



STORE Capital Corporation

Second Quarter 2019 Earnings

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CORPORATE PARTICIPANTS

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Mary Fedewa – *Chief Operating Officer*

Catherine Long – *Chief Financial Officer*

PRESENTATION

Lisa Mueller

Thank you, Operator, and thank you all for joining us today to discuss STORE Capital's Second Quarter 2019 Financial Results. This morning we issued our earnings release and quarterly investor presentation, which includes supplemental information for today's call. These documents are available in the Investor Relations section of our Web site at ir.storecapital.com under News and Results, Quarterly Results.

I am here today with Christopher Volk, President and Chief Executive Officer of STORE; Mary Fedewa, Chief Operating Officer; and Catherine Long, Chief Financial Officer. On today's call, management will provide prepared remarks, and then we will open the call up 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 reenter 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 the 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 and AFFO per share guidance for 2019 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 could 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 10-Q.

With that, I would now like to turn the call over to Christopher Volk. Chris, please go ahead.

Christopher Volk

Thank you, Lisa. Good morning, everyone, and welcome to STORE Capital's second quarter 2019 earnings call. With me today are Mary Fedewa, our Chief Operating Officer; and Catherine Long, our Chief Financial Officer. On the investment front, we continued to be very active during the second quarter with investment activity of over \$360 million while adhering to the granularity and diversity that we are known for. Mary will run through the numbers in more detail with you, but we are happy with our ongoing success in penetrating the large market that we address while maintaining our focus on meeting the needs of our existing customers.

Our second quarter demonstrated a continuation of strong corporate performance that we saw in the first quarter with AFFO per share growth for the first half of the year up 10.1%. Our dividend payout ratio for the second quarter fell to 66% increasing the meaningful portion of our investment activity that is funded through retained cash flow. We pair that reinvestment with our historic focus on maintaining annual tenant same store rent contractual growth of nearly 2% to drive the majority of our expected AFFO per share growth. As Cathy will illustrate, we combined internal growth with external growth that is accretively funded through new share issuances, which for the past two years have been successfully funded through our efficient At the Market program. Such equity issuances have enabled us to also maintain a consistently conservative leverage profile. In this vein, substantially all of our 2019 investments were funded through a combination of newly issued equity, our first quarter public unsecured note issuance, and retained operating cash flows.

At the conclusion of the second quarter, our pool of unencumbered assets stood at \$5.2 billion, or about 63% of our gross investments. Given such performance consistency, STORE has

enviable flexibility in our financing options with our unsecured note holders having amongst the lowest REIT unencumbered asset leverage profiles that we know of.

Now, as I do each quarter, here are some statistics that are relevant to our second quarter investment activity.

- Our weighted average lease rates during the quarter was just under 7.9%, which is slightly above where we were last quarter.
- Add in the average contractual lease escalation for the investments made during the quarter of 1.9%, and you get a gross rate of return of just under 10%. With corporate leverage in the area of 40%, our levered investor return will approximate 13%, with net returns after operating cost in the 12% range. Our outperforming investor returns for STORE and predecessor public companies have been mostly driven by having favorable property level rates of return, which is why we take the time to disclose investment yields, contractual annual lease escalators, investment spreads to our cost of long-term borrowings, and our operating cost as a percentage of assets, which are the four essential variables that enable you to compute expected investment returns.
- The weighted average primary lease term of new investments made during the quarter continues to be long, at approximately 18 years.
- The median post overhead unit level fixed charge coverage ratio for assets purchased during the quarter was 2.4:1.
- The median new tenant Moody's RiskCalc credit rating profile was Ba2. Incorporate the important contract level fixed charge coverage ratios and the median new investment contract rating (or STORE Score) for investments was far more favorable at Baa1.
- Our average new investment was made at approximately 71% of replacement cost.
- 93% of the multi-unit net leased investments made during the quarter were subject to master leases
- and all 79 new assets that we acquired during the second quarter are required to deliver us unit level financial statements giving us unit level financial reporting from 98% of the properties within our portfolio. This fact is critical to our ability to evaluate contract seniority and real estate quality as well as to our access to capital, including our inaugural issuance of AAA-rated master funding notes that we commenced in October of last year.

And with that, I will turn the call over to Mary.

Mary Fedewa

Thank you, Chris, and good morning everyone. We had a strong second quarter with \$364 million in real estate acquisitions at a weighted average cap rate of 7.9%. This included investments in 36 separate transactions and an average transaction size of just over \$10 million. We also successfully created 19 new customer relationships, ending the quarter with more than 450 customers and adding to our extremely granular portfolio of net leased assets.

Our portfolio remained healthy with an occupancy rate of 99.7%, and approximately three quarters of our net lease contracts are rated investment grade in quality based on our STORE Score methodology. Delinquencies and vacancies remained low due to our strong tenant partnerships and continued active portfolio management. At the end of the second quarter, only seven of our nearly 2,400 property locations were vacant and not subject to a lease.

We continue to actively manage our portfolio, taking advantage of opportunities to sell properties.

During the quarter, we sold 22 properties, which had an acquisition cost of \$81 million. We generated net gains over that original cost of approximately \$6 million. Of the 22 properties, 5 were opportunistic sales resulting in a 10% net gain over original cost, 9 sales were strategic and resulted in an 8% gain over cost, and the remaining property sales were from our ongoing property management activities, and we were still able to achieve 107% recovery on those sales.

Now turning to our portfolio performance highlights; our portfolio mix at the end of the second quarter remained consistent with 64% of properties in the service sector, 19% in experiential and service driven retail with a substantial online presence, and the remaining 17% in manufacturing. Our portfolio remained highly diversified with no single customer representing more than 3% of our annual revenues. Our single largest customer Art Van represented just 2.6% of our annualized rents and interest. Our top ten customers were unchanged from last quarter. At the end of the quarter, revenue realized from the top ten was under 18% of annualized rents and interest.

As we head into the third quarter, we are excited about the prospects for the rest of 2019. Our acquisition pipeline continues to be robust and diverse. We are excited about the level of compelling investment opportunities we are creating across a variety of industries that will reinforce our strategy for portfolio diversification. Our unique sales engine remains intensely focused on creating demand and delivering real value to our customers.

And now, I will turn the call to Cathy to discuss our financial results.

Catherine Long

Thank you, Mary. I will begin by discussing our financial performance for the second quarter of 2019 followed by an update on our capital markets activity and balance sheet. Then, I will review our guidance. Beginning with the income statement, our second quarter revenues increased almost 25% from the year ago quarter to \$163.8 million. The annualized base rented generated by our portfolio in place at June 30th increased over 24% to \$669 million.

Total expenses for the second quarter increased to \$111 million from \$89 million last year. Approximately half of that increase can be attributed to higher depreciation and amortization expense related to our larger real estate portfolio. Interest expense increased to \$39.4 million from \$31.9 million due primarily to additional long-term debt used to fund property acquisitions. The weighted average interest rate on our long-term debt remained relatively steady at 4.4%.

Property costs increased by \$1.3 million year-over-year, of which \$1.1 million related to the recent adoption of the new lease accounting standard, which requires us to present items such as impounded property taxes and the ground lease payments our tenants make on our behalf on a gross basis as both rental revenue and property costs. On an annualized basis, excluding this lease accounting gross up, property costs totaled about four basis points of average portfolio assets for the quarter.

G&A expenses for the second quarter were \$14 million, up from \$11 million a year ago, and included about \$2 million in severance costs related to the departure of our general counsel due to health-related reasons. Excluding these severance costs, G&A expenses decreased to 61 basis points of average portfolio assets from 66 basis points a year ago.

Taken together, property costs, excluding the impact of lease accounting gross ups and our G&A costs, net of the severance costs, and excluding non-cash equity compensation amount to just 50 basis points on an annualized basis of our average portfolio assets.

We delivered another strong quarter of AFFO and AFFO per share growth. AFFO increased 25% to \$114.2 million from \$91.1 million a year ago. On a per share basis, AFFO was \$0.50 per diluted share, an increase of 11% from \$0.45 per diluted share a year ago.

For the second quarter, we declared a quarterly cash dividend of \$0.33 per share and our dividend payout ratio was low at 66%. Since our IPO in 2014, we have increased our dividends per share by 32% while maintaining a low dividend payout ratio and at the same time reducing leverage. As you know, our board evaluates our dividend policy at each board meeting and considers raising it at least annually based on our results. We anticipate that our board would consider a dividend increase as we complete our third quarter given that we have maintained our quarterly dividend at the \$0.33 level for four quarters now, while we have grown our AFFO per share and our dividend payout ratio remains among the lowest in the net lease sector.

Now, turning to capital markets activity and balance sheet, we funded our strong acquisition volume during the quarter with a combination of cash flow from operations, proceeds from property sales, temporary borrowings on a revolving credit facility, and equity proceeds from our ATM program.

Our ATM program continues to be a particularly effective way to raise equity and it makes a lot of sense given the flow of our business and the granular size of our transactions. During the second quarter, we sold 4 million shares of common stock under our ATM program, at an average price of \$34.23 per share, raising net equity proceeds of over \$135 million. For the first half of the year, we sold about 9 million shares of common stock under this program, at an average price of \$33.17 per share raising net equity proceeds of \$294 million.

It is important to note that substantially all our long-term borrowings are fixed rate and our debt maturities are intentionally well laddered. Our median annual debt maturity is currently \$287 million. Our free cash flow, which is basically our cash from operations, less dividends, plus proceeds from property sales, tends to cover the amount of debt maturities coming due in any one year. And we have no meaningful near-term debt maturities

At quarter end, our leverage ratio was at the low end of our target range at 5.6 times net-debt-to-EBITDA on a run rate basis or around 41% on a net-debt-to-portfolio-cost basis. Approximately 63% of our gross real-estate portfolio was unencumbered at June 30th, giving us substantial financing flexibility.

We entered the third quarter with a strong balance sheet, a conservative leverage profile and ample liquidity to fund our acquisition pipeline. Our flexible funding sources include just over \$200 million of capacity on our \$750 million equity ATM program that we launched, last November, and over \$525 million available under our \$600 million credit facility, which also has an \$800 million accordion feature.

Now turning to our guidance for 2019, considering our strong level of acquisition activity in the first-half, as well as our robust pipeline and positive outlook, we are raising the lower end of our AFFO per share guidance to a range of \$1.92, to \$1.96, up from \$1.90 to \$1.96 we first announced last November. This is based on projected net acquisition volume of approximately \$1.1 billion for 2019. As Mary mentioned, we actively monitor our portfolio to manage diversity and maintain the health of our long-term investments, so we expect to sell properties throughout the year. Based on current market opportunities, we believe property sales activity may be higher in the second half of the year than the first half of the year.

Our AFFO per share guidance for 2019 equates to anticipated net income of \$0.88 to \$0.91 per share excluding gains or losses on property sales, plus \$0.97 to \$0.98 per share of expected real estate depreciation and amortization, plus approximately \$0.07 per share related to items such as straight line rents, equity compensation, and the amortization of deferred financing costs. The midpoint of our AFFO guidance is based on a weighted average cap rate on new acquisitions of 7.85%, and a target leverage ratio of 5.5 to 6 times run rate net-debt-to-EBITDA. AFFO per share in any period is sensitive to both the amount and timing of acquisitions, property dispositions, and capital markets activities. Acquisition activity tends to be backend weighted in each quarter. As we move through the second half of the year, we will continue to assess our outlook and update guidance as needed.

And now, I will turn the call back to Chris.

Christopher Volk

And thank you, Cathy. I would like to close with a few words about our executive leadership team before turning the call over to the operator for questions. A few weeks ago, Andrew Rosivach joined our team from Goldman Sachs where he led their REIT research efforts. He is assuming the role of Executive Vice President of Underwriting, which was formally held by Chris Burbach who departed earlier this year to establish a net lease index and an associated net lease sector exchange traded fund. I have known Andy and have followed his thoughtful REIT evaluations and research since he covered us at a predecessor company for Credit Suisse, back in 2005. And all of us here are delighted to have him join our team.

During the second quarter, we felt the departure of Michael Bennett, our fellow STORE Capital Co-Founder and General Counsel, who left us in May to concentrate on his battle with cancer, which was diagnosed earlier this year. On June 24th, Michael passed away, and his loss has been devastating to us all. I know that many of you on the call knew Michael, and we miss him more than we can say.

And with those comments, I would like to turn the call over to the operator for any questions.

QUESTIONS AND ANSWERS

Operator

Yes, thank you. We will now begin the question-and-answer session. To ask a question, you may press star (*) then one (1) on your touchtone phone. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble the roster. And the first question comes from Jeremy Metz with BMO.

Jeremy Metz

Hey, guys. Just going back to the guidance here and just the performance in the first half, I mean, Cathy, you mentioned the potential for some higher dispositions here in the second half, but just given the pace of acquisitions you have seen, Mary, you talked about feeling very good about the opportunities out there. Is there anything else lingering out there that could really kind of bring you down to the midpoint or even that low end of your guide range?

Catherine Long

A lot of it is timing, Jeremy. You know sales can be lumpy, so if the sales are earlier in Q3, then that would tend to drag on AFFO maybe a little more than it would if there a little bit later. So,

that is -- basically that is it, it is really timing of things like capital markets activities, sales, acquisitions.

Jeremy Metz

All right. And then in terms of the loans you originated, the balance grew here quite a bit; I think it is a little over \$450 million now, which is I think the highest it has been since you have gone public. So how do you think about managing this part of the business? Chris, is there any sort of artificial cap that you put on it, any thoughts around that?

Catherine Long

Hey, Jeremy, it is Cathy. This growth is really -- a lot of it is fueled by the new lease accounting, where if we do a sale leaseback transaction with a customer and it contains a purchase option, it gets accounted for as a financing just for accounting purposes. In real life it is a lease, but for accounting purposes, it gets treated as a financing, and when we file our Q tomorrow, you will see that, and so that is really the big change.

Christopher Volk

Don't you love accounting?

Jeremy Metz

Absolutely.

Christopher Volk

You do a sale leaseback and it shows up as a loan. I mean, this is what we have come to right, so...

Catherine Long

Right, if you will look at, in our Q, we will have a section on our investments where we will detail out some of that information so it will be easier to see.

Jeremy Metz

All right. Thank you.

Operator

Thank you, and the next question comes from Caitlin Burrows with Goldman Sachs.

Caitlin Burrows

Hi, good morning team. Congrats on the new Executive VP team member. But moving on, I think you get this question a lot, but recognizing that 2018 net acquisitions were \$1.4 billion, and guidance for this year is somewhat below that, I guess to what extent is that conservatism and the unknown of being in a flow business versus a more specific expectation of lower acquisition volumes in 2019?

Christopher Volk

Caitlin, this is Chris. I will respond to that. Every year when we do guidance, we tend to -- I mean if you look from the beginning of time, we have always had guidance estimates that were lower than the prior year's net acquisition number. And part of it is just we are in a flow business, and we just don't have the transparency of the acquisitions, so we can't see that far ahead, and our average transaction size is roughly \$10 million a shot.

We are closing a deal every day and a half, and when you're in a flow business like this trying to -- and you don't have sight on some large portfolio that we are going to buy or whatnot, that we just don't have a way of really accurately measuring it, you will see us certainly true that up towards the end of the year.

In the meantime, what is also happening is that we are very active on the sales side as well, and we are more active on the sales side than most of our peers, and so you are dealing with not only just the acquisitions pace, but you are also dealing with the sales pace, and we can't always even really target the sales pace exactly. So, that has a tendency to be lumpy. We are not dealing with treasury growth here, so it moves around. So, we are doing the best we can to triangulate it. Clearly, if you go on the first half of the year on a net basis, we are going to beat the target. I mean it is up to Mary and our sales team and origination team; we would like to do that. But it is a function of whether the business is out there, and we want to make sure that we have room, so we don't have to overpromise.

Caitlin Burrows

Got it, that makes sense. And then maybe just as you do grow and become a bigger company, is there anything you are being forced to change about the way your acquisition process works at all? If so, what is changing, and if not kind of how are you able to keep it up at such a granular basis?

Christopher Volk

Well, at this point in time we don't really have to change how we do things. So, we have enough manpower and enough time to be able to look at all the credit write-ups and adhere to the same credit and investing policy that we have since we started the company. Potentially as we get bigger you will see us change up on some of that. This year, we are spending a lot of time investing in IT infrastructure. Last year we did some test runs on our business intelligence software and we have been holding that at abeyance, although we have been sort of beefing it up what we have - - beefing that up. Over time I think we are going to take that and apply it to more fundamental credit scoring and guidance techniques to make us more consistent in what we do, and if we can do that and we can do it successfully, it may improve the speed or the way in which we do things. So, if we were to, let's say, go to a point in time where we are doing \$2 billion worth of acquisitions a year or whatever, we might be able to improve the efficiency of that acquisition activity, but we are working on that. It is something that is in our sights for next year and the year after that.

Caitlin Burrows

Thanks.

Operator

Thank you. And the next question comes from Ki-Bim Kim with SunTrust.

Alexei Siniakov

Good morning. This is Ki-Bim's associate, Alexei. One quick question, there was some recent news about a certain Perkins Restaurant operator running into some issues with possibility of closing down multiple stores. Do you happen to have any exposure to this specific franchisee or any exposure to Perkins restaurants in general?

Mary Fedewa

Hey, this is Mary. We actually -- yes, we do. So, I will give you a little highlight on that operator. So today they are current on their rent, the investment amount is very rational. We have got credit

support on top of that. And what we know today is we expect all or maybe nearly all of the stores to remain open.

Alexei Siniakov

Okay, can you give some color around the number of stores or perhaps the percentage of total revenue that they contribute?

Christopher Volk

Yes, it is 30 basis points or something like that, so it is really small, and we don't expect to have any losses from it.

Alexei Siniakov

Okay. Got it. Thank you very much. That is all I had.

Christopher Volk

Before you go, I am going to go back to you, you guys produced research in the mornings and Ki-Bin made a point of talking about a migration of EDF scores downward a little bit. I thought I would address that. Every quarter we give you tenants expected to fall frequency scores come off of Moody's and then we also adjusted for coverages, and it really comes up with a risk, a STORE score number, that probably actually overstates the risk, by the way, because our portfolio does better than that score would suggest, but to make things even better than that, at the end of the -- what page is this number?

Mary Fedewa

It is 36.

Christopher Volk

Okay, page 36 of our presentation, we give you this, we sort of stack it up over three years. You can see what the trends are because I think one quarter never makes the trends, you want to look at stuff that is over a longer period of time than that, and if you were to look at the Page 36, you will see that there is sort of a delta between where we are on tenant RiskCalc scores today versus let's say last year and the year before. So, it is suggested that there has been some degradation and some RiskCalc scores. It is not a huge number, by the way, if you look at it in the aggregate, the probability of default is very low, but there is some degradation and almost all that results from just a handful of tenants. It is not that many tenants and in most cases it's because they are growing, and so what happens is you end up with a company that has a financial statement that during this phase of growth they just look more levered than they would otherwise. It is a Moody's is going to do them for that, but on a run rate basis they look just fine. So, I would say to you that we overall are fairly confident that our portfolio from a credit quality perspective, investment quality perspective has not deviated at all from last year or the year before that.

Alexei Siniakov

Okay, understood. Thanks a lot for that explanation.

Christopher Volk

Thank you.

Operator

Thank you, and the next question comes from Craig Mailman with KeyBanc Capital Markets.

Craig Mailman

Hey, everyone. Question, if I were to just do the net investment activity in the first half of the year, you gross up to like a \$1.03 billion to \$1.04 billion. I know you said the second half is going to be more robust on the sale side. I mean should we expect a \$200 million, \$250 million sales number and where are you guys in the process of marketing those assets. Do you have anything under contract? It didn't look like there is a lot held for sale, so just curious as we think about timing in your flow business kind of best estimate of where that could kind of come in?

Catherine Long

Hi it is Cathy, Craig. My best guess would be it would be in the midpoint of the second half when the majority of the sales will happen. Of the things that were held for sale, one of them, there were two properties in there and one of them has already sold at the beginning of July. The other one will probably sell before the end of August and a lot of times end of quarters are heavy in sales activity for example for Q2, June was the heavier sales month than any other month in the quarter and we may anticipate that that would be the same for Q3 that September would be the heaviest month of the quarter. So, if you kind of model in middle of the second half, it probably makes sense, and yes, the sales activity can be several hundred million dollars.

Craig Mailman

And then just bigger picture, I know you guys are investing in technology, you have added some additional salespeople. You have been able to kind of ramp gross investment activity over the past couple of years, but with the kind of framework and staff that you have today, where do you think you guys could kind of scale investment activity on a reasonable basis versus post investment in some of these maybe robot underwriters whatever you want to call them?

Christopher Volk

Well, I think that as you're hiring acquisitions people, it takes them one to two years to become really prolific, so the acquisition people are going to kick-in over the next year or two in terms of productivity, I think. Beyond that, there will be some variable cost in terms of acquiring salespeople. If you look at our overall cost of running this business, and we tend to sort of look at not just G&A but also property costs, back out non-cash shareholder comp -- employee compensation -- equity comp right, so you want to get sort of an AFFO number and you want to back out and you also want to back out any tenant reimbursable stuff, which basically inflates what property expenses would be. We are doing that our cost to run the company today is 50 basis points, which is down from last year. Last year was closer to 56 basis points, so there is definitely as we grow this platform, there is some economies of scale, but they are small, and from a shareholder perspective, saving 6 basis points on cost is not really where the cheese is at and the cheese is really at booking assets at really nice cap rates having nice lease escalators, having a low dividend payout ratio. I mean these are things that are most essential to driving investor rates of return and these are things where we have been concentrating a lot of our energies.

Operator

Thank you, and the next question comes from Nate Crossett with Berenberg.

Nate Crossett

Hey thanks. I appreciate the comments on Perkins. We have heard some negative chatter about Pizza Huts and Wendy's through NPC International and I am wondering if there is any exposure there that you guys have?

Mary Fedewa

Yes, right, no with Wendy's.

Christopher Volk

I think the Wendy's exposure is basically a couple of stores. I mean it is nothing.

Mary Fedewa

Pizza Hut will be relatively small as well. Yes.

Christopher Volk

Just to put in a perspective overall, I mean this is true overall. Our coverage ratio at the median after overhead is around 2 to 1 and so -- but 2 to 1 does not really fully state what the risk is because a 2 to 1 for example for early childhood education is much better than 2 to 1 for a chain restaurant property. So, what you want to do is focus then on tolerable fall-off and so this last quarter we spent a lot of time looking at how much our tenants could lose in sales and not pay us, and the number tends to be around 30% to 40%. I mean so when analysts look at a movie theater industry or the restaurant industry or casual dining or some sector and they get very disturbed by same-store sales trends of negative 2% or negative 5%. For us, we don't necessarily like that, but on the other hand they got to go down by 30% to 40% before we really get worried about it. Today we have -- how many Pizza Huts do we have?

Mary Fedewa

It is 44 basis points.

Christopher Volk

It is 44 basis points.

Mary Fedewa

And there is about two times coverage.

Christopher Volk

It is two times coverage and it is 44 basis points of ---

Mary Fedewa

Rent and interest.

Christopher Volk

Rent and interest.

Nate Crossett

Okay, that is helpful and then maybe you can just comment on the mix between services, retail manufacturing. I am curious to know how the weighting is moved from here. I mean trying to gain or lessen exposure anywhere?

Mary Fedewa

It has been really consistent, Nate, and services really are our favorite and our primary industry focus, and then, as you know, retail we have handpicked since we started in 2000, they have heavy -- most of our retail is heavy service component and nice online presence and stuff, which is important to us, and then in manufacturing we have been consistent -- you will probably see that a little bit less than 17%.

Nate Crossett

Okay. So, the 19 new tenants this quarter, or what were they? The 19 new tenants this quarter, what areas were they in?

Mary Fedewa

Nate, it was across asset classes, actually, a plethora of them, yes service, retail, manufacturing.

Nate Crossett

Okay, that is helpful, thanks.

Mary Fedewa

You are welcome. Thank you.

Operator

Thank you, and the next question is from Haendel St. Juste with Mizuho.

Haendel St. Juste

Hey, good morning. Just a couple of quick ones from me, good morning, I noticed that talking about industry exposure that your auto repair and maintenance exposure is up 50 bps or so from last quarter, now it is number 6 on your list just ahead of family entertainment. The focus on that I guess sector seems consistent with the portfolio goals that you have outlined, but just curious maybe you could talk a bit more and what excites you or what in particular you are seeing about that business segment that drive you to it, how we could expect perhaps your exposure there to perhaps grow, and maybe some color on yields, coverage ratios and the embedded rent bumps in that sub-sector.

Mary Fedewa

Yes, so let me start, Haendel, and Chris can add some color, but in that space, it tends to be we did do some maintenance and repair service shops and we actually added a handful of car washes as well. So, those are kind of the primary industries that added to the increase there. We like the space. We have talked a lot about the car wash space and membership programs that they have, and it is very much an acquisitive industry right now. So, people are rolling up existing car washes and so on and so we are seeing good activity and we like that space. Good performance there, and then the maintenance and repair services we pick our spots there, but we like that service as well.

Haendel St. Juste

Okay. Can you, or would you be willing to provide any color on the embedded rent bumps are coverage yields specifically or is that something you prefer not to talk about.

Christopher Volk

I would say that the coverage is going to be right in line with the portfolio, so kind of around 2 to 1 and the rent bumps here to be the same they are going to be kind of 1.8, 1.9.

Mary Fedewa

Yea, annual.

Hendel St. Juste

Got it. And just a quick follow-up on the Perkins CLC, the 30 bps that was as of 2Q end – is that the same figure today or have you sold any thus far in third quarter.

Mary Fedewa

It's the same.

Haendel St. Juste

Okay. Thank you.

Operator

Thank you, and the next question comes from John Massocca with Ladenburg Thalmann.

John Massocca

Good morning. So, your exposure to kind of tenants with, let's say, are customers with over \$500 million distribution, it went up quarter-over-quarter and it seems like it has kind of grown a little bit over the course of the year, is that driven by acquisition activity or, and if it is, are these larger tenants becoming a bigger focus in the acquisition pipeline for kind of strategic reasons or is it just a matter of where the deal flow is.

Christopher Volk

I would say it's a matter where the deal flow is, we are not intentionally targeting companies that were \$500 million, I mean, our view on this is sort of broadly speaking, is if you look at the spaces that we are in like if you look at every single sector that we are in, either sectors that are all dominated by middle market companies for the most part. They are not, it is not like there -- that being a large company offers people any substantial advantages, which I think it is important if you are thinking about what might happen in a recession, well that there is always a thought process -- big companies are going to take over the world and little companies won't, which is by the way not true, because in the last Great Recession, the little companies were the only people that had jobs and the big companies lost jobs, but our view is really to go after middle market companies, but every now and then we will come across the larger concerns obviously and there are our customers as well, these are all non-rated, bank dependent companies and so they have the same issues and it is not a particular target for us to be going strategically after larger businesses.

John Massocca

Okay. And then on the disposition side, is there some kind of expected mix between kind of three different buckets. As we look out in the back half of 2019, is there a particular amount of like the opportunistic dispositions available to you?

Mary Fedewa

I think, John, that you are going to see really consistency in what we have done in the past, and in the past we have done roughly, give or take 40% in opportunistic, 40% strategic and then the other 20% on property management, I think that is fairly consistent.

John Massocca

Okay, thank you very much.

Christopher Volk

Thank you.

Operator

Thank you, and the next question comes from Spenser Allaway with Green Street Advisors.

Christopher Volk

Hey, Spenser.

Spenser Allaway

Last time, you guys mentioned that there was a lot of money chasing restaurant deals. And considering your exposure continues to tick down yet again this quarter, would it be safe to say that competition remains fairly robust in that space?

Christopher Volk

Our competition is robust in the restaurant space. People actually just love restaurants. They are granular, they are bite size.

Mary Fedewa

They are brands that people know.

Christopher Volk

So, sometimes you just find a cap rates are not really driven by risk, but they are driven by size. And we tend to be people who are focusing on risk and returns, and are trying to be -- are doing our best to be objective about where our opportunities are. And we can buy the restaurants and have them be accretive to AFFO, but that is not our goal. I mean our goal here is to buy really attractive risk-adjusted properties, not just buy anything because it covers, or something like that. So, and we found that restaurants have been harder for us to get the kind of returns we would like to have.

Spenser Allaway

Okay, and then perhaps more broadly speaking, what other industries would you say that you guys have been running into, like the most crowded bidding, and in terms of like the competition of competing capital -- has there been any change in the type of competition you have been running into?

Mary Fedewa

Yes, this is Mary. Not really a big change. There is certainly a lot of capital out there and it continues to be, but I would say at a high level that manufacturing is still a hot industry class right now, and retail is still out of favor, and I think that people are enjoying service too. So, we are seeing that is kind of the same mix we've seen it all year.

Christopher Volk

And especially if they are large portfolio transactions or a teed up, we are seeing a kind of line of people wanting to do the portfolio transactions.

Mary Fedewa

Yes, and we think it comes from the money out there that needs to be put to work and the insatiable like demand for yield or even some demand for yield at all.

Spenser Allaway

All right, that would bode well for your more granular pipeline?

Mary Fedewa

Yes, right. We are playing in this nice niche place of \$8 million, \$9 million, \$10 million and it is a good place to be.

Christopher Volk

But to play in the niche, you got to have a pretty deep sales staff and --

Mary Fedewa

And systems and origination engine.

Christopher Volk

Yes, we have to have a numbers niche, and it takes a long time to put that together.

Spenser Allaway

Excellent. Okay, that is all from me. Thank you.

Christopher Volk

Thank you.

Operator

Thank you, and next we have a follow-up from Caitlin Burrows with Goldman Sachs.

Caitlin Burrows

Hi, again. Just a quick one following up on the recent topics. Just given the customers that you did business with in the quarter, what do you think is your potential to do more business with those partners again?

Christopher Volk

So, our repeat business last quarter was high. So, it was -- I was going to say it was half, was it half?

Mary Fedewa

Yes, for the quarter it was, but year-to-date it was about 33% or something like that. So, it kind of ebbs and flows a little bit. So, I would say, the chance is very high, Caitlin, to do more with them. That is, we tend to target growing customers, long-term partnerships, providing 15- and 20-year leases and adding real value to their businesses. So, they tend to have a plan with us.

Christopher Volk

If you look at the beginning of our quarterly presentation this quarter, we have redone the number the terms of company revenue growth, and the average customer that we have has revenue growth in the neighborhood of 15% annually, which is bigger than most middle market companies, and most of that is due to expansion and acquisition on their part. It is not all -- the same-store sales growth is sort of a modest piece of that. So, most of it is due to growth and that will be typical of the kind of customers that we have.

Caitlin Burrows

Okay, thanks.

Operator

Thank you, and we also have a follow-up from Nate Crossett with Berenberg.

Nate Crossett

Yes, I just wanted to ask about the dividend, and I appreciate the comments in the prepared remarks, but maybe you can you remind us how you think about the dividend in context with your

payout ratio. Is there a certain payout ratio you look to target? I mean any help would be appreciated.

Christopher Volk

Well, my personal preference is to have the dividend payout ratio be as low as possible. I mean, it does two things. One, it protects all of our investors. The second thing is that it adds the most compounding of returns. So, it's the cheapest source of capital and it elevates the returns and it increases our internal growth a lot. So, relative to what it would be otherwise. But that being said, as you are growing AFFO per share, you can't retain it at all. So, you are growing, I mean our year-to-date is 10% growth. So, and that gives us some ample room to be able to raise the dividend, and I hope that we can accomplish that. To the extent that we don't raise AFFO per share, I mean, our dividend at the same rate of AFFO per share, that will be a decision the Board makes and they may make it in order to keep our payout ratio lower, but again, that will pay off to you as an investor over the long term, and as the company gets older -- as we get older, you will find that basically the dividend will start to just mirror what the AFFO growth is. And here the good news is that the AFFO growth just from internal growth is kind of in the 5% range, and so this is a net lease REIT that is dominated by internal growth, and it is designed to be dominated by internal growth so that we do not get in a trap where as we get bigger we start losing a lot of edge on the external growth side. We may lose some edge on that, but it will be modest compared to the impact of the internal growth that we are creating.

Nate Crossett

Okay, that is helpful, thanks.

Operator

Thank you, and as there are no more questions, I would like to return the conference to Christopher Volk for any closing comments.

Christopher Volk

Thank you very much for attending our second quarter 2019 earnings call. The next investor presentation that we are going to make will be at The Well Fargo Net Lease REIT Forum, which is going to be held in New York City on September 10th. So, if you are interested in seeing there, let us know, and meanwhile, thank you all for listening, and we are around today and tomorrow for any questions that you might have, so have a great day.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.