what market is, and so I would say in this environment, market probably is or it could be a little higher than 2%, and so we're having conversations like that, but you wouldn't be at 6% or 7% or you would have your phones ringing off the hook with customers calling and talking about that sort of high increase in rent, and this is sort of—we wouldn't expect 7% inflation for the long run, and these are long-term contracts.

But I would say that there would be opportunity (multiple speakers).

**Operator**

Thank you.

Our next question comes in from Ronald Camden of Morgan Stanley. Ronald, your line is open. Please go ahead with your question.

**Ronald Camden**

Great.

Just picking up on the comments on cap rate compression a little bit. Maybe can you provide a little bit more color on how that trend (inaudible), maybe some of the bigger industries and so forth, whether manufacturing or some of the other industries that you look at?

**Tyler Maertz**

Hey Ron, it's Tyler.

Yes, so we've definitely seen compression, like everyone else, and I would say for sure the sector that we've seen it the most in continues to be in the manufacturing industrial side of things.

**Ronald Camden**

Any sort of—could we quantify that? Is it 10 basis points, 15 basis points? Just trying to get a sense of just what you've seen and over what timeframe.

**Mary Fedewa**

Hey Ron, this is Mary.

Cap rates are—there's been a lot of money raised in the space, a significant amount of money raised in the space, and that money seems to be chasing bigger transactions and favors sort of the logistics distribution sort of center industry. What we're seeing is substantial reduction in cap rates in those areas. When I mean substantial, I mean in the rates that are quite low, fives and certainly the sixes. For larger transactions, I would say over \$50 million, certainly over \$100 million. We're seeing a lot of people bidding for those transactions.

The good news about STORE is that we have an 11-year-old business and platform where we're able to process individual \$9 million this quarter, deals that we can continue to price each individual deal, and so we have a real advantage to be able to organically grow here, and not feel pressure, or to play in sort of the—what I call bidding wars, that are going on out there.

We're really fortunate to have the solid platform to do that, and we're keeping our head down and we're staying real patient here.

**Ronald Camden**

Great.

Then my last one, if I may, if you could just remind us the percentage of tenants that are still on cash basis, and when you talked about sort of the improved cash collection on receivables in the quarter, was that theatres? Is there a sort of a theme or trend that you could point to or is it just sort of all across the board that drove that? Thanks.

**Sherry Rexroad**

Hey Ron. It's Sherry, and I'll take the first half of the question.

Our cash basis tenants are at about 1.7%. That is relative to history, very similar, and relative to the third quarter of '21, it was at 2.4%, so you see that downward trend coming back to a normalized area, but I'll let Craig cover the tenant specifics.

**Craig Barnett**

Yes, in regards to any kind of theme that you're seeing in the collections, Ron, is there really isn't. It's across all of the highly impacted industries. They're all paying as agreed in regards to the deferrals. The increase, some are actually paying us earlier, just due to any kind of government assistance with the theaters, the Shuttered Venue grant program, or any refinancing opportunities that the tenants are doing with their balance sheets that provides them the capital to pay our deferrals back.

**Operator**

Thank you.

Our third question today comes from Ki Bin Kim of Truist Securities. Ki, your line is open. Please go ahead.

**Ki Bin Kim**

Thanks. Good morning.

**Mary Fedewa**

Hi, Ki Bin.

**Ki Bin Kim**

Hi. Could you talk about what you're thinking about leverage, and how we end up in 2022 in light of what's happening to the cost of capital with your still very robust acquisition appetite?

**Sherry Rexroad**

Hey Ki Bin, it's Sherry.

We're going to stick to the 60-40 debt equity model that we've had in place, and we're fortunate enough to have those, our Master Funding ABS program, as well as the unsecured corporate debt market. Last year you saw us take advantage of both of those. You'll continue to see us evaluate that and evaluate which is the more effective market for us to approach in funding our acquisitions.

**Ki Bin Kim**

Do you have a sense of what that would mean in terms of a debt to EBITDA basis?

**Sherry Rexroad**

Well, we'll stick to the net debt to EBITDA range of 5.5 to 6. We ended 2021 at the 5.6, so there's plenty of room in there.

**Ki Bin Kim**

The 5.6 that you show in the supplemental, and what you just mentioned, does that annualize some of the one-time items that we got in 4Q?

**Sherry Rexroad**

No. The one-time items are removed from that calculation.

**Ki Bin Kim**

Okay, thank you.

Just a second question for me, and this might be a blanket question, but what are the primary alternative sources of capital for, I guess, the majority of your tenants, and is that alternative source of capital starting to look more attractive or less attractive compared to what STORE can now offer?

**Mary Fedewa**

Ki Bin, as it relates to our customers, they have capital stacks, but I would say that doing a sale-leaseback and choosing to lease your real estate versus own your real estate is a choice they can make, but as it relates to a comparable choice to a long-term flexible lease that has 100% financing for their real estate and has some modest escalations is a superior choice to having bank funding, where you actually have to—you might get 60% or 70% financing today, and then you've got to raise the equity, so immediately we lower their cost of capital.

We're a complementary source to a lot of the stuff in their capital stack, but we're not... The long-term real estate products out there, there just really aren't any, and that's the beauty of this business. That's the inefficiency of the market that we talk about, as we serve a really large, inefficient market, and these are companies that need their real estate to earn their profits or to do their business. It makes a really great big market for us, where everyone's got their hand up and we can be really selective. That's kind of how I think the customers sort of evaluate their sources.

**Operator**

The next question on the line comes from Caitlin Burrows of Goldman Sachs. Caitlin, your line is open. Please go ahead.

**Caitlin Burrows**

Hi there.

Maybe on the portfolio deal side, I think in 2021, Mary, you had started talking about that you could consider portfolio deals, so wondering if you have any update to that, maybe what efforts you've made and how they've been received by potential customers or partners?

**Mary Fedewa**

Yes, Caitlin, you bet.

We talked about a three-pronged approach in August in our earnings call, the first being our organic growth, second being the fact that we now have a really solid and seasoned portfolio, years of strong execution, good reputation in the marketplace. We have the scale and the ability to integrate larger portfolio transactions into our strategy, while still maintaining the granularity and the diversity. I like to say brick by brick, and then I like to say having a whole bag of bricks, we're showing up at your doorstep. So, we have looked at some.

We looked at some in 2022, but I will tell you that right now we're seeing so much money in the marketplace that we're seeing a lot of larger transactions really becoming very highly competitive, and sort of driving the cap rates at a point lower than we're really comfortable with, and so we're going to continue to be patient, stick to our disciplined approach, of course, and we're going to—but we are definitely poised at this point in our life cycle that we think we could integrate and not dilute the story here. We're going to keep watching, but lot of competition there right now, Caitlin.

**Caitlin Burrows**

Got it.

On those potential portfolio deals, that would be ones that might be more widely marketed as opposed to kind of (audio interference)?

**Mary Fedewa**

Yes. I think we lost you, Caitlin, but the larger transactions right now are definitely being more widely marketed.

**Operator**

Thank you, and our next question today comes from Todd Thomas of KeyBanc Capital Markets. Please go ahead, Todd.

**Todd Thomas**

Hi, thanks.

Just as it pertains to the guidance increase, I was just wondering if you could provide a little bit more detail there around the factors behind that increase. What specifically drove the improved outlook relative to when you initially provided guidance?

**Sherry Rexroad**

Sure, Todd. This is Sherry.

If you look back to the fourth-quarter beat, approximately \$0.02 of the five is recurring due to interest in G&A savings from management transition, and then of course we have tenants repaying their COVID deferrals, and that is one time, but of course, their continuing payment on their leases adds to the positive momentum. We think \$0.02 of the five is recurring. You could also have additional tailwinds then from

further reserve reversals and lower property costs as tenants are able to pay their taxes. The \$0.02, again, is what we think is recurring, and then you could have some potential tailwinds in there.

**Todd Thomas**

Okay.

Of the collections in the quarter that were related to previously reserved amounts, I think I heard \$0.02 for the full year. What was actually realized in the fourth quarter? Then so it sounds like that positive trend is factored into the guidance for '22. Can you talk about what additional reserve reversals are embedded in the guidance?

**Sherry Rexroad**

Okay, so let's address your first question, which is the fourth quarter, the excess was all in the fourth quarter, and so that was the full \$0.02 that we just talked about. The going forward into 2022, we expect that we're going to continue to receive the payments, and we anticipate that by the end of 2022, we will have gone from 67% received to 83% received, and by the end of '23, practically 100%.

**Operator**

Our next question on the line comes from Linda Tsai of Jefferies. Please go ahead with your question, Linda.

**Linda Tsai**

Hi.

Just another guidance question. In terms of the reversal of property tax accruals, I think you said it was supposed to normalize in 2022. Does that mean that there's some benefit in 2022?

**Sherry Rexroad**

Well, we've gone from 19 basis points to 13 basis points, which our normal would just be a few basis points less than that. Do you want it in basis points, or did you need it a different qualification?

**Linda Tsai**

I guess that's fine. I was just trying to get a sense of if there was more upside to (multiple speakers) ...

**Sherry Rexroad**

Going into 2022 if that's what you're asking, we are expecting additional property tax benefits in 2022, but it's normalized in our guidance. Now, the normalization is to get us below 10 basis points, so the 13 to the 10.

**Linda Tsai**

Okay, that's helpful. Thanks.

Then just in terms of the relationship-based deals that occurred in the quarter, I think you said it was around 45%, what does the pipeline look like for 2022? Should we expect just a higher percentage of relationship-based deals going forward?

**Mary Fedewa**

Linda, this is Mary. I'd say that we'll probably back towards our one third on relationship deals. I think right now we're just seeing a little bit of a pickup and the tailwinds really coming still out of COVID with some pent-up demand on our existing customers that had pipelines building, and now they're executing on their pipeline.

Is that helpful?

**Operator**

The next question in the queue comes from Spenser Allaway of Green Street. Spenser, your line is open. Please go ahead

**Spenser Allaway**

Thank you.

Can you guys just provide some color around the decision for Chris to leave his post on the Board and are there any changes to a longer-term strategy that should be expected with this?

**Mary Fedewa**

Yes Spenser, this is Mary.

I just spoke a little bit about the strategy, and it remains the same. Chris and I, we were cofounders in this business, so we built this together, and we both love the foundation and the fundamentals of this business, and they're strong and profit center real estate, and brick by brick but also the size now that we could integrate a portfolio without diluting the story. Then we're going to use—you know, we have a lot of proprietary data that we're spending a lot of time on understanding and integrating that into the platform to make the platform even more efficient from prospecting all the way to managing our portfolio.

That's the strategy. That's what the strategy is going to be. As it relates to Chris, once the Management transition was complete, then there was no longer really a need for the Executive Chair role. The Board felt that the Company would be best served by having new, independent Board Members with new skill sets. As you know, we appointed Tawn Kelley to the Non-Executive Chairman of the Board role, and then we have two new Board Members, both independents, Dave Edwards and Jawad Ahsan, and we're excited to have them, and we're ready to take STORE into the second decade.

We've all worked a long time with Chris, and I guess I would like to say me personally, for over 20 years, and we're excited about our next chapter and we're really excited about his, and we wish him really well, and we're excited for all of us.

**Spenser Allaway**

Okay.



That all makes sense on the strategy side. I guess it's just it seems as though if the goal was to not have an Executive Chairman upon the Management or the C-suite transition, why not just have Chris have a little bit... I mean, you guys obviously overlapped. Why have him go to the Exec Chair position for such a short period of time if again, the angle is just to kind of get rid of that post after you have taken over the helm?

**Mary Fedewa**

As I mentioned, the management transition, Cathy was here, she's a 30-year veteran and CFO, it was important that we filled that position and were confident in that position being filled, and Chris was right alongside with us on that, so I think that was important, but once we found Sherry, and then that was sort of the key management transition position that we wanted to have in place, and that's pretty solid now. The team's solid and in place, and the Executive Chair position, it does come with an expense, and I think that the Board had—it was a great vote of confidence for the Board that the team was ready, and that for the shareholder, we could eliminate that position and terminate the contract and more forward, saving that expense for the shareholder.

**Operator**

The next question on the line comes from John Massocca of Ladenburg Thalmann. Please go ahead with your question, John.

**John Massocca**

Good morning.

**Craig Barnett**

Morning.

**Mary Fedewa**

Hey, John

**John Massocca**

As we kind of think about the—I guess it's maybe a little bit unfair, but the two buckets I kind of think of when I think of the investment kind of strategy for STORE: the direct calling bucket, and maybe some larger, for lack of a better term, institutional customers that you might work with. I guess, what is the cap rate spread between those two groups, and how have cap rates trended to those two groups over the last kind of 12 months?

**Mary Fedewa**

Hey John, it's Mary.

Interestingly enough, regardless of the channel that the business comes into STORE, the approach is the same, and the approach is to work with the customer to ensure that we're adding value with the transaction and then asking to be paid for that value. Regardless of where the deal comes in, whether it's a bag of bricks as I suggested, or one brick at a time, or it comes in off of our indirect broker desk, even all of the approach is the same. We don't see a lot of variability in the cap rates there.

**John Massocca**

Okay.

Then one kind of quick housekeeping question. As it relates to distributions, were the kind of more property management related dispositions all vacant assets and if not, what was the cap rate on those dispositions?

**Craig Barnett**

Yes, this is Craig.

The majority or the primary of the property management dispositions were the vacant properties.

**Operator**

Our final question on the line today comes from Sheila McGrath of Evercore. Please go ahead with your question, Sheila. Your line is open.

**Sheila McGrath**

Hi, yes. Good morning.

Mary, I just wondered if you could comment on net lease in historical perspective in a rising rate environment—how quickly you can move cap rates on acquisitions higher? I know Craig mentioned the 4-Wall coverage is much higher now, so just wondering about that.

**Mary Fedewa**

Yes, you bet, Sheila. Historically, and our experience has been, that cap rates, they will lag interest rate rises, interest rate increases. They will lag. I would say it could be as much as six months or roughly six months, but I would say that in this environment of increased competition, which is continuing to put pressure on cap rates, we could see a longer lag than that. The good news, as far as you know, is that we are pricing every single new deal every day and having the macro environment conversation with our customers and saying, “We’re in an inflationary time. Interest rates are rising.” So, we’re having the increased cap rate discussion, and we hope to continue to be effective at that, but I would say they definitely lag in this environment. With the increased money being raised, it could lag a little longer.

**Sheila McGrath**

Okay.

One other quick question. Acquisitions in '21 were \$1.5 billion. Your net guidance with dispose is \$1.1 billion to \$1.3 billion. What's the expected dispositions for this year, and given your pipeline, would you characterize the guidance as somewhat conservative?

**Mary Fedewa**

I would say two things. One is we would look to do about 3% to 5% in dispositions for the beginning balance for 2022 of our portfolio. I would suggest we might be on the lower end of that, and I would say that from a volume perspective, we don't have any portfolio deals baked into the volume, and it's early,

Shelia. It's really, really too early to tell, and so that's why we did not move the volume guidance, because we feel pretty good about that number, and it's early.

**Operator**

Thank you very much.

We have no further questions on the line, so I'll hand it back over to Mary for closing remarks.

**Mary Fedewa**

Thank you all for participating in our call today, and for your continued support and interest in STORE. We look forward to seeing some of you in person, which is pretty exciting, at our investor conferences during the next few months, and in the meantime, reach out to us, we are here to answer any questions you have, and have a great day.

**Operator**

Thank you very much.

That concludes today's call.

You may now disconnect your lines.

Have a good afternoon. Thank you.