STORE Capital Corporation

Second Quarter 2018 Conference Call

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CORPORATE PARTICIPANTS

Chris Volk – *President and Chief Executive Officer*

Mary Fedewa - *Chief Operating Officer*

Catherine Long - *Chief Financial Officer*

Moira Conlon - *Investor Relations*

PRESENTATION

Operator
Good day and welcome to the STORE Capital's Second Quarter 2018 Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question you may press "*"then "1" on your touchtone phone, to withdraw your question, please press "*" and "2." Please note this event is being recorded.

I would now like to turn the conference over to Moira Conlon, Investor Relations for STORE Capital. Please go ahead.

Moira Conlon
Thank you, Nicole, and thank you all for joining us today to discuss STORE Capital's second quarter 2018 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 website at ir.storecapital.com under News and Results, Quarterly Results.

I am here today with Chris Volk, President and Chief Executive Officer of STORE, Mary Fedewa, Chief Operating Officer, and Cathy 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 one 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 comments on today's call 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 or our AFFO and AFFO per share guidance for 2018 and 2019, are also forward-looking statements.

Our actual financial conditions and results of operations may vary materially from those contemplated by such forward-looking statements. Discussions 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 Chris Volk. Chris, please go ahead.

Chris Volk
Thanks, Moira, good morning, everyone and welcome to STORE Capital's second quarter 2018 earnings call. With me today are Mary Fedewa, our Chief Operating Officer, and Cathy Long, our Chief Financial Officer.

We continued to be active on the acquisition front. Our investment activity for the quarter totaled just over $335 million and we profitably divested approximately $115 million in real estate investments. Our investments and property sales reflect our ability to consistently invest in and recycle cash in ways that are accretive to our shareholders. At the same time, our portfolio remained healthy with an occupancy rate of 99.7%, and about 73% of our net lease contracts rated investment-grade in quality based on our STORE Score methodology. You will hear more about our property investment and sales activity and portfolio health from Mary.

Our dividend payout ratio for the quarter approximated 69% of our adjusted funds from operations, serving to provide our shareholders with a well-protected dividend and a company that is well-positioned for long-term internal growth based upon anticipated tenant rent increases and the reinvestment of our surplus cash flows.

Our balance sheet remained well positioned. Our funded debt-to-EBITDA on a run rate basis improved slightly to approximately 5.6 times for the quarter, which includes the impact of the gradual new equity issued through our ATM program. Moreover, substantially all our investments made during the quarter added to our pool of unencumbered assets, which stood at $3.8 billion, or about 56% of our growth investments, providing us with flexibility in our financing options.

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

- Our weighted average lease rate during the quarter was approximately 7.96%, which is slightly above where we were last quarter.
- The average annual contractual lease escalation for investments made during the quarter approximated 1.8%, providing us with a gross rate of return (which you get by adding the lease escalations to the initial lease rate) of almost 9.8%. Including average corporate borrowings approximating 42% of investment cost at an interest rate of 4.5%, you arrive at a gross levered total return of better than 13%. The majority of our outperforming investor returns from STORE and predecessor successful public companies have always been driven by having favorable property-level rates of return from the outset, which is why we take the time to disclose major return components.
- The weighted average primary lease term of our new investments continues to be long at approximately 17 years.
- The median new tenant Moody's RiskCalc credit rating profile was solid at Ba3.
- The median post overhead unit level fixed charge coverage ratio for assets purchased during the quarter was in line with our overall portfolio at 2.1:1.
- The median new investment contract rating (or STORE Score) for investments, was also favorable at Baa1.
- Our average new investment was made at approximately 75% of replacement cost.
- 96% of the multi-unit net lease investments made during the quarter were subject to master leases.
- And, all 111 of the new assets we acquired during the quarter are required to deliver unit-level financial statements, giving us required unit-level financial reporting from 97% of the properties within our portfolio.
- Our investment activity this quarter was exceptionally granular, with 53 separate transactions completed and an average transaction size of just under $6.5 million.
- At the end of the quarter, the proportion of revenues realized from our top ten customers was 19.2% of annualized rents and interest, which was up slightly from 18.8% at the end of the first quarter. However, our top ten customers continued to be highly diverse and the largest single customer represented just 3.3% of our annualized rents and interest, down from 3.5% last quarter, with a long-term target of having no tenant exceed 3% of our annual revenues.

- During the quarter, we sold 26 properties, which represented an original acquisition cost of approximately $115 million, and we netted a gain over our original cost of $10.4 million. Our ability to generate profits from asset sales and to accretively recycle the sales proceeds owes itself to our direct origination strategy. And, as I have long stated, portfolio management activities like this which produce real economic gains serve to offset sporadic vacancies or asset underperformance, which is a customary part of the net lease business.

And with that I'm going to return the call over to Mary, who will discuss this activity in more detail.

Mary Fedewa
Thank you, Chris and good morning, everyone. We had a strong second quarter with acquisition volume of $335 million at a cap rate of nearly 8%, bringing year-to-date acquisitions to over $655 million. This puts our gross acquisition pace at slightly over $100 million per month.

In the second quarter, our investments were made through 53 separate transactions, the most transactions in a single quarter by 46% based on our quarterly average since our IPO.

We are excited to achieve this level of transaction activity in a quarter and are encouraged by the opportunity to further increase this level of volume with just a handful of additional larger transactions, which is customary to see in our market.

We continued to actively manage our portfolio, taking advantage of opportunities to sell properties. During the quarter, we sold 26 properties which had an acquisition cost of $115 million. We generated net gains over that original cost of approximately $10.4 million. Based on acquisition cost, 38% were opportunistic sales and delivered the bulk of the gains, which averaged 16% profit over cost. 48% were sold for strategic reasons to reposition the portfolio at a 4% gain over cost. And the remaining property sales were from our ongoing property management activities and resulted in gains in the quarter of nearly 8% over our original cost.

Now turning to our portfolio performance highlights. As of June 30, 2018:

- Our portfolio mix remains consistent, with the majority of our portfolio in the service sector at 66%, 18% in experiential retail, and the remaining 16% in manufacturing.
- Customer ranking within our top ten remains extremely diverse by design with our largest tenant, Art Van Furniture, representing just 3.3% of rent and interest.
- We were excited to have added Dufresne Spencer Group to our top ten. Dufresne Spencer Group is the largest Ashley Furniture HomeStore licensee. With over 800 locations worldwide, Ashley is the world's largest furniture manufacturer and the number one furniture store brand in the world. Dufresne Spencer group is backed by a seasoned management team with a strong operating history, and garnered in investment from Ashley Corporate in December of 2017. They joined our top ten as a result of their ownership in Hill Country Holdings, an existing customer of ours and another top licensee in the Ashley system.
- Our portfolio health continues to be strong as delinquencies and vacancies remained very low due to our active portfolio management and strong tenant partnerships, with only six out of our more than 2,000 properties vacant.

- Our customer focus on the middle market, which creates most of the revenue and employment growth in this country, continues to play out. Our customers grew their revenues by 15% on average in 2017.

Now, turning to the overall market and our pipeline:

Cap rates remain stable and this allows us to continue our pattern of generating strong spreads over our cost of long-term capital. Our target market of middle market and larger companies is extremely deep. And while the market penetration we have achieved is exceptional, we have plenty of runway ahead. Our pipeline remains robust and diverse, with an emphasis on service, manufacturing and select retail sectors having high potential for long-term relevance.

With that, I will turn the call to Cathy to talk about financial results.

Cathy Long
Thank you, Mary. I will start by discussing our capital markets activity and balance sheet, followed by our financial performance for the second quarter. Then I will review our 2018 guidance. All comparisons are year-over-year unless otherwise noted.

Beginning with our capital structure -- our financing flexibility reflects our ability to access both the equity and debt markets in a variety of ways. Our ATM program has been a very effective way to raise equity. It also makes a lot of sense for us given the flow of our business and the granular size of our transactions. During the second quarter, we sold an aggregate of 7.1 million common shares under our ATM at an average price of $26.64 per share. We raised net equity proceeds of just over $187 million, which we put to work through our real estate investment activity. Year-to-date, we sold an aggregate of 11.3 million shares at an average price of $25.86 per share. This equity gives us significant liquidity going into the third quarter.

At June 30th, our long-term debt stood at $2.6 billion, with a weighted average interest rate of just under 4.4% and a weighted average maturity of about six years. In an environment focused on interest rates, it's important to note that all our long-term borrowings are fixed rate. Our debt maturities are intentionally well laddered -- our goal is to grow our free cash flow after dividends such that the amount of our annual debt maturities that wouldn't be covered by free cash flow is only about 1.5% of our total assets. Our median annual debt maturity is just under $260 million, and we have no meaningful debt maturities until the year 2020.

Our leverage ratio at June 30th remained low at 5.6 times net-debt-to-EBITDA on a run-rate basis. This equates to around 40% on a net-debt-to-cost basis. At the end of the second quarter, we had borrowing capacity on our credit facility of nearly $500 million in addition to the $44 million of cash on our balance sheet. The accordion feature of our expanded credit facility provides access to even more liquidity. In summary, we are well positioned with substantial financing flexibility, conservative leverage and access to a variety of attractive equity and debt options to fund a large pipeline of investment opportunities.

Now, turning to our financial performance. Acquisition activity during the second quarter was funded by strong cash flows from operations, proceeds from asset dispositions and proceeds from the ATM activities I noted earlier.

As of June 30th, our real estate portfolio stood at $6.7 billion, representing 2,084 properties. This compares to $5.5 billion, representing 1,770 properties at June 30, 2017. The annualized base rent and interest generated by our portfolio in place at June 30th increased 19% to $538 million, as compared to $453 million a year ago. Of our $6.7 billion gross real estate portfolio, approximately $2.9 billion was pledged as collateral for our secured debt and the remaining $3.8 billion of real estate assets are unencumbered, giving us substantial financing flexibility. We expect that by year-end, the portion of our portfolio remaining unencumbered will approximate 60%.

Portfolio growth drives revenue growth and in the second quarter, revenues increased 15% year-over-year to $131 million. Our second quarter acquisition volume was weighted towards the end of the quarter. Therefore, the full impact of that volume won't be realized until the third quarter of 2018. Our consistent strong revenue growth reflects the broad-based demand for our real estate capital solutions.

For the second quarter, total expenses increased 13% to $89 million, compared to $79 million a year ago. Nearly, 70% of this increase can be attributed to higher depreciation and amortization reflecting the growth of the portfolio.

Interest expense was up slightly compared to a year ago primarily due to higher average balances outstanding on our credit facility. Interest expense on our long-term debt was also up slightly as we used debt to partially fund our real estate acquisition activity. That impact was almost fully offset by a decrease in the weighted average interest rate on our long-term borrowings.

Property costs were $741,000 for the second quarter as compared to $1.1 million a year ago. Since 98% of our real estate investments are subject to triple-net leases, property level costs such as property taxes, insurance and maintenance are the responsibility of our tenants and not a significant portion of our annual expenses. Property costs can vary quarter to quarter based on the timing of property vacancies and the level of underperforming properties. Over the past four quarters, property costs have averaged about 8 basis points of our average portfolio investment. During the second quarter of this year, property costs were lower, at about 4 basis points of our average investments.

G&A expenses in the second quarter were $10.9 million, compared to $9.3 million a year ago, primarily due to the growth of our portfolio and related staff additions. For the second quarter, G&A as a percentage of average portfolio assets decreased slightly to 66 basis points from 67 basis points a year ago.

Net income before gain on property sales increased to $42 million, compared to $35 million a year ago. This increase was due to the growth in the size of our real estate investment portfolio, which generated additional rental revenues and interest income. This increase was offset by a decrease in net gains on property sales. The second quarter of 2018 included a net book gain of $19.9 million from the sale of 26 properties, as compared to a net gain of $25.7 million from the sale of 23 properties in the second quarter of last year. Including these gains, net income increased to $62 million for the quarter, or $0.31 per basic and diluted share, compared to $61 million, or $0.35 per basic and diluted share a year ago.

We delivered another strong quarter of AFFO and AFFO per share growth. AFFO for the quarter increased 19% to $91 million, or $0.46 per basic and $0.45 per diluted share, from $76 million, or $0.44 per basic and diluted share last year. As you know, the Berkshire Hathaway investment last June meaningfully accelerated the timing of equity issuances and we expected a dilutive impact to per share amounts beginning in the back half of last year. This dilutive effect is reflected in the year-over-year net income and AFFO per share comparisons.

Our dividend is an important component of our stockholder return. Since our IPO in 2014, we have increased our dividend per share by 24% while maintaining a low dividend payout ratio and, at the same time, reducing leverage.

For the second quarter, we declared a quarterly cash dividend of $0.31 per common share, representing around 69% of our AFFO per share.

As you know, our Board evaluates our dividend policy at each Board meeting and considers raising it at least annually as our results permit. As we maintained our quarterly dividend at the $0.31 level for four quarters now, and our dividend payout ratio is currently among the lowest in the net lease sector, we would anticipate that our AFFO per share growth could translate into dividend growth.

Now turning to guidance:
Today we are affirming our 2018 guidance first announced last November. Year to date, we are on track with our projected 2018 net acquisition volume guidance of approximately $900 million. We expect AFFO per share to be in the range of $1.78 to $1.84. AFFO per share in any period is sensitive to the timing of acquisitions during that period, as well as the amount and timing of dispositions and capital markets activities.

In 2018, we expect acquisitions to be spread throughout the remainder of the year, though acquisitions are often weighted towards the end of each quarter.

The midpoint of our AFFO guidance is based on a weighted average cap rate on new acquisitions of 7.75% and targeted leverage in the range of 5.5 to 6 times run-rate net debt to EBITDA.

Our AFFO per share guidance for 2018 equates to anticipated net income, excluding gains or losses on property sales, of $0.83 to $0.88 per share, plus $0.88 to $0.89 per share of expected real estate depreciation and amortization, plus $0.07 per share related to items such as straight-line rents, equity compensation and deferred financing costs.

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.

Chris Volk
Thank you, Cathy. Before turning the call over to the operator, I would like to make a few comments to remind you of some of our achievements. STORE has, by design, the most highly diversified net lease investment portfolio we know and certainly the most diverse in our own long history of running successful net lease companies. Taken alone, investment diversity can be expected to deliver investment-grade performance, which is a long-proven cornerstone of the structured finance universe. But we hold not just a diverse portfolio of real estate leases, but a diverse portfolio of senior contracts. That's the beauty of our strategy to exclusively hold profit center real estate: contracts are senior when the properties we own deliver profits to our tenant after our rent is paid. Contract seniority is yet another long-proven cornerstone of the structured finance universe, standing at the core of many investment-grade note issuances. So pairing sector leading portfolio diversity with contract seniority alone should yield a high level of investment-grade portfolio performance. Our long run average STORE Scores suggest that

roughly 75% of our contracts are of investment-grade quality, which is based upon tenant credit and location profitability. But adding in portfolio diversity, investing in real estate at discounts to net asset value and replacement cost and then highly active property and portfolio management and you get performance that actually well exceeds the STORE Score. Since we started STORE, our aggregate portfolio has performed more like an A-rated credit. We've realized this for achieving industry leading equity returns. The results of our organic growth has been an impressive AFFO per share growth of 9.8% since the end of the third quarter of last year, which is the last time that we raised our dividend and includes the first full quarter of the 9.8% Berkshire Hathaway investment in STORE. So our dividend has become more protected in the interim and our payout ratio at the end of the second quarter stands at just 69% of AFFO. As Cathy alluded, this performance will be on the mind of management and our board of directors as we assess our dividend policy for next year. Since our IPO in 2014, we have elevated our quarterly dividend by 24%, while maintaining a payout ratio close to 70% of adjusted funds from operations. Such consistent operating performance and dividend growth has helped us to realize double digit annual rates of return for our shareholders each year since our IPO.

And with those comments, I would like to turn the call over to the operator for questions and note that we also have Michael Bennett, our General Counsel, and Chris Burbach, our Executive Vice President of Underwriting here to help us with answering any of the questions you might have.

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick-up your handset before pressing the keys, to withdraw your questions, please press "*" then "2."

Our first question comes from Collin Mings of Raymond James. Please go ahead.

Collin Mings
Hi, good morning team.

Chris Volk
Hi Collin.

Cathy Long
Hi Collin.

Collin Mings
First question from me, just on the deal pipeline size, it was up $300 million on a net basis, but appears to have flat-lined a little bit relative to the growth seen last year. Are there market dynamics at play here, is it just timing, and maybe along those lines, how do you feel about the current capacity of your team, that it maybe makes sense to add some more people as the pipeline has obviously seen tremendous growth over the last couple of years?

Mary Fedewa
Yes. Hey Collin, it’s Mary. So, no. Pipeline is good, it is timing, it is growing and it is interesting you mentioned that because we have added two new sales people this year and they are coming along, it will take some time for them to get up, but we will start to see them on the

board here shortly. We are investing in the front-end and we are achieving great market penetration right now too. So everything is good on the deal flow front.

Collin Mings
Alright. And then just my second question, just on the disposition front, I appreciate the detail there and the buckets between the opportunistic, strategic. Sounds like you were able to post some gains across the board there. Can you maybe just give us a better sense of some examples of what is showing up right now or what you are trying to process in that strategic bucket in terms of what you are looking to sell and then, maybe where are you finding the best bid for some of the opportunistic deals that you are selling?

Mary Fedewa
Yes. On the opportunistic front, Collin -- its Mary again -- generally is the granular properties that we have more restaurants, we have some urgent cares, things of that nature. On the strategic side it's really a plethora of asset classes as well. So nothing in particular in terms of all anything in a systemic or in any industry-wide way. It's really a mix in both areas, quite honestly.

Chris Volk
You're right. We had strategic sales of some furniture stores, for example, one or two furniture stores…

Mary Fedewa
[Multiple speakers].

Chris Volk
Well, and we strategically keep our exposure managed. It's been a mix and then this quarter we were lucky to make money even on the property management side which is unusual -- you don't expect to make money out of the property management side.

Mary Fedewa
Correct.

Collin Mings
Alright, I will turn it over. Thank you.

Operator
Our next question comes from Craig Mailman of KeyBanc Capital Markets. Please go ahead.

Craig Mailman
Hi, just wanted to hit on guidance here, you guys, based on the midpoint, need to do $0.92 in the back half of the year. Just a penny uptick from where the second quarter came in and you noted that a lot of the investment activity is weighted towards the back half of the quarter. Add on the fact that you guys are like 25 basis points ahead of your guidance, you are at the lower end of your leverage range. I am just curious maybe what the potential headwinds are in the back half of the year that you are seeing that didn't give you guys the confidence to maybe bump the midpoint a little bit given the execution you've had.

Cathy Long
Hi, it's Cathy. A lot of it is timing, so on the acquisition front, as Mary mentioned, a lot of the quarter was very granular. Actually in the second quarter a lot of the activity was in the month

of June and actually fairly late in the month of June. So because we're more of a flow business, you cannot say the timing is going to be favorable to you necessarily when you're closing properties. So a lot of keeping guidance where it was, was just for that reason, for the timing of not only acquisition activity but the timing of raising equity as well.

Chris Volk
As you go through the rest of the year, what will happen is that as we progress, the acquisitions have less and less of an impact, though, on per share growth, although they do have a big impact on 2019 numbers. To the extent that we're able to exceed hypothetically $900 million net for the year that will have more to do with what happens in 2019 than '18.

Cathy Long
As you know, sometimes December is quite a big month. And as Chris mentioned, if you close things in the back half of December, it almost has no impact on AFFO for the year.

Craig Mailman
Okay, that's helpful. Then just curious and you guys have talked in the past about the continual refinement of the STORE Score. I'm just curious, how that process is going. If you guys have made any substantial changes, is that materially impacted at all, any of the credits the way you're viewing them in the portfolio?

Chris Volk
Well, at this point, I would say no changes to the STORE Score. So it's been consistent since day one. And really if you look at for STORE Score, it's a composite of just the Moody's RiskCalc number, which is a very proven statistically robust number together with a very loose hypothetical on the impact of that of unit-level coverages on contract retention in the case of a bankruptcy or insolvency or a lease expiration.

You could almost view the piece that we use for our portion of the STORE Score as a property level portion as a bit of hypothesis. It's less proven, for example, less robust than the Moody's RiskCalc number would be. We've intentionally tried to make it conservative. We do it over overhead, for example, so we are calculating our coverages after overhead. We're assuming what we think to be conservative probably for people affirming leases in the event of insolvency. We have been investing a lot in the last number of months and will be for the next few years in Business Intelligence software and Artificial Intelligence. We're going to have a lot of data behind this.

Over time, you're going to see us at some point move around the STORE Score just to reflect more proven mathematical relationships. But for now, I would tell you that the portfolio as a whole performs better than the STORE Score, which basically in a way just proves the hypothesis and says that really the portfolio is doing better than that. And I made those remarks in my notes because it's really driven by really high levels of portfolio diversity, active property management, buying assets at discounts to net asset value, strong levels of portfolio management. We were selling really almost sector-leading amounts of our portfolio every year and moving our assets around intentionally and trying to get in front of things as well as property management. We've been pretty active and done a good job to keep our vacant properties, under our 10 properties for quite some time at this point, which is pretty low.

All that stuff helps you to realize total rates of return that end up having more of an A-rated type performance. And you can see that on the sort of internal and external growth walk, its really an internal growth walk in the appendix to our presentation and we've modified that a bit and it's a pretty neat presentation.

Craig Mailman
Great, thank you.

Operator
Our next question comes from Ki Bin Kim of SunTrust. Please go ahead.

Ki Bin Kim, your line is open.

Alexei Siniakov Hi, this is Alexei filling in for Ki Bin. Good morning.

Mary Fedewa
Good Morning.

Cathy Long
Morning.

Alexei
Just two quick questions, on the disposition front, it looks like you sold three Applebee's assets this quarter. Perhaps could you give some color on those, in terms of like the dollar amount and the cap rates? And are you looking to further reduce the exposure?

Mary Fedewa
On the Applebee's side, Ki Bin [sic] it's Mary yes, we have been moving some of the RMH properties for quite some time now, getting out in front of some of the issues that we saw early on from collecting financial statements. So we've been moving those right along. So those are just basic Applebee's. What we were able to do actually, interestingly enough, is to lower the rents on those and give the Applebee's guys a permanent rent reduction with their new landlord and still make money on those assets.

It was a neat strategy that aligned our interest with theirs and lowered our exposure and again gave them some permanent rent reduction in the marketplace. There were little over $2 million properties average size and in the cap rate range which is at least 200 basis points less than the acquiring stuff. We got a nice execution on those.

Chris Volk
The cap rate range, in the 7% area…

Mary Fedewa
Yes.

Chris Volk
We found that restaurant cap rates are holding in pretty tight. It's a very desired marketplace. Of course, if you are looking at Applebee's, their same store sale numbers were up a lot over the last few quarter.

Mary Fedewa
8%, yes.

Chris Volk
That's also been a cause for people wanting to buy those kind of assets.

Alexei Siniakov
Okay. Thank you. Then another follow-up question. It looks like in the first quarter you had provisions for loan losses of about $1.5 million and then in the second quarter, you had another $1 million. Could you just provide some color on that? Is there any more of that to be expected in the second half of the year?

Cathy Long
Sure, this is Cathy. Those were two different loans. As you know, we are very customer-centric when we are providing capital solutions for our customers, and oftentimes if they are looking for more proceeds and we don't see that the real estate would necessarily support those proceeds, we put separate proceeds we may be willing to give them in a loan versus throwing more money on the real estate, if that makes sense to you. So the real estate values are the real estate values. And when we show investing in real estate, it's really all real estate value. If the tenant needs more funds, we may make a loan secured by other things, sometimes equipment loans or secured by maybe other properties that he might own.

During the first quarter, we had a write-down of a loan and we ended up grabbing the collateral that was supporting that loan and so we wrote that loan down to its collateral value. In the second quarter, we did the same thing for a separate loan. This is a very, very small part of the business we do. There are less than a dozen of them. They're all very small. Most of them are frankly equipment loans. So that's not a big part of the business.

Alexei Siniakov
Okay. Thank you.

Chris Volk
Yes. Oftentimes you could put values on real estate and you wouldn't take any write-down at all on these. So it doesn't really affect your overall recovery rates. We're giving you a performance walk, for example, in terms of internal growth walk in the appendix, whether it's a loan or lease recovery calculation percent.

Alexei Siniakov
Okay great, thank you.

Operator
Our next question comes from Kevin Egan of Morgan Stanley. Please go ahead.

Kevin Egan
Hi, good morning out there. Just a quick question from me. I was just looking at the supplemement, that you have average lease escalators that are significantly higher than the peer group. I was just curious, have you had any additional success in terms of negotiating lease escalators for maybe above the 1% to 2% range? Or has it been pretty sticky at that range recently?

Chris Volk
Ask that question one more time. We had success at negotiating leases above the, what, range?

Kevin Egan
So just in the 1% to 2% range, given that there's been higher inflation expectations recently, have you had any success in possibly pushing that escalator a little bit higher than maybe the 1% to 2% range, or higher than it has been historically?

Mary Fedewa
Now, Kevin, it's Mary. 2% annual is really the market. We haven't seen anything too much higher than that.

Chris Volk
The 1.8 reflects a mix of between, we've got some 2s we have some 1.5s and so it is 1.8 in the middle of this. 2% is a very, very long-term guidance for inflation. You really want to have lease escalators that are lagging inflation. You do not want to have lease escalators that exceed inflation because you like to have your leases be below market rate, leases at the time they expire which is going to give you a much better chance for lease renewal. So trying to push on that, it's going to be difficult. As Mary said, in this market 2% is about as high as you get.

Mary Fedewa
Yes.

Kevin Egan
Okay, thank you for that. Then just in terms of acquisition cap rates, have there been any specific sectors that you've been seeing more movements perhaps upwards or downwards?

Mary Fedewa
It's really been consistent this year in terms of movement away from retail and industrial being sort of the favorite asset class, so some downward pressure on the industrial side and in terms of the other asset classes having been very, very stable.

Kevin Egan
Okay, thanks a lot.

Operator
Our next question comes from John Massocca of Ladenburg Thalmann. Please go ahead.

John Massocca
Good morning.

Cathy Long
Hi, John

John Massocca
So let's say you sold One Art Van Furniture during the quarter. Can you give maybe some color on the cap rate on that sale? Would you look to do more kind of strategic dispositions of properties leased to that tenant?

Chris Volk
We are going to get the Art Van exposure south of three and it will be a combination of growth and property sales. That's been because the customer knows that what we are doing and they are knowledgeable about that, simply for diversity reasons. The assets that we sell are always

sold below the cap rates we buy at, so we are making some money and we've disclosed to you what the spread is, but we are not going to give you exact disclosure on that property.

John Massocca
Understood, and I think I remember you saying that was in your strategic bucket, correct?

Chris Volk
Yes.

Mary Fedewa
Yes, reposition.

John Massocca
Then, I saw that you gave a little extra disclosure around kind of fixed charge and 4-wall coverage. You gave the average, is that, just to clarify, is that a simple or weighted average? And also maybe what would that metric have looked like last year if it was given?

Chris Volk
Well, we gave a weighted average, and we did it because we try to keep up with disclosure from other companies and the other companies out there were disclosing the weighted average.

If you ask us our opinion on this, our opinion is weighted average is a total waste of time. We really want to look at just the median, because weighted average gets…the weighted average is substantially north of three, and it gets weighted up by just a right hand tail that's going to just drag it up. So you are going to have some manufacturing assets, and others that are going to skew it. It gives people an artificial sense of security. On the other hand, I don't like it when people say that their coverage is better than ours and they include weighted asset coverages and we don't have them, so we are going to give them to you.

John Massocca
Well, disclosure is helpful. Would it have trended the same way you think as just roughly speaking as the median ones would have?

Chris Volk
Yes, I would [indiscernible] the same way. There might be a little more volatility to the weighted average just because, again, the right hand tail could just drive it. What you really want to do is focus on the median. By the way, if you look at the Appendix in our quarterly presentation, there is a three year stack of EDF scores and also three-year stack of STORE Scores. You can see how all the stuff is trended.

If you look at the Baa3 point on that chart, on top of each chart for the last three years meaning that basically the same percentage of our portfolio has been Baa3 or better from a tenant perspective for the last three consecutive years. If you look at the STORE Score, the numbers are on top of each other which is basically driven by the fact that the unit level coverages have been pretty much flat for the last three years. All that stuff is just flat and I think that gives you an idea of where the credit trends are and what not. You should just take a look at it. That's on page 34.

Cathy Long
Yes, page 34.

Chris Volk
34.

John Massocca
That's it from me. Thank you very much guys.

Chris Volk
Thank you.

Operator
Our next question comes from Spenser Allaway with Green Street Advisors. Please go ahead.

Spenser Allaway
Thank you. Just going back to the investment pipeline, it does look like the deals reviewed this quarter was up fairly significantly relative to the first quarter. Is that correct, and if so what is driving that?

Mary Fedewa
Yes. Again, it's just timing of transactions and how things get decisioned; it is not necessarily consistent each quarter. So I think this quarter we probably just made some decisions on some stuff.

Chris Volk
Yes, but I would say that, to the point that Mary made earlier, the quarter itself was just hyper granular. The average transaction was $6 million and change which is, if you look at our average quarter in terms of net worth transactions for the last number of years, it's basically 40% over that average. It's a big number, and we are encouraged by it, because it means that we are doing north of 100 million bucks a month, but even with smaller deal sizes.

Usually the deal size can drive volumes. One of the ways to get our volume up is to have the same number of deals with the average deal size being $20 million. But we had basically no transactions that were 100 million bucks, no transactions with 50 million bucks, no transactions that were meaningful in terms of size. If you look through to the rest of the year, one of the ways you get more through the $900 million number on the net side will be to throw some bigger transactions which normally is likely that we can assure ourselves that happens, but it could happen. And so, we are really encouraged by basically the amount of penetration, the amount of deals that we have done. It may take...honestly it takes us much time to do a small deal or a big deal. So they have…your team to be able to do this efficiently at rate of $6 million a copy. I would venture to guess that if you were to ask people a number of years ago would it possible to do $1 billion a year at an average number of 6 million bucks per deal, people would say, no, you have to have...you've got to fill in like an extra $100 million deal here or there…maybe $200 million deal here or there, to be able to get a $1 billion. And what we are showing is that having a full business that's focused on serious market penetration is able to deliver that in terms of deal flow.

Spenser Allaway
Okay.

Mary Fedewa
Yes, and Spencer, I think, if you're seeing the line you know, kind of climb up there in the first part of...at the end of 2017 in the pipeline, in the beginning of 2018, so this would be...you

should expect some larger review or passed-on deals or decision deals. So I think it's pretty normal.

Spenser Allaway
Okay, that's helpful. And then just one last one, can you provide a little color on what select sub industries you are kind of targeting in another retail bucket?

Mary Fedewa
Other retail bucket, so maybe, let's say, the other retail side of things would be just probably some things like home décor, maybe things of that nature, stores we go and buy might be some…hobby stores, yes exactly, things like that, home décor, hobby, but it's…think about if you go into a retail firm boxes, it's mostly hobby and home décor.

Spenser Allaway
Okay. Thank you.

Mary Fedewa
Specialty stuff like maybe Michaels or something like that, where you don't really get it on the internet, you actually go in and they have classes and teach how to spell and teach how to do art and all that stuff.

Spenser Allaway
Okay. Yes, that's all from me.

Operator
Our next question comes from Collin Mings of Raymond James. Please go ahead.

Collin Mings
Thanks. Just one quick follow-up from me, I was just curious on your farm and ranch supply exposure. Can you talk about if any of those tenants have seen any weakness; are you seeing any weakness just given some of the concerns there about the broader outlook for the agriculture sector or just given the uncertainties on trade policy?

Chris Volk
Yes, at this point it's early to say whether we are seeing any of that, I mean, we've obviously heard discussions about soybean farmers in the Midwest and what not having issues. We've not seen at this point any change in numbers at the unit levels and have not heard from any of our tenants if there is anything adverse going on. The trade words are not good for anybody. So I would expect that if we have these trade wars, it could affect farmers, but it would also affect everything else. I mean the good news is, by the way that the…I mean, if you are…if you are average unit covers at north of 2, that means the sales can drop 30% to 40% for you to break even. So the margin for error that we have in our numbers is really huge. I mean this is just one of those things that you're going to have these margins for error on the stuff. But at this point, we haven't seen anything that would suggest there will be huge deals. So, we have concerns about it. I mean I would say it's just broader economic concerns. I mean relating not just rents and supply source, but you know those farmers also go out and eat and they also work out and they do other things, they put their kids up to daycare and that kind of stuff. So I mean so all the stuff trickles through the economy if you have tariff issues.

Collin Mings
Okay. I appreciate the answer there Chris.

Operator
Our next question comes from Ki Bin Kim of SunTrust. Please go ahead.

Ki Bin Kim
Hi, this is Ki Bin. So in the past years you've almost doubled the size of the company in terms of asset value. So, what have you kind of gleaned from just growing your portfolio at that kind of pace? And has any part of the philosophy or how you've done business or source of deals changed over that time? And for the next couple of billion how do you think other parts of the company has to kind of grow or adapt?

Chris Volk
Yes, so thanks KI. I would say that we've been doing investment activity around $100 million a month for a four years and one of the reasons that I pointed out in the quotes that I had in the press release was just because when analysts think about external growth and we are primarily an internally driven growth company, but when people think about external growth, they tend to discount it because it they think that is not really reliable. But of course, we have been doing this at a very steady pace. I mean it's been almost like clockwork to do a $100 million a month and we've been just very encouraged by our ability to be able to do that.

So, we haven’t really been thinking about doubling the size of the business so much, but $100 million a month of course has done that. So you’re adding $1.2 billion a year with gross...I mean, you are selling off assets and we took the company public and we had sort of $3 billion in change for the assets and now you are at $7 billion worth of change in assets. We...as I said, we have additional…our relationship managers that we hired this year, which gives us the potential for potentially being able to exceed the $100 million per months at some point in time through better market penetration, which is something that is on our mind. And we've been adding of course to the credit side as well as the closing side. And the repeat business has been huge. So, we've been doing...from day one, we've been doing roughly 30% of repeat business. So as you grow, what happens is you get more of repeat business and that's very helpful to fuel the growth.

So, for example, if you were to look at us in 2000...before we went public, if you were to look at us in 2000...we started the company in 2011, we had not repeat business. So when you go from 2012 to '13, basically we didn’t do that much for business, it’s just that we had repeat business. So, that has kind of carried us to $1 billion type number, which is sort of like doing $600 million of the new business, investing it in repeat business every single year. And I think that will hold us to grow. As far as where we've earned otherwise, we've kept it really diverse, we’re trying to look for very non-core related risk, we're diversifying by industries, we’re very cautious of this. On the property sale side and strategic side … we're thinking about where we need to lighten up from a long-term diversity perspective.

When you underwrite the stuff, you have to assume that they are two, maybe three recessions during the time you hold these assets. So you are not underwriting. Somebody says where are we in a business cycle. I'm worried about the business cycle today. I mean we’re worrying about the business cycle next year or the year after that. We worry about this 20 years. So we can't really manage our underwriting to suit a particular business cycle that were in and of course, if you are one of the 9,000 people...9,000 retail stores they closed last year, if you are thinking that the business cycle wasn’t too good here in the past year, so we’re very mindful of where we are all the time and how we underwrite, and we’re trying to make investments that will be sustained over time.

And as I said earlier in the presentation, that you have a diverse portfolio. I mean just sure…there is portfolio diversity. I mean that underscores the CNBS market, the residential mortgage market. When we were at FFC, our first public company, we would do mortgage loans and had 95% of it at cost be rated BBB or better. So if you huge diversity by itself, you should have investment grade performance, which our goal, and then we're paring that with contracts seniority which gets you even a better risk-adjusted performance. You end up some of the highest returns in the business, cap rates that are close to 8 with escalators at 1.8% and yet you're performing like an A-rated credit on 100% of the portfolio, which is where you end up in the appendix that you got on the page that talks through the internal growth revenue walks. So that's the goal.

Ki Bin Kim
And when you guys mentioned about the 16% sales growth for your tenants, will that add in your portfolio only or you're talking about just kind of broader corporate revenue line items for your tenants?

Mary Fedewa
So, that was our tenants at the corporate level, their performance for 2017 at the top-line. And it was a weighted average based on the rent and interest they have with us.

Chris Volk
If you look at unit level growth last quarter, it's' closer to 1%. So it's not massively exciting. So let's say it's been kind of at the 1% unit level growth for like last several quarters. But, a lot of our tenants are growing through acquisition of other tenants. They're also been building some new-built stuff too. So that together is giving them pretty substantial growth. We treat it as a great thing by the way because it means many of our tenants are more diverse...they're more diverse and they're less risky. They got more points of profit. So that's a good thing.

Ki Bin Kim
So, just to clarify the…in a way I can call it the same-store sales for your tenant grew 1% over the past year in '17 you mean?

Chris Volk
Yes, it's closer to 1% last quarter.

Mary Fedewa
Same store sales. Yes, but their top-line revenue grew 15% at the total corporate level on average.

Ki Bin Kim
Alright, thank you.

Mary Fedewa
You're welcome.

Operator
This concludes our question and answer session. I would like to turn the conference back over to Chris Volk for any closing remarks.

CONCLUSION

Chris Volk
Yes, thanks all for attending the call today. I encourage you to take a look at our second quarter investor presentation, which includes a number of disclosure enhancements that are designed to improve your understanding of STORE. My personal favorite as I talked about earlier on the call is the internal growth walks contained in the appendix that illustrates our historic internal growth taking into account rent increases, retained cash flow or recycled cash from asset sales and asset underperformance. And the one thing that should stand out materially is the dependability of our internal growth, which annually is expected to account for the bulk of our AFFO growth per share. And finally, our next investor presentations are going to be at the Wells Fargo Net Lease Conference, which is scheduled to be held in New York City on September 11th. And if you're interested in seeing us there, please let us know. And meanwhile, thanks all for listening. And we are around today or tomorrow with any questions that you have. So have a great day.

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