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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Four Corners Property Trust, Inc. (NYSE:FCPT)

BILL LENEHAN was named CEO of Four Corners Property Trust, Inc. in connection with Darden Restaurants' real estate spinoff transaction. He was an active member of Darden's board of directors, Chair of its Real Estate and Finance Committee, and member of its Corporate Governance Committee. Mr. Lenehan served as Interim CEO of MI Developments, Inc., now named Granite REIT, where he was a member of their Strategic Review Committee and was a Director. He also previously served on the board of directors for Gramercy Property Trust Inc., where he was Chairman of the Investment Committee. He spent approximately 10 formative years in the Real Estate Group of Farallon Capital Management, LLC. A graduate of Claremont McKenna College, Mr. Lenehan is currently a member of the Audit Committee and Finance Committee for Macy's, Inc.

SECTOR — REAL ESTATE

TWST: We spoke six years ago, but it would be beneficial to readers if you would give us a brief refresher on the real estate spinoff from Darden, the genesis of Four Corners Property Trust, and what's new or changed since.

Mr. Lenehan: We spun off nearly eight years ago as 418 properties: roughly 300 Olive Gardens, 100 LongHorn Steakhouses, and a few other Darden brands, with very modest rents that were very well covered.

Since then, we have added over 600 properties to the portfolio. Q4 of last year we bought a property every 1.4 business days, so we are hyper acquisitive of small-dollar buildings. That requires a lot of process and technology, which we can get into if you'd like.

We've gone from six team members at spin to nearly 40. And we have an investment-grade balance sheet. We have access to favorably priced equity capital, favorably priced debt capital. We've been conservative with our leverage. We've hedged our interest rate exposure. We've kept overhead low.

I think of the three biggest changes since we spoke before, the first would obviously be COVID. Second, we have scaled a strategy to buy outparcels to malls and shopping centers. And third is that we have moved beyond the restaurant space and purchased over $400 million of non-restaurant assets in the last couple of years, predominantly auto service, excluding buildings that offer services exclusively to gasoline-powered engines, and also medical retail broadly defined, so that's optical, urgent care, vet urgent care, things like that.

TWST: You've mentioned a few things I'll follow up on, but let's start with that last point. Since you've expanded beyond restaurants to other kinds of single-tenant retail, what does the portfolio and the tenant roster look like today?

Mr. Lenehan: Well, our Darden exposure has gone from 100% down to around 50%. We've bought restaurants like Chili's, Burger King and Starbucks, etc. And then we have, as I mentioned, a substantial non-restaurant portfolio now, and that includes things like WellNow Urgent Care, Aspen Dental, Fresenius, pet hospitals, tire stores, Caliber Collision centers, things of that ilk.

The same kinds of locations as restaurants, i.e., they're typically in retail corridors; they are, as our name suggests, on signalized four corner intersections. They have the same kind of leases with minimal landlord responsibility. And you can underwrite them using a similar methodology.

So this is different than if we were to make a leap into buying apartment buildings, where all of a sudden you need to have a hands-on management and you need to be turning units over frequently, handling deposits from tenants, things like that. We haven't done that. We've stayed, I would say, with what is pretty similar to what we started with and expanded into adjacencies.

TWST: It sounds like you've been growing at a fast clip. Do you expect that to continue? And are there any particular areas, whether that's geographic markets or types of tenants or types of transactions, that you're really focused on?

Mr. Lenehan: We grow when it is accretive to our shareholders, so our growth is impacted by our stock price, where we can raise money in the equity markets efficiently and the debt markets efficiently, deploy those dollars, and get more per share than we give up by selling shares of our company to the public.

And that is an important part of our strategy. That means that when our stock declined during COVID, we stopped buying buildings.

And it means that when our equity price is in what we call "the green zone," we issue equity, and that facilitates future growth.

As far as geography, we're in 47 states. The kinds of buildings we buy are ubiquitous in the sense that even in smaller markets — and we don't tend to buy much in rural areas — there's still a need for quick-service restaurants, there's still a need for tire stores, things along those lines.

TWST: How do you typically source new acquisitions, and what's the competitive and pricing landscape like for net-lease retail right now?

Mr. Lenehan: We source through all sorts of different venues. As I mentioned, we have a strategy of buying outparcels from mall and shopping center companies, where we're offering accretive pricing for their outparcels compared to what the anchor mall or shopping center might be worth.

We purchase through developers. Relationships we have with tenants; with 1,000 properties, we have deep relationships with a number of large corporate retail operators. We have folks who come to us because we have a reputation of being able to close, even in difficult markets. And then, of course, the brokerage community, we have deep relationships there as well.

I think what's actually more interesting is that we score all the properties using a set scoring methodology. We don't talk about a property and say: It's an Olive Garden on the outparcel of a Home Depot, and the lease is short, but the rents are low and the Placer.ai foot traffic data is strong, and so this is one we like. We would say: It's 81 out of 100 possible points, and it's not higher than 81 because the lease term is short and the market isn't as dense, but it is 81 because we like the brand, we like the low rent, etc.

We've scored tens of thousands of properties at this point, and it really gives us a very straightforward way to look at buildings in a uniform way and compare the relative investment merits.

So I don't have a dynamic where some of my acquisition team is really, really focused on real estate quality but is willing, all else being equal, to give up credit, and then maybe someone else on the team who's very, very focused on credit but isn't all that focused on real estate quality.

The scoring methodology doesn't allow some folks to make acquisitions with less diligence, for example. Everyone has to score the asset, we discuss the score, that's the start of the assessment process.

TWST: What's your financing strategy for funding external growth? And how would you characterize the company's balance sheet, as well as your leverage levels and debt maturities, which is getting increased attention these days for obvious reasons?

Mr. Lenehan: We have a very strong balance sheet, mid investment grade. We use term loans from predominantly large money center banks; none of the banks that have been in the news recently are in that credit facility. And then we use long-dated private notes, typically held to maturity by insurance companies, which are fixed rate.

We don't have any mortgages on our assets. This is flexible, low cost, very efficient corporate-level financing, and that gives us lots of flexibility. And again, we don't use much debt. We hedge programmatically, so we have very valuable hedges in place right now.

And then we issue equity. We typically use the ATM market, which is very cost efficient and gives us great flexibility on timing. We can, when we're going to buy a $2 million, $3 million asset, raise equity in preparation and actually settle that on a forward basis so that the equity only shows up right before we make the acquisition.

So it's very efficient from that standpoint, compared to raising money once a year, and so half the year you have drawn down your revolver, you feel a little bit nervous about your leverage, and then half the year you've over-equitized your balance sheet and you're trying to find assets to buy to offset the dilution. We can line it up pretty much spot on.

TWST: A little earlier you mentioned the amount of acquisitions you closed in the fourth quarter. What else would be key takeaways from your fourth quarter and year-end earnings?

Mr. Lenehan: I would say that it's a testament to the capability that we have to buy assets at that pace and to do it responsibly. It speaks to the amount of technology that we use. We do not organize our acquisition effort using the same technology as people used many years ago — to-do lists, calls with lawyers, all-hands due diligence, environmental review calls, things like that.

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We use a software system called DealPath that allows us to very efficiently assign tasks that need to be done internally. With our external partners like law firms and consultants, we track the progress of every single aspect of every single deal as it needs to happen. That makes us much more efficient. It's a replicable process where we have invested in technology to make the machine run smoother.

TWST: Although you've expanded your targets, you're still focused on restaurant properties. How would you characterize the health of the restaurant industry in general and your tenants in particular? It can be a tough business in the best of times; the pandemic years were especially challenging, and now we have inflation, wage pressures, a looming recession adding to the mix.

Mr. Lenehan: I think it's really important to separate the kinds of restaurants that we buy from what might be your initial mental image of a restaurant. We do not buy chef-owned restaurants. We don't buy even small restaurant chains; if something has five units, that's not what we buy. We buy large, predominantly publicly traded, restaurant brands.

During COVID, we were collecting 99% of our rent by the end of June/early July 2020. Our largest tenant has an $18.7 billion market cap today. One of the things that I think people misunderstood during COVID — certainly not from a lack of us trying to explain it — was we don't own the haute-cuisine, chef-owned restaurant that's at the bottom of the portfolio manager's apartment building in New York. We don't own the wonderful, local, one-unit frozen yogurt shop I took my children to this weekend.

Our stock during the first week of COVID went down by an amount of market cap equal to all the rent we would have collected from all of our tenants for over nine years — and yet a couple of months later

we were 99.9% collected. And what you would typically think about as the impact of COVID on our earnings was about $0.01 or $0.02 a share of COVID interruption, so almost nothing.

We benefited from having very, very large tenants. They had substantial cash on hand. We didn't have a single person say, "I think this lease means I don't have to pay you rent," because the leases just didn't say that.

To bring it current, our primary tenant, Darden, has substantially more revenue than when we did the spin, substantially more, and they're very, very profitable. Our other tenants, similarly.

Has there been cost inflation, depending on the category? Definitely. Beef, eggs, labor. But these companies are quite efficient — they've found other revenue sources, revenue has grown, they have used labor more efficiently. And so they're in a pretty strong position.

So that's what's happening to publicly traded companies that have hundreds and hundreds of units per brand; they borrow money from Wall Street, they have lots of access to capital. It is a very different story than a local chef-owned restaurant.

TWST: Have you considered taking this investment strategy outside of the U.S.? Does it translate, if you will, to other markets outside of the States?

Mr. Lenehan: We think about all sorts of ways to grow the business all the time, and we actually have a formal process of reviewing all those ideas with the board. And clearly, there are restaurants and car collision centers and urgent care facilities in all sorts of different parts of the world, so we've thought about it.

We have a peer in Realty Income, which is a great company run by a terrific CEO who entered the U.K. market a couple of years ago. I ran a publicly traded company based in Canada that had substantial assets in Austria and Germany.

TWST: Is there anything else you think investors should know about the net-lease property sector broadly and, in particular, Four Corners Property Trust?

Mr. Lenehan: I would say I think that we've been quite conservative compared to our peers. There are times when investors, I think, perceive companies in the publicly traded net-lease space to be more similar than they are. I think the portfolios are actually quite different.

I would say we have, as a company, fantastic governance, top decile governance, and have since inception. We have terrific disclosure, which allows you to track what we're doing and our exposures to different tenants that you might read about.

I would say that, since we spoke last, our capability as a firm has grown. Our acquisition team is more seasoned, our process is more refined, we have more people, and you'll see that as our acquisition volumes have grown.

You asked about the acquisition environment earlier — I think we're in an environment that's more buyer friendly, whereas most of our almost eight years of existence has been a seller-friendly environment. Since inception, we've tried to build — this is the term that we use around the office — an anti-fragile company, by being conservative.

TWST: What do you mean by anti-fragile?

Mr. Lenehan: Let's first define fragile. Remember the story in Greek mythology of Achilles? He took great risk in battle because he thought he was invincible, but it turned out he had one specific vulnerability, his heel. He was overconfident and it led to his downfall. We want to be the opposite: anti-fragile. This starts with being resilient.

We don't know exactly what's going to happen in the future, but we know in every case, lower leverage will be better if bad things happen. Being more conservative on how you underwrite is better. Keeping overhead modest will make the company more sustainable. Laddering our debt maturities will make the company more conservative.

And so, as we enter what could be a difficult macro environment for the U.S. economy generally, we expect the layers of conservatism that we've built into running the company over the last almost eight years to differentiate ourselves versus our competitors.

Ultimately, we want to be more than resilient, however. We want the company to improve in the face of inevitable adversity. When I reflect on our experience during COVID, I feel like we were successful in this regard: FCPT became a better company in so many ways because of an exogenous stress.

TWST: I should ask you one more question, seeing as you must have spent time in more restaurant concepts than most people. Do you have a favorite?

Mr. Lenehan: My favorite kind of restaurant is the investment-grade kind.

TWST: Thank you. (MN)

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