

REALTY  INCOME

The Monthly Dividend Company®

2Q 2017

**INSTITUTIONAL  
INVESTOR  
PRESENTATION**

an S&P 500  
company

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S&P High Yield  
Dividend Aristocrats®  
index member

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The Monthly Dividend Company<sup>®</sup>

*All data as of June 30, 2017 unless otherwise specified*

# Safe Harbor For Forward-Looking Statements

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Statements in this investor presentation that are not strictly historical are "forward-looking" statements. Forward-looking statements involve known and unknown risks, which may cause the company's actual future results to differ materially from expected results. These risks include, among others, general economic conditions, local real estate conditions, tenant financial health, the availability of capital to finance planned growth, continued volatility and uncertainty in the credit markets and broader financial markets, property acquisitions and the timing of these acquisitions, charges for property impairments, and the outcome of any legal proceedings to which the company is a party, as described in the company's filings with the Securities and Exchange Commission. Consequently, forward-looking statements should be regarded solely as reflections of the company's current operating plans and estimates. Actual operating results may differ materially from what is expressed or forecast in this investor presentation. The company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date these statements were made.

# Company Overview

*S&P 500 Real Estate Investment Trust with Proven Track Record of Strong Total Returns*

## Leading real estate company:

- Equity market cap of \$15.1 billion and EV of \$21.2 billion
- Largest net lease REIT by equity market cap and enterprise value
- Member of S&P 500 index
- Member of S&P High-Yield Dividend Aristocrats® index <sup>(1)</sup>

## Strong returns with low volatility:

- 16.4% compound average annual return since NYSE listing in 1994
- 4.6% dividend yield, paid monthly
- 79 consecutive quarters of dividend increases

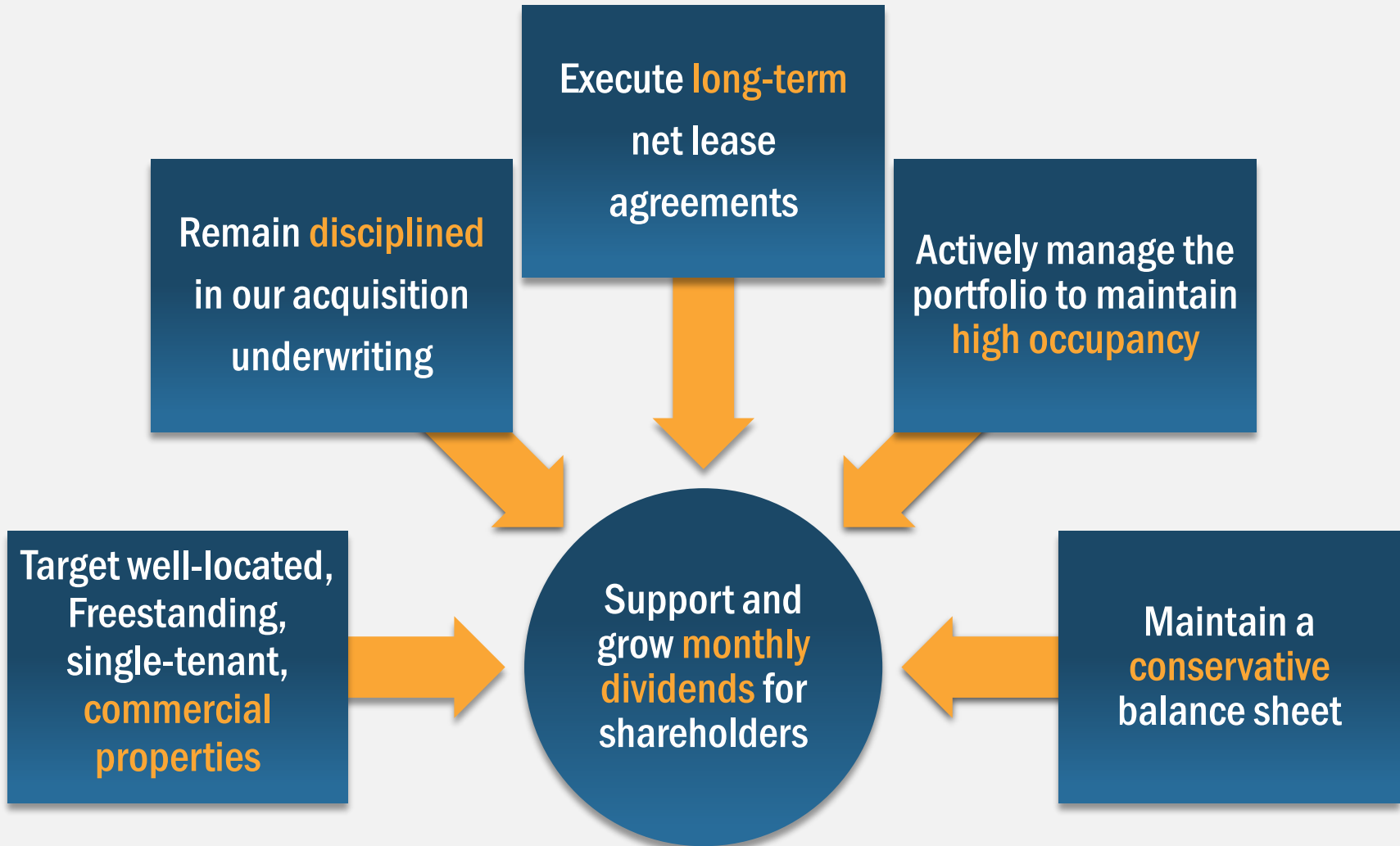
## Conservative capital structure:

- Investment grade credit ratings
  - Moody's: Baa1 / Positive
  - S&P: BBB+ / Positive
  - Fitch: BBB+ / Stable
- 28.4% debt to total market capitalization
- 5.6x debt to EBITDA
- 7.9-year weighted average duration of unsecured notes and bonds

<sup>(1)</sup> The S&P High Yield Dividend Aristocrats® index is designed to measure the performance of companies within the S&P Composite 1500® that have followed a managed-dividends policy of consistently increasing dividends every year for at least 20 years.

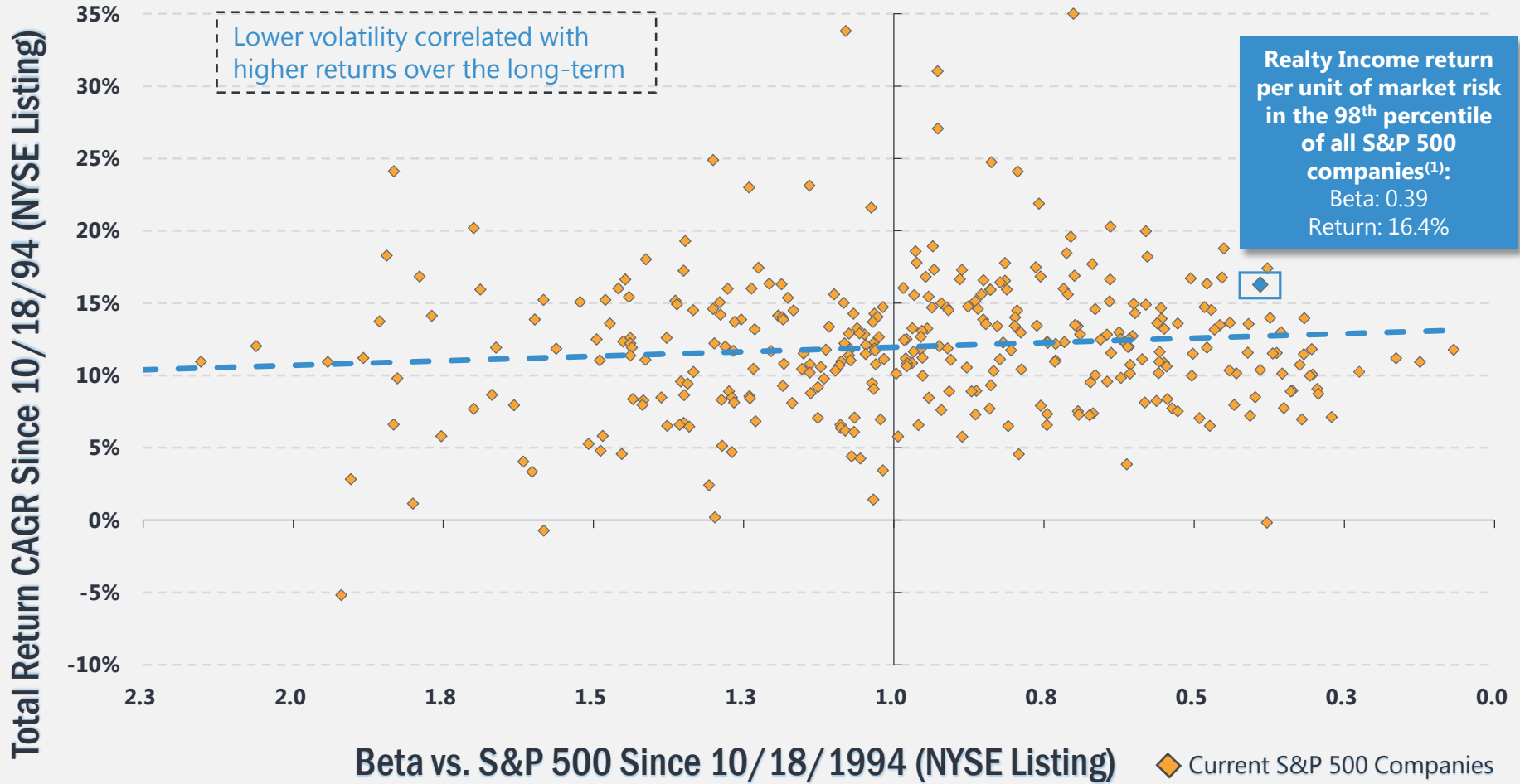
# Our Approach as “The Monthly Dividend Company”<sup>®</sup>”

Generate lease revenue to support the payment of growing monthly dividends



# Attractive Risk/Reward vs. S&P 500 Companies

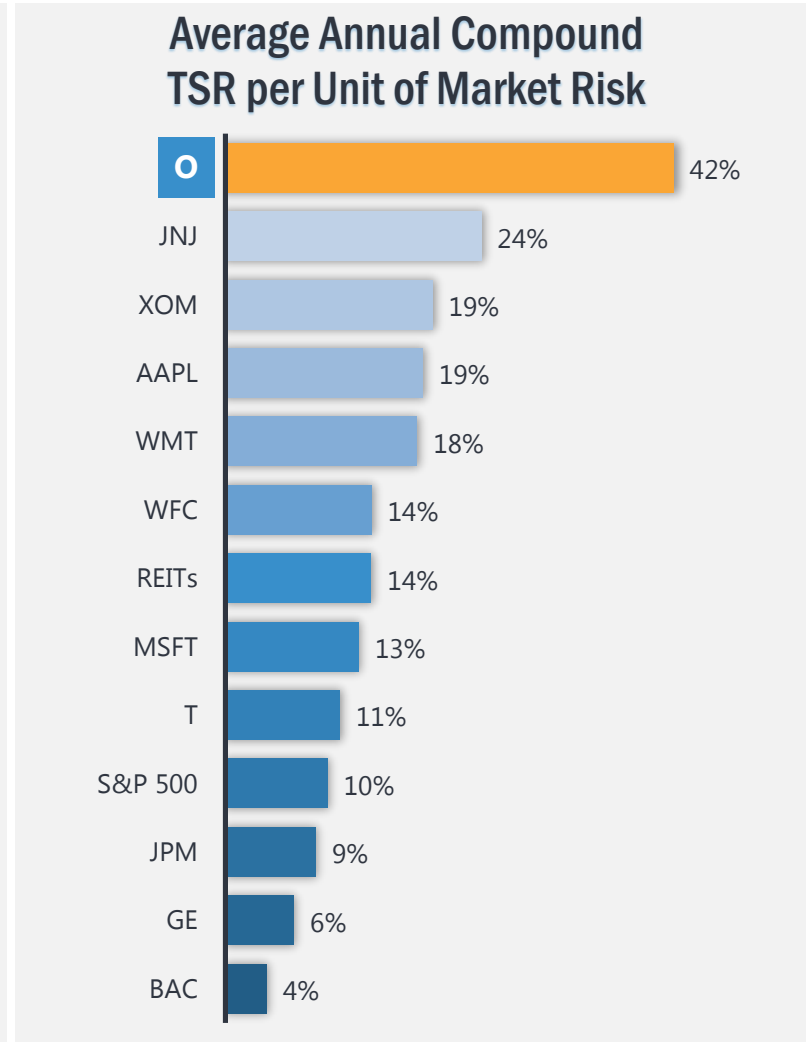
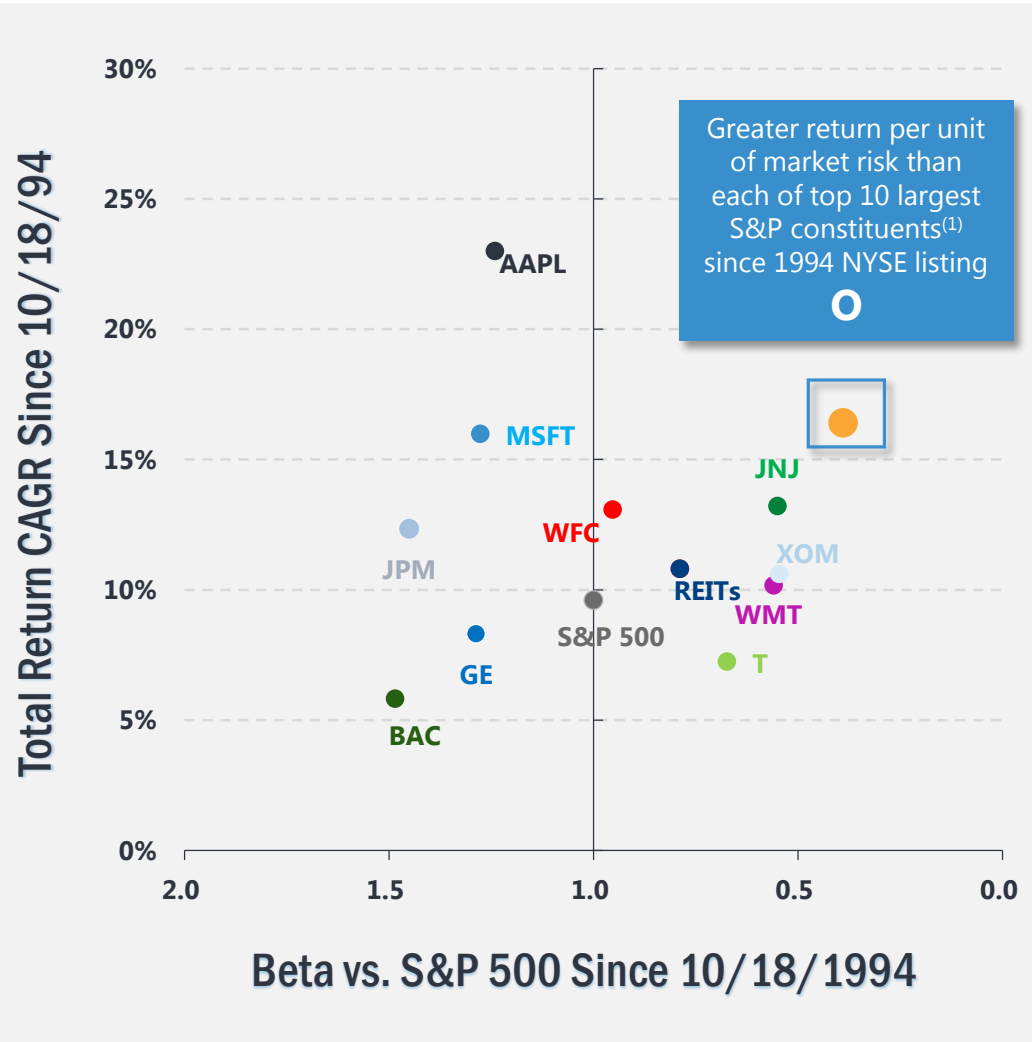
Higher returns and lower volatility than majority of S&P 500 companies since 1994 NYSE listing



<sup>(1)</sup> n=345 / Excludes companies without trading histories dating to 1994  
Beta measured using monthly frequency  
Source: FactSet

# Attractive Risk/Reward vs. Blue Chip S&P 500 Equities

Proven long-term investment provides an attractive risk/reward



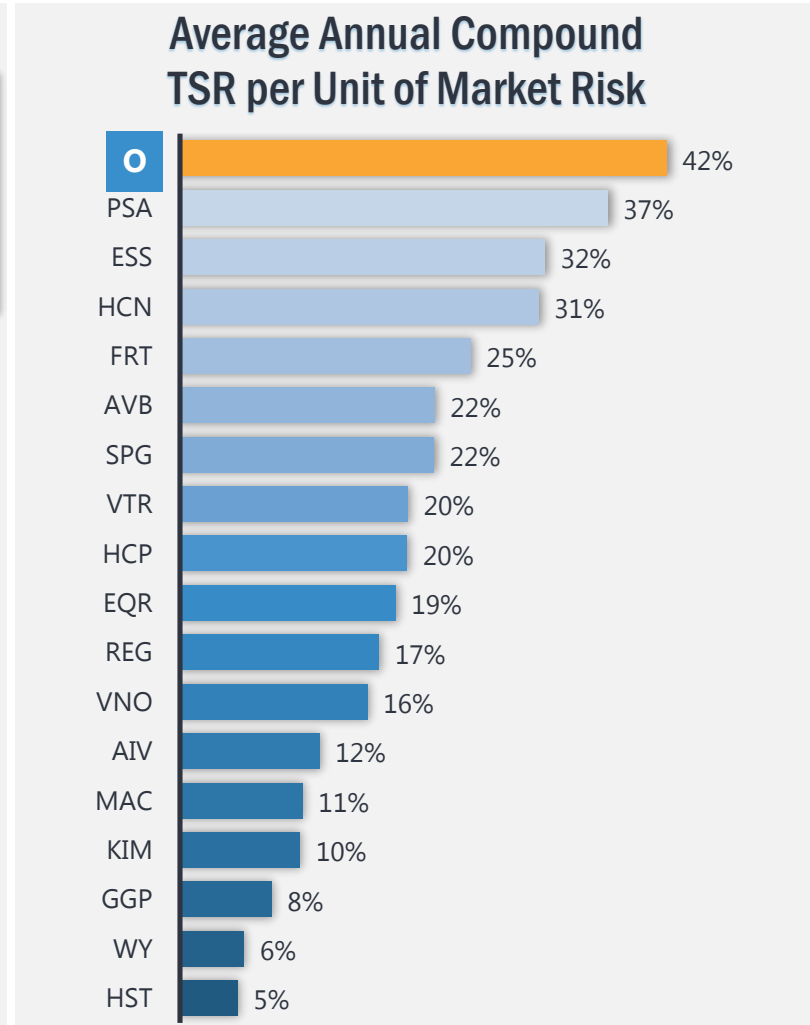
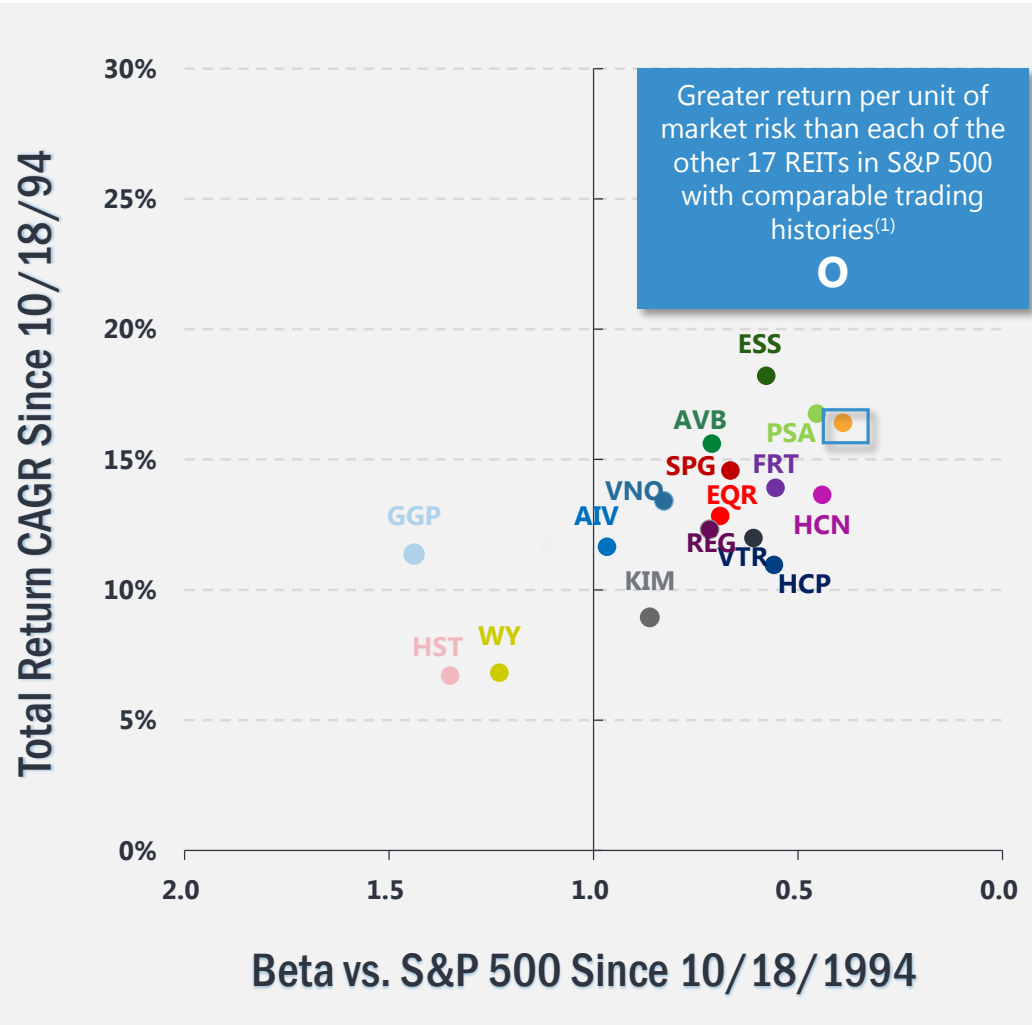
(1) Excludes companies without trading histories since 10/18/1994 / Constituents plotted include S&P 500 and FTSE NAREIT US Equity REIT Index

Beta measured using monthly frequency

Source: FactSet

# Attractive Risk/Reward vs. Blue Chip REITs

Proven long-term investment vs. Blue Chip S&P 500 REITs



(1) Excludes REITs without trading history since 10/18/1994

Beta measured using monthly frequency

Source: FactSet



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INVESTMENT THESIS:

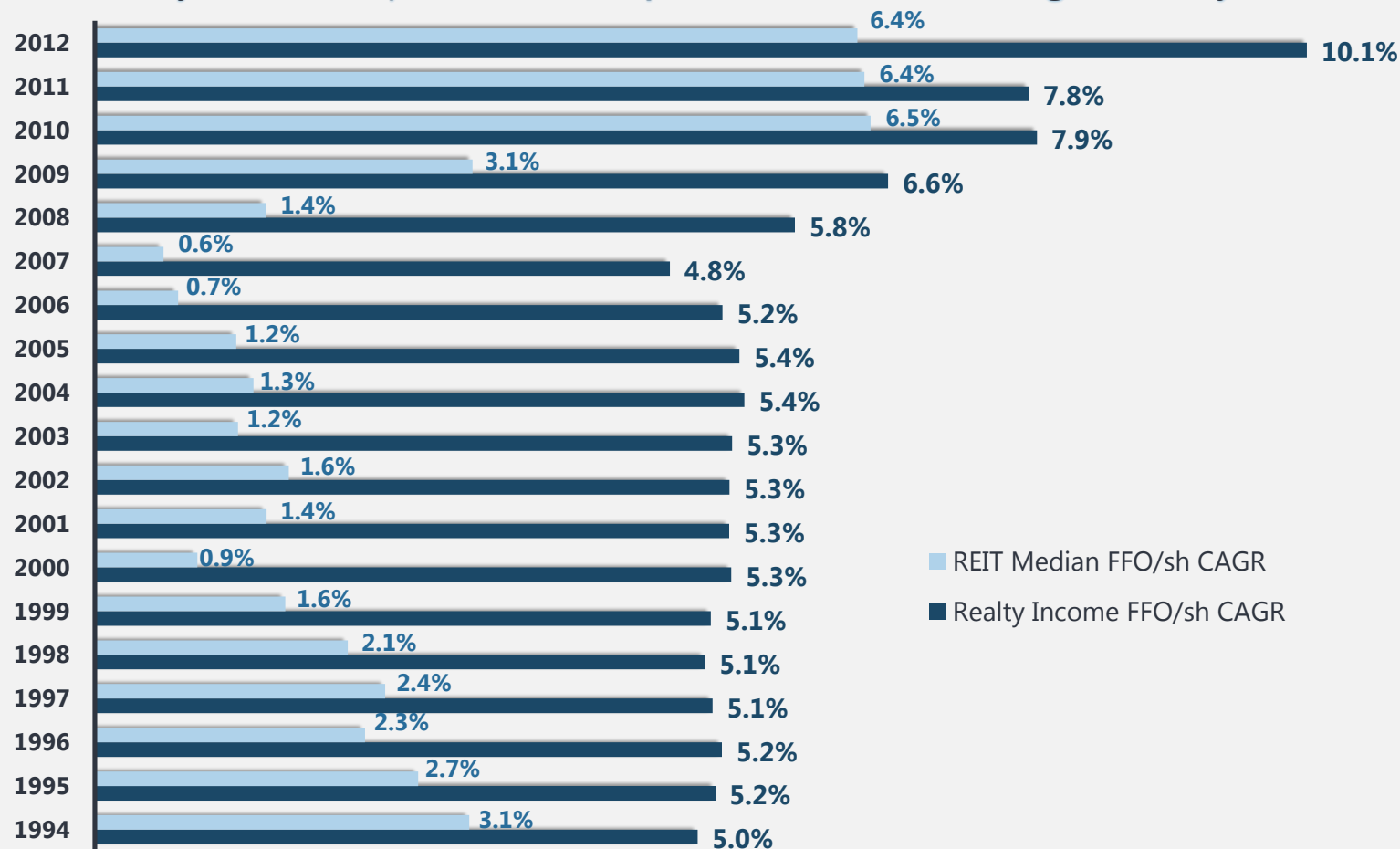
Earnings Growth  
Outperformance  
Consistency

# Consistent Earnings Growth Outperformance vs. REITs

Long-term investors have been rewarded with earnings growth outperformance vs. the broader REIT sector

## Realty Income FFO/sh CAGR<sup>(1)</sup> Outpaces REIT Median Throughout All Cycles

FFO/sh  
CAGR  
since:



■ REIT Median FFO/sh CAGR  
■ Realty Income FFO/sh CAGR

<sup>(1)</sup> Reflects FFO/sh growth CAGR through 2016 for all currently listed U.S. REITs  
Source: SNL, FactSet

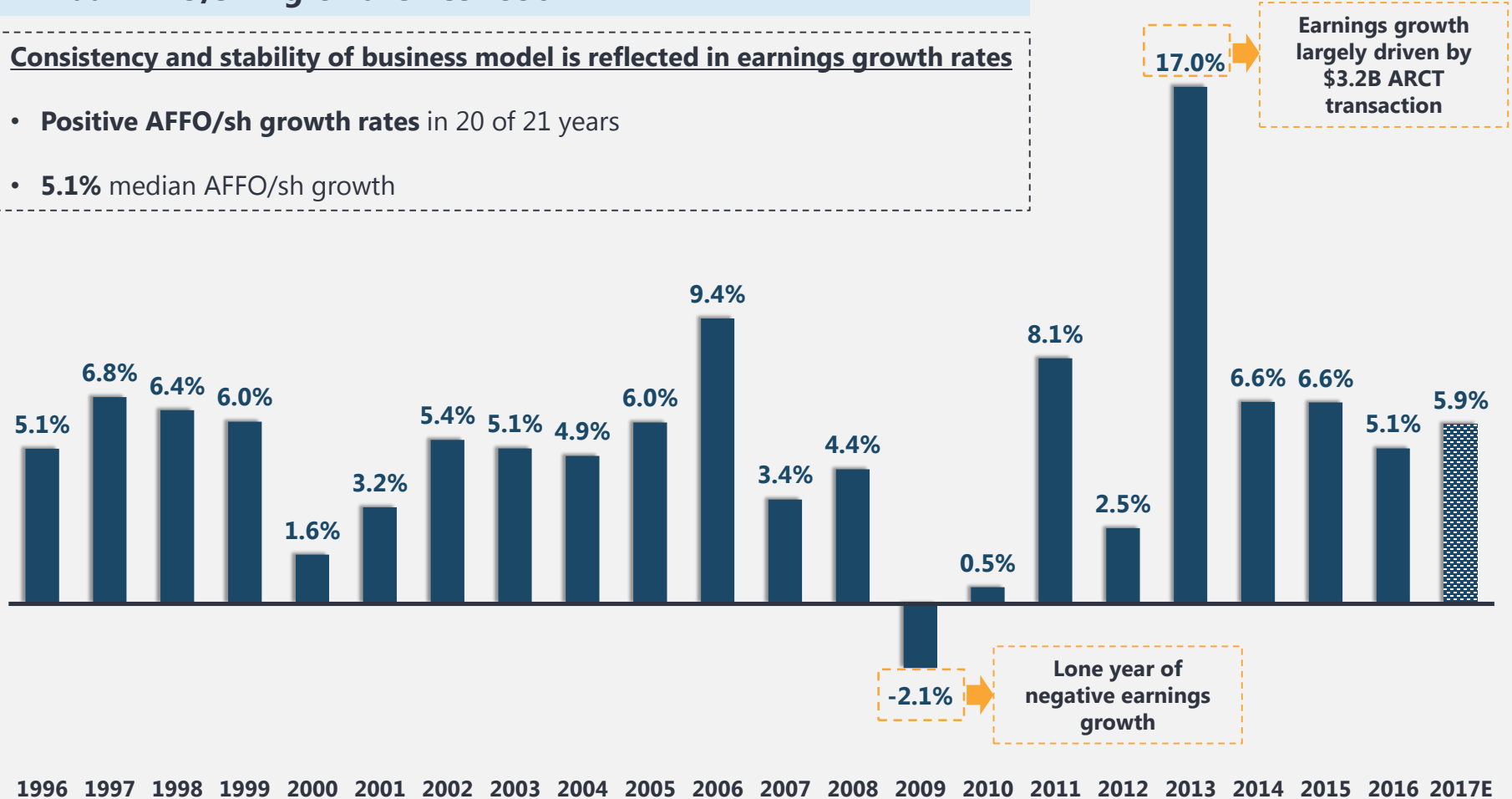
# Stable Annual Earnings Growth Since NYSE Listing

Consistent AFFO/sh earnings growth, limited downside throughout cycles

## Annual AFFO/sh<sup>(1)</sup> growth since 1996

Consistency and stability of business model is reflected in earnings growth rates

- Positive AFFO/sh growth rates in 20 of 21 years
- 5.1% median AFFO/sh growth

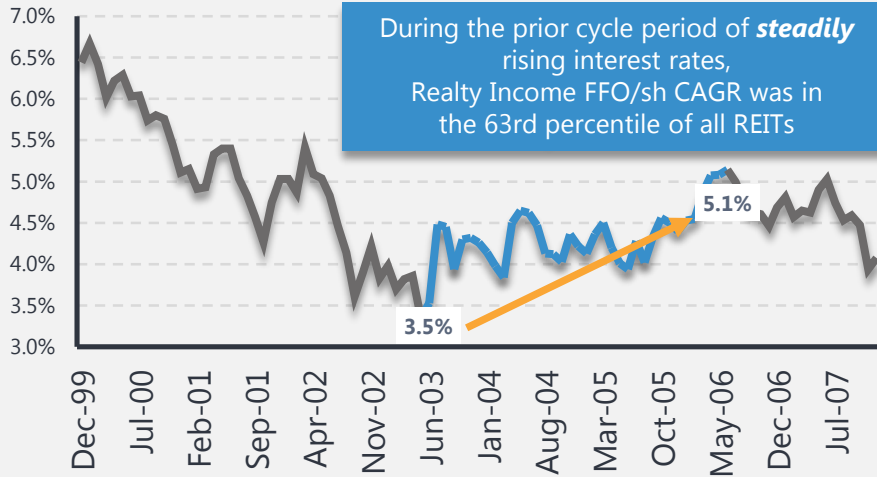


<sup>(1)</sup> Excludes earnings from Crest Net Lease, a subsidiary of Realty Income, as earnings do not reflect recurring business operations

# Interest Rate Sensitivity: Earnings Growth Undeterred by Rising Rates

Realty Income earnings growth outperformed other REITs during last rising rate era

## 10-year US Treasury Yield

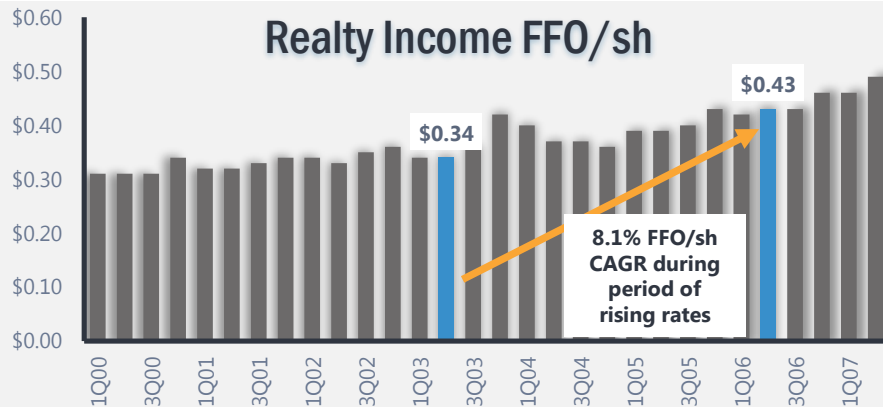


## Spread investing dynamics persist throughout the cycle

- During prior cycle era of rising rates (Q2 2003 trough through Q2 2006 peak), Realty Income earnings grew faster than most REITs

- **Realty Income FFO/sh CAGR: 8.1%**
- **REIT Median FFO/sh CAGR: 4.4%**

- Acquisition cap rates adjust to rising interest rates, preserving attractive investment spreads
- Acquisition spreads vs. WACC did moderate (from ~250bps in 2003 to ~150bps in 2006), but less than the increase in interest rates (~170bps in comparable time period)
- Nominal cost of equity declined despite rising interest rates, offsetting increase in debt costs
- Dividend CAGR during this period was 5.9%
- Success of business objective (growing dividend payments to shareholders) can persevere throughout all interest rate environments

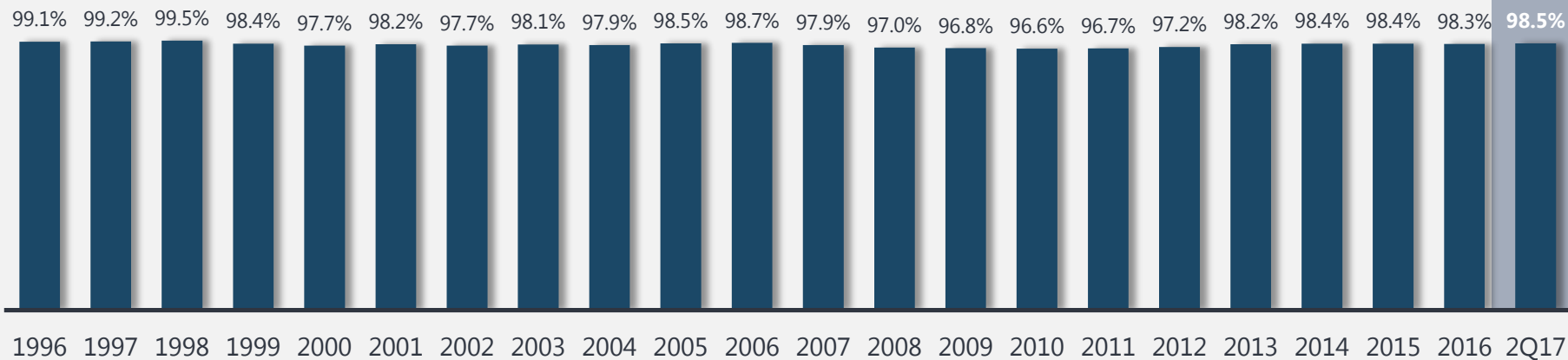


Source: SNL

# Consistency: Steady Portfolio, Solid Fundamentals

Consistent occupancy, same-store rent growth reflect limited operational volatility

## Consistent Occupancy Levels, Never Below 96%

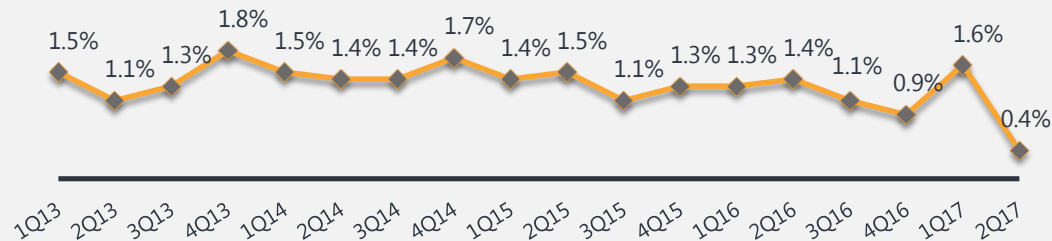


Based on % of properties occupied

## Sustained High Occupancy Rates

- Careful underwriting at acquisition
- Solid retail store performance
- Strong underlying real estate quality
- Favorable tenant industries
- Prudent disposition activity
- Proactive management of rollovers

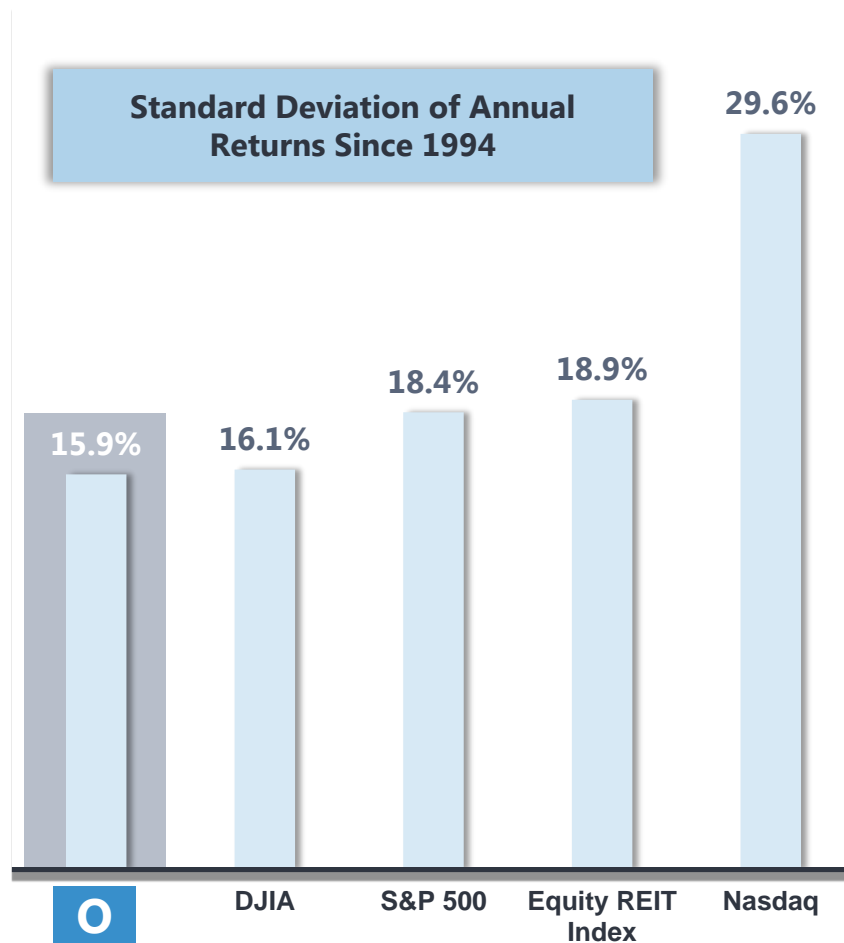
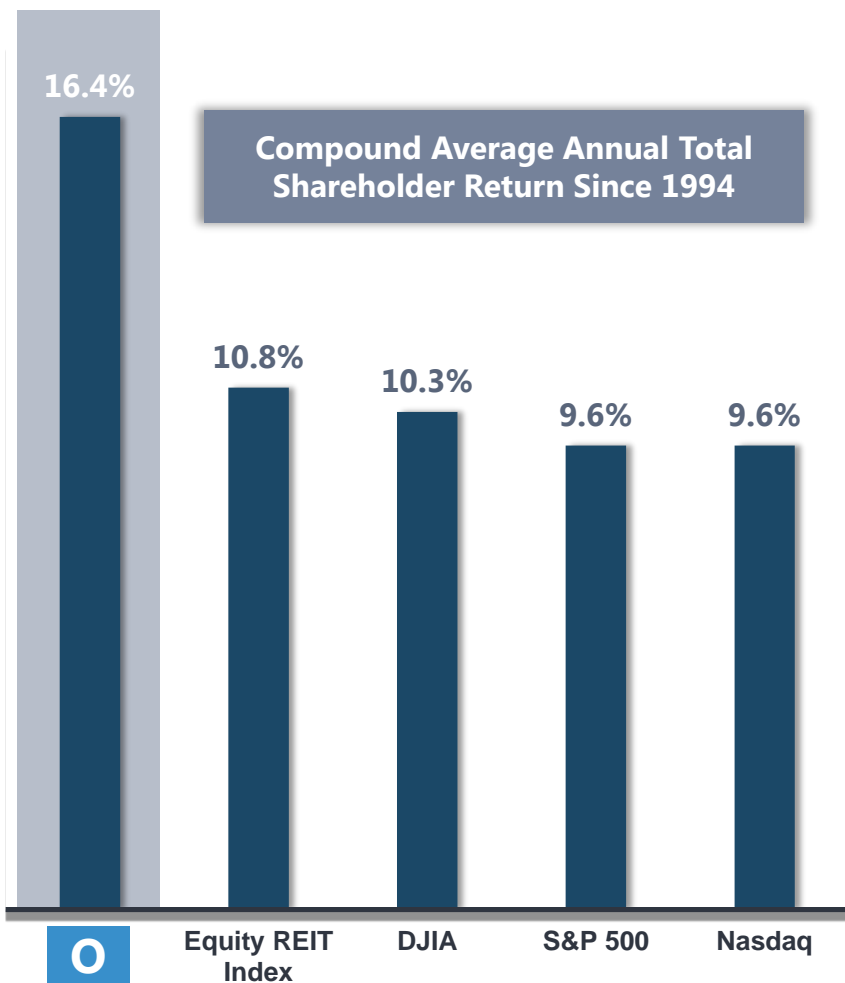
## Steady Same-Store Rent Growth



- ✓ Annual same-store rent growth run rate of ~1.0%
- ✓ Long lease terms limit annual volatility

# Safety: Lowest Volatility, Highest Return Relative to Market Indices

Since 1994 NYSE listing, Realty Income shares have outperformed benchmark indices while exhibiting lower volatility



Standard deviation of total returns measures deviation from average annual total returns since 1994 and uses annualized total returns for YTD period



# PORTFOLIO DIVERSIFICATION

# Portfolio Diversification: Tenant

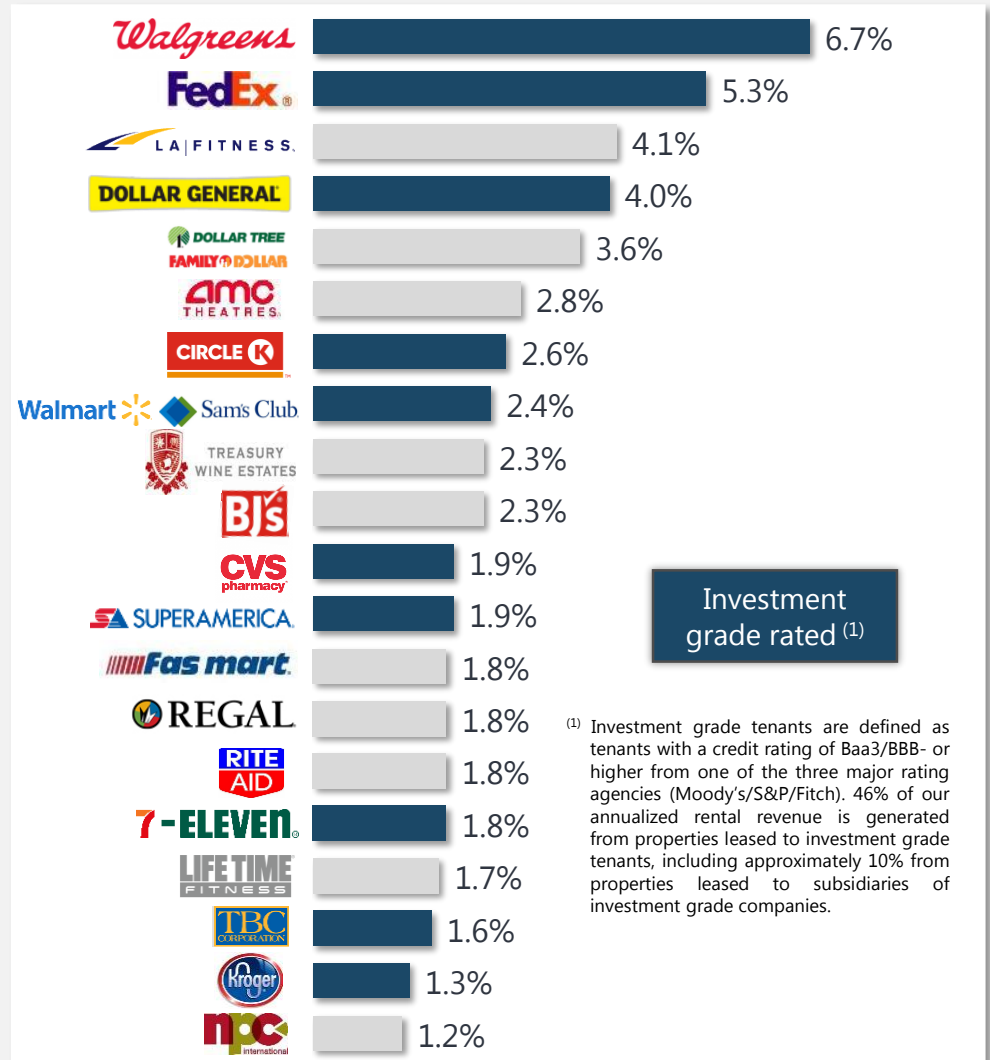
Diverse tenant roster, investment grade concentration reduces overall portfolio risk

Top 20 Tenants represent:

**53%**  
of annualized rental revenue

**11**  
different industries

**Ten**  
Investment grade rated tenants



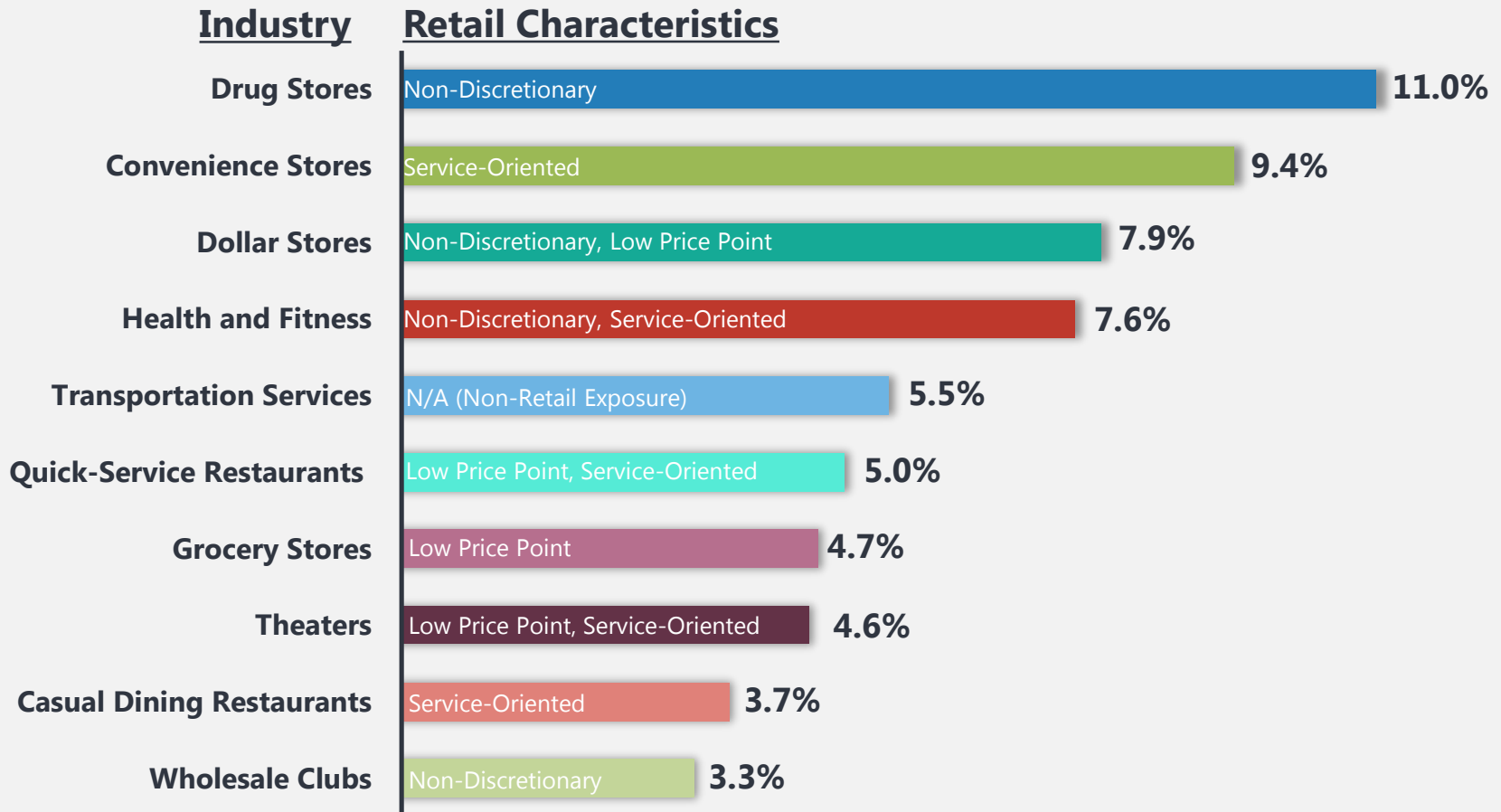


# Portfolio Diversification: Industry

No industry represents more than 11% of rent

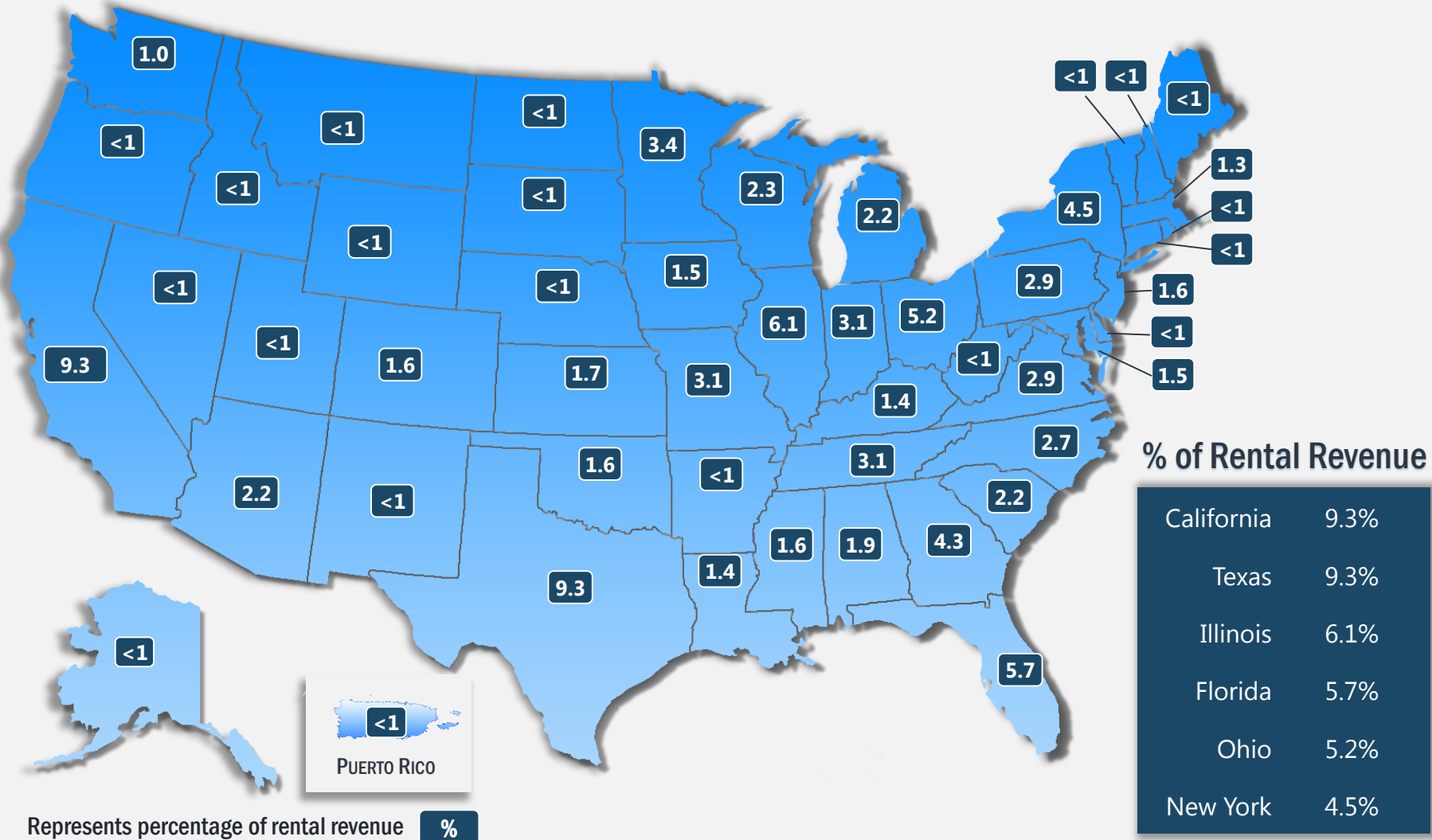
## Exposure to defensive industries:

Top 10 industries represent strong diversification, significant exposure to non-discretionary, low price-point, service-oriented industries



# Portfolio Diversification: Geography

Balanced presence in 49 states and Puerto Rico



# Portfolio Diversification: Property Type

Roots in retail with growing exposure to mission-critical industrial properties

## RETAIL



## INDUSTRIAL



## OFFICE



## AGRICULTURE



### Percentage of Rental Revenue

79.7%

12.8%

5.2%

2.3%

### Number of Properties

4,856

113

44

15

### Average Leasable Square Feet

11,773

217,592

77,345

12,300

### Percentage of Rental Revenue from Investment Grade Tenants

39.4%

80.2%

90.9%

-

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# DEFENSIVE RETAIL PORTFOLIO

# Differentiated Business Model from “Traditional” Retail REITs

Lease structure and growth drivers support predictable revenue stream relative to other forms of retail real estate

**Realty Income** leases freestanding properties on a “triple-net” basis (tenant pays for taxes, insurance and maintenance)



**Shopping Centers and Malls**

<b>Initial Length of Lease</b>	15+ Years	< 10 Years
<b>Remaining Avg Term</b>	~ 10 Years	~ 5-7 Years
<b>Responsibility for Property Expenses</b>	Tenant	Landlord
<b>Gross Margin</b>	> 98%	~ 75%
<b>Volatility of Rental Revenue</b>	Low	Modest / High
<b>Maintenance Capital Expenditures</b>	Low	Modest / High
<b>Reliance on Anchor Tenant(s)</b>	None	High
<b>Average Retail Property Size / Fungibility</b>	12k sf / High	150k–850k sf / Low

**Realty Income** growth opportunities through acquisitions



**Shopping Centers and Malls**

<b>Target Markets</b>	Many	Few
<b>External Acquisition Opportunities</b>	High	Low
<b>Institutional Buyer Competition</b>	Modest	High

# Five Key Considerations: Retail Portfolio Health

Realty Income's retail tenant roster consists of companies largely unaffected by recent credit issues

## 1) Retail tenant exposure differs from mall and shopping center tenant exposure

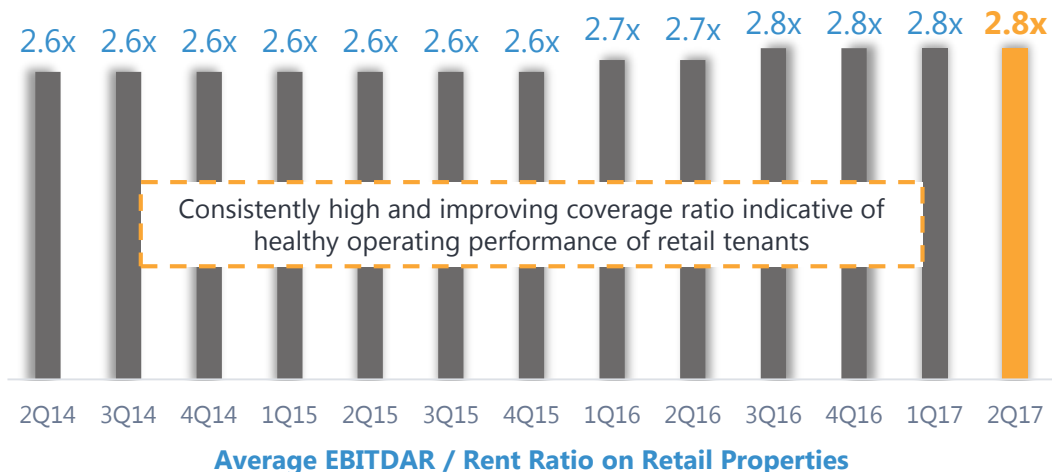
- >90% of retail rent is leased to tenants with low price point, non-discretionary and/or service-oriented component to their business

## 2) EBITDAR/Rent coverage has increased over the last three years

- Illustrates retail tenant stability and health
- ~65% of retail tenants provide unit-level financials; majority of non-reporting tenants are investment-grade rated

## 3) Minimal exposure to "big box" retail stores

- Only ~4% of total properties leased to retail tenants using > 50k SF ("big box")
- ~75% of "big box" stores leased to tenants with low price point, non-discretionary and/or service-oriented component to their business
- "Big box" stores outside of these categories largely comprised of investment-grade rated tenants (i.e. Home Depot)



## 4) Top industry is Drug stores (11.0% of rent)

- Brick and mortar drug stores continue to take market share from online pharmacies
- Online prescriptions peaked in 2010; volume down 20% since
- Top tenant is Walgreens (6.7% of rent): 16 consecutive quarters of positive same-store sales growth in its U.S. pharmacy division

## 5) Tenant watch list < 1.5% of rental revenue

- Consists of non-strategic assets targeted for disposition
- Low level is stable with trend from last three years

# Top Tenant Exposure: 2009 vs. Today

Top 15 tenants represent higher quality credit, less cyclical industries and greater diversification vs. 2009

## Top 15 Tenants as of YE 2009

Tenant	Industry	% of Rent
Hometown Buffet	Casual Dining	6.0%
Kerasotes Showplace Theatres	Theatres	5.3%
L.A. Fitness	Health & Fitness	5.3%
The Pantry	Convenience Stores	4.3%
Friendly's	Casual Dining	4.1%
Rite Aid	Drug Stores	3.4%
La Petite Academy	Child Care	3.3%
<b>TBC Corporation</b>	<b>Auto Tire Services</b>	<b>3.2%</b>
Boston Market	QSR	3.1%
Couche-Tard / Circle K	Convenience Stores	3.0%
NPC / Pizza Hut	QSR	2.6%
FreedomRoads / Camping World	Sporting Goods	2.6%
KinderCare	Child Care	2.5%
Regal Cinemas	Theatres	2.3%
Sports Authority	Sporting Goods	2.0%
<b>Total % of Rent - Top 15 Tenants</b>		<b>53.0%</b>
<b>Investment Grade % - Top 15 Tenants</b>		<b>3.2%</b>
<b>#1 Industry – Restaurants</b>		<b>21.3%</b>
<b>#2 Industry – Convenience Stores</b>		<b>17.0%</b>

## Top 15 Tenants as of 2Q 2017

Tenant	Industry	% of Rent
<b>Walgreens</b>	<b>Drug Stores</b>	<b>6.7%</b>
<b>FedEx</b>	<b>Transportation</b>	<b>5.3%</b>
L.A. Fitness	Health & Fitness	4.1%
<b>Dollar General</b>	<b>Dollar Stores</b>	<b>4.0%</b>
Dollar Tree / Family Dollar	Dollar Stores	3.6%
AMC Theatres	Theatres	2.8%
<b>Circle K / The Pantry</b>	<b>Convenience Stores</b>	<b>2.6%</b>
<b>Walmart / Sam's Club</b>	<b>Grocery / Wholesale</b>	<b>2.4%</b>
Treasury Wine Estates	Beverages	2.3%
BJ's Wholesale Clubs	Wholesale Clubs	2.3%
<b>CVS Pharmacy</b>	<b>Drug Stores</b>	<b>1.9%</b>
<b>Super America / Western Refining</b>	<b>Convenience Stores</b>	<b>1.9%</b>
GPM Investments / Fas Mart	Convenience Stores	1.8%
Regal Cinemas	Theatres	1.8%
Rite Aid	Drug Stores	1.8%
<b>Total % of Rent - Top 15 Tenants</b>		<b>45.3%</b>
<b>Investment Grade % - Top 15 Tenants</b>		<b>24.8%</b>
<b>#1 Industry – Drug Stores</b>		<b>11.0%</b>
<b>#2 Industry – Convenience Stores</b>		<b>9.4%</b>

# Realty Income Not Materially Impacted by Recent Retailer Bankruptcies

Realty Income's portfolio is designed to perform in virtually any economic environment

## 2017 Retailer Bankruptcies and Realty Income's Industry Exposure

**14 of 15** retailer bankruptcies in 2017 associated with companies **lacking** a non-discretionary, low price point, and/or service-oriented component to their business

Retailer Bankruptcy (2017)	Retail Industry
True Religion	Apparel
Wet Seal	Apparel
BCBG Max Azria	Apparel
Limited Stores	Apparel
Rue21	Apparel
Gymboree	Apparel
Vanity Shop	Apparel
Eastern Outfitters / Bob's Stores	Sporting goods
Gander Mountain	Sporting goods
MC Sports	Sporting goods
RadioShack	Consumer electronics
hhgregg	Consumer electronics
Gordmans	General merchandise
Payless ShoeSource	Shoe stores
Marsh Supermarkets	Grocery

**Combined Realty Income exposure to retailers** with 2017 bankruptcies:

**< 1.0%** of annualized rent

**Average Realty Income industry exposure** to apparel, sporting goods, electronics, general merchandise and shoe stores<sup>(1)</sup>:

**1.2%** of annualized rent



# Historical Bankruptcy Experience Shapes Current Exposure

Historical tenant bankruptcies have been in industries that Realty Income has minimal exposure to today

Industry	% of All Realty Income Tenant Bankruptcies Since YE 2007	Drivers of Credit Issues	Current Exposure (% of Rent)	Current Exposure Commentary
Casual Dining Restaurants	40%	<ul style="list-style-type: none"> <li>Lacks non-discretionary, low price point component</li> <li>Changing consumer tastes</li> <li>Thin rent coverage</li> <li>Above market rent</li> </ul>	3.7%	<ul style="list-style-type: none"> <li><b>Lowest among net lease peers</b></li> <li>Proven national operators with stable operating trends</li> <li>High rent coverage (&gt;3.5x on recent transactions)</li> <li>Smaller, more fungible box size (6k SF on recent transactions)</li> </ul>
Sporting Goods	20%	<ul style="list-style-type: none"> <li>Lacks non-discretionary, low price point component</li> <li>Increased competition from E-commerce</li> </ul>	1.6%	<ul style="list-style-type: none"> <li>Majority of exposure leased to the top two operators in the industry by market share</li> </ul>
Grocery	10%	<ul style="list-style-type: none"> <li>Low margins</li> <li>Competitive pressures</li> <li>Differentiation is elusive</li> </ul>	4.7%	<ul style="list-style-type: none"> <li>Top two tenants (Walmart Neighborhood Markets and Kroger) are top two U.S. food retail operators by market share</li> <li>Average rent coverage is ~4x</li> </ul>

- 70%** of Realty Income bankruptcies since YE 2007 have been in casual dining, sporting goods and grocery industries
  - Average exposure of **3.3%** to these three industries is lowest among peers



# ASSET AND PORTFOLIO MANAGEMENT

# Active Management: Significant Re-leasing Experience

Since 1996, Realty Income has achieved 99.2% recapture of prior rent on re-leasing activity

## Strong Track Record of Leasing Results

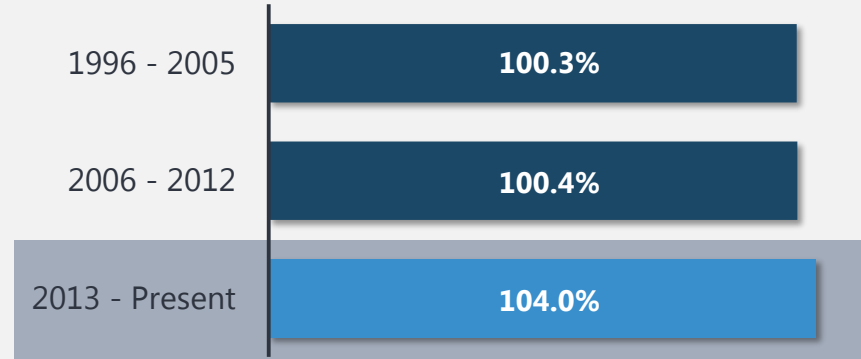
### Since 1996:

- Re-leased 2,130 out of 2,449 lease expirations (87%), **recapturing 99%** of expiring rent
- Sold the remaining 319 properties and recycled capital into properties that better fit investment strategy

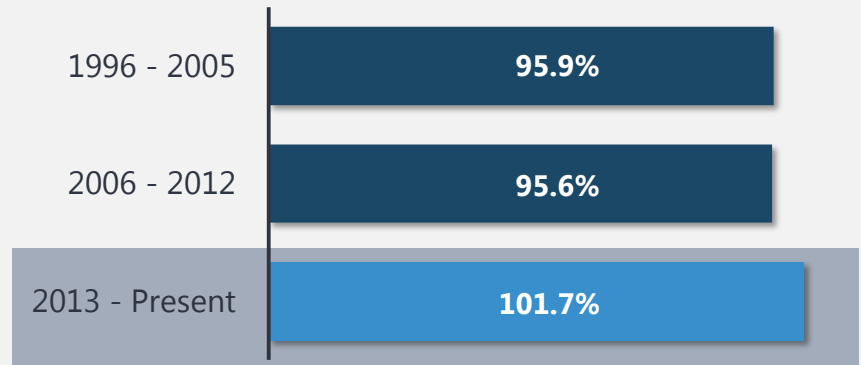
### Reflects “net” leasing spreads:

- Associated tenant improvement costs immaterial
- Protection of cash flow is paramount (properties do not require ongoing maintenance capex; leasing efforts focus on maximizing **net effective** leasing spreads and return on invested capital)
- Recurring maintenance capex and leasing costs can represent 10%+ of net operating income for strip centers and malls, < 1% for Realty Income historically

### Recapture vs. Prior Rent: (Renewal Activity) (102.6% Since 1996)



### Recapture vs. Prior Rent: (All Re-Leasing Activity) (99.2% Since 1996)



<sup>1</sup> Includes re-lease to same or new tenant spreads vs. prior rent

# Active Management: Leasing and Dispositions

Proven track record of value creation, cash flow preservation and risk mitigation

## Portfolio Management

- ✓ Largest department in the company
- ✓ Distinct management verticals
  - ✓ Retail
  - ✓ Non-Retail
- ✓ Leasing & dispositions

## Healthy Leasing Results

### 99% recapture of expiring rents since 1996

- Over 2,400 rollovers
- Includes renewals and re-leases to new tenants

### YTD 2017 lease rollover activity

- Re-leased 102 properties with expiring leases
  - 91 re-leased to same tenant (89%)
  - 11 re-leased to new tenant (11%)
  - **Recaptured 109% of expiring rent**

## Asset Management

- ✓ Maximizing value of real estate
- ✓ Strategic and opportunistic dispositions
- ✓ Value-creating development
- ✓ Risk mitigation

## Favorable Returns, Lower Portfolio Risk

### \$544 million of dispositions since 2010

- **2014:** 6.9% cap rate / 11.6% unlevered IRR
- **2015:** 7.6% cap rate / 12.1% unlevered IRR
- **2016:** 7.3% cap rate / 8.5% unlevered IRR
- **YTD 2017:** 7.9% cap rate / 9.7% unlevered IRR



# INVESTMENT STRATEGY

# Investment Strategy: Underwriting Approach

Real estate focused / Motivated to exceed long-term cost of capital

## Retail

- ✓ Strong unit-level cash flow coverage (specific to each industry)
- ✓ Tenants with service, non-discretionary, and/or low price point component to their business
- ✓ Favorable sales and demographic trends



## Non-Retail

(principally Industrial)

- ✓ Significant markets (generally MSAs of  $\geq 350,000$  people) and/or mission critical locations
- ✓ Primarily industrial and distribution properties leased to Fortune 1000, investment grade rated tenants
- ✓ Long lease duration



- **Property attributes** – Quality of real estate, age, size, fungibility
- **Market review** – Strategic locations critical to generating revenue
- **Demographic analysis** – Five-mile population density, household income, unemployment trends
- **Valuation** – Replacement cost, market rents, initial cash yield, IRR over initial lease term
- **Property due diligence** – Site visits, vehicle traffic, industry, property type, title, environmental, etc.



**REAL ESTATE  
ANALYSIS**



**CREDIT  
ANALYSIS**

- Financial review and analysis
- Tenant research – Reliable, sustainable cash flow
- Industry research – Defensive, resilient to macroeconomic volatility
- Discussion with key management representatives

# Investment Strategy: Key Considerations

Cost of capital advantage, size, track record: Supports investment selectivity, strong risk-adjusted spreads

## Competitive Advantages vs. Net Lease Peers

### Lowest cost of capital

- Supports investment **selectivity**
- Drives faster **earnings growth** (wider margins)
  - Realty Income has traded at median **NAV premium of 25%+** since 2009
- One of only two REITs to have **never traded at a discount to NAV** since March 2009

### Size and track record

- **Ability to buy in “bulk”** without creating tenant concentration issues
- **Portfolios currently trade at discount** to single-asset transactions
  - **Access to liquidity** (\$2 billion revolver)
  - Relationships developed since **1969**



# Investment Strategy: Aim to Exceed Long-Term WACC

Cost of capital viewpoint balances near-term earnings per share growth with long-term value accretion

## Long-Term Weighted Average Cost of Capital

- Drives investment decision-making at the property level**
- Considers required "growth" component of equity returns
- Long-term unlevered IRR must exceed long-term WACC
- Focus on higher long-term IRR *discourages* risk-taking

### Key Assumptions & Calculation – Long-Term Cost of Equity (Using illustrative assumptions only)

Historical Beta (vs. S&P 500)	0.4
Assumed long-term 10-year U.S. yield	4.0%
Equity market risk premium	5.0%
<b>Long-Term Cost of Equity (CAPM methodology)</b>	<b>6.0%</b>
Dividend yield (as of 6/30/17)	4.6%
Compound average annual dividend growth since 1994 listing	4.7%
<b>Long-Term Cost of Equity (Yield + Growth methodology)</b>	<b>9.3%</b>
<b>Long-Term Cost of Equity (Average of two methodologies)</b>	<b>7.7%</b>

### Key Assumptions & Calculation – Long-Term WACC

<b>67% Weight:</b> Long-Term cost of equity	7.7%
<b>33% Weight:</b> Cost of debt (10-year, fixed-rate unsecured)	3.6%
<b>Long-Term WACC</b>	<b>6.3%</b>

## "Nominal" 1<sup>st</sup>-Year Weighted Average Cost of Capital

- Used to measure initial (year one) earnings accretion
- Higher stock price (lower cost) supports faster growth
- Lower WACC allows greater investment options
- Unwilling to sacrifice quality to generate wider spreads

### Key Assumptions & Calculation – Nominal 1<sup>st</sup>-Year WACC (Using illustrative assumptions only)

<b>60% Equity:</b> AFFO Yield (Midpoint of 2017 guidance)	5.5%
<b>7% Free Cash Flow<sup>(1)</sup>:</b> Free cash flow reinvested	0%
<b>33% Debt:</b> 10-year, fixed-rated unsecured	3.6%
<b>Nominal 1<sup>st</sup>-Year WACC<sup>(2)</sup></b>	<b>4.5%</b>



Relative to peers, low nominal WACC supports ability to grow short-term earnings with less volume but does not govern long-term investment decisions

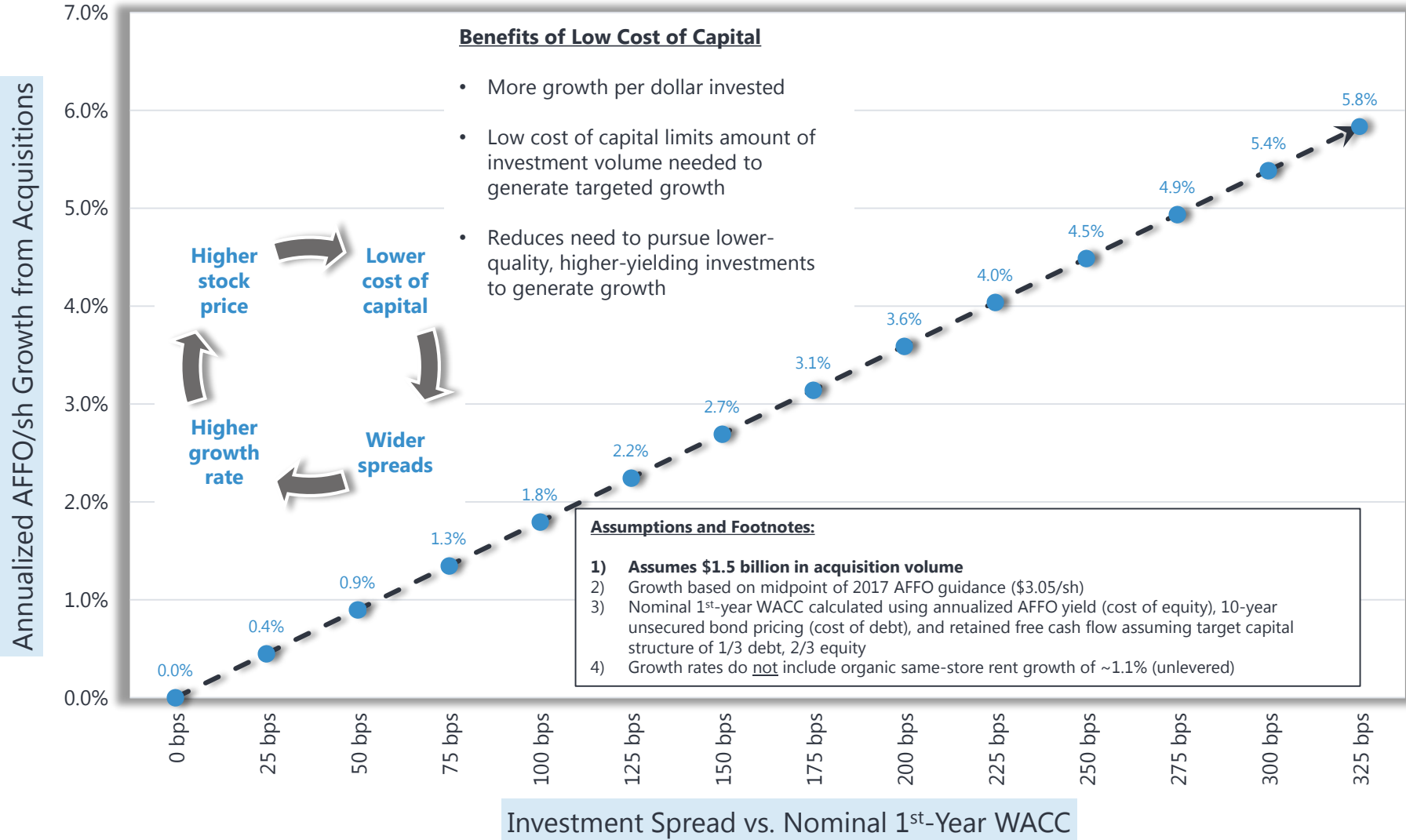
- <sup>(1)</sup> Assuming \$1.5 billion in acquisitions and after paying dividends and capex  
<sup>(2)</sup> Reflects illustrative WACC only; not intended to reconcile exactly to current WACC

Long-Term WACC considers growth requirements of equity and supports disciplined underwriting criteria with a focus on residual value



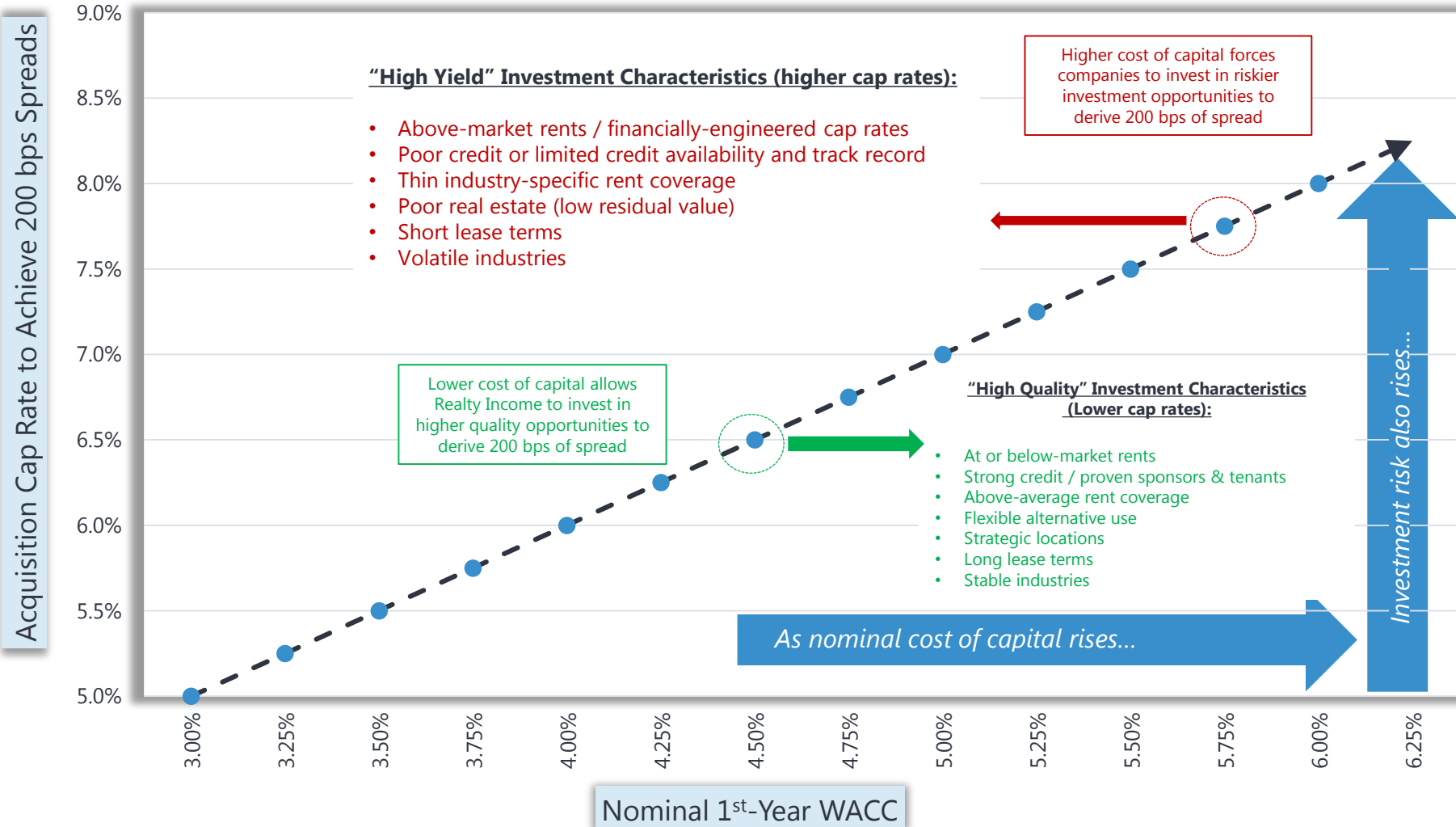
# Investment Strategy: Benefits of Low Cost of Capital

Low cost of capital (high equity multiple) is the most important competitive advantage in the net lease industry



# Investment Strategy: Utilizing Low Cost of Capital Advantage

Low cost of capital allows Realty Income to acquire the highest quality assets and leases in the net lease industry



# Investment Strategy: Focused on Market Rents

Realty Income avoids lease structures with above-market rents, which can often inflate initial cap rates

## Illustrative Sale-Leaseback Example

### Assumptions

Annual EBITDAR (000s)	\$8,500	Replacement cost (psf)	\$200
Total square footage (000s)	175	Market rent (psf)	\$15

Assuming identical real estate portfolio, consider two different lease structure scenarios.....

### Scenario 1: Higher Risk Strategy

#### Objectives promote risk taking:

- 1) Maximize proceeds for seller
- 2) Maximize cap rate for buyer

Target sale price (000s)	\$42,000
Target cap rate	7.5%
Implied rent (000s)	\$3,150
Implied rent (psf)	\$18.00
Premium/(Discount) to Market Rent	20%
Implied EBITDAR rent coverage	2.7x
Implied premium to replacement cost	20%

*Scenario 1 provides more proceeds to seller but at higher rents and lower rent coverage. Higher initial cap rate also carries elevated future default risk and lower residual value for buyer*

- **Scenario 1:** Focus on maximizing sale price and initial rent (higher cap rate) increases operational risks
- **Scenario 2:** Focus on "right-sizing" rent (lower cap rate) and purchase price limits risk to landlord and tenant

- **Scenario 1:** Reverse-engineering for high price and cap rate results in above-market rents, low rent coverage and a significant premium to replacement cost

- **Scenario 2:** Prioritizing conservative valuation metrics lowers future vacancy risk and preserves residual value

### Scenario 2: Realty Income Strategy

#### Objectives promote risk mitigation:

- 1) Maximize EBITDAR rent coverage
- 2) Match purchase price with replacement cost

Target rent coverage	3.75x
Target premium to replacement cost	0%
Implied rent (000s)	\$2,267
Implied rent (psf)	\$12.95
Premium/(Discount) to Market Rent	-14%
Implied sale price (000s)	\$35,000
Implied cap rate	6.5%

*Scenario 2 carries lower risk to Realty Income and tenant given higher rent coverage and reasonable valuation (more likely to recapture residual value at lease expiration)*

# Investment Strategy: Focused on Maximizing Long-Term IRR

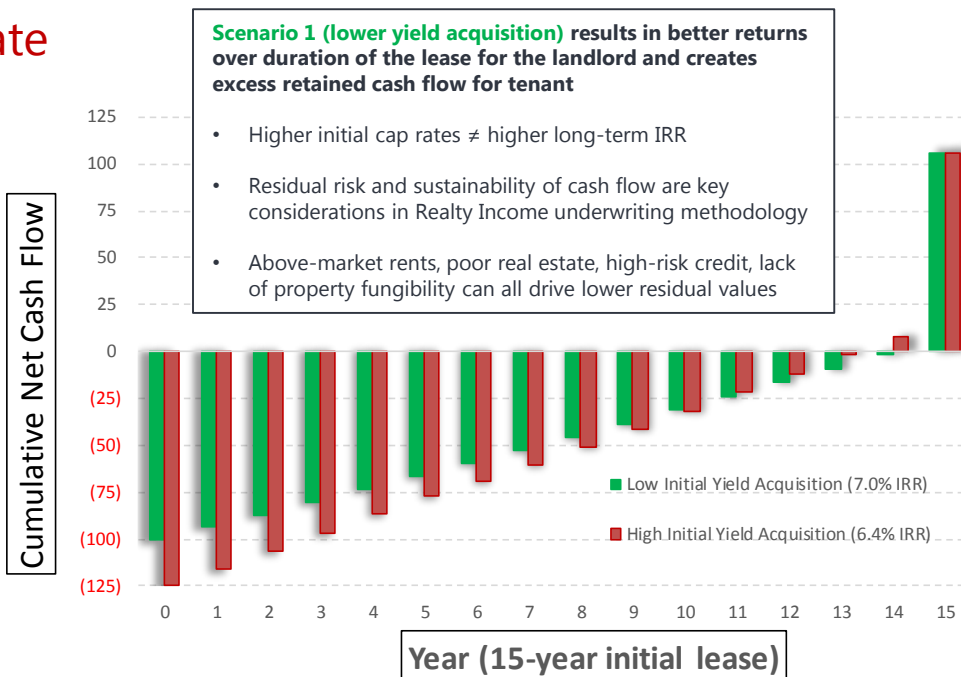
Realty Income IRR analysis favors long-term cash flow consistency; higher initial cap rates  $\neq$  higher IRR

- Underwriting criteria geared towards long-term unlevered IRR exceeding long-term WACC
- Net lease acquisition market is very efficient → higher initial yield generally correlates to higher risk
- Higher cap rates often reflect riskier real estate, above-market rents (to maximize proceeds and cap rate), and inferior credit
- Higher yields can lead to default risk during the lease term and/or a lower residual
- **Example below illustrates higher unlevered IRR despite lower initial yield**

## Illustrative IRR Analysis:

"Low" Cap Rate vs. "High" Cap Rate

	Assumptions	
	1	2
<b>Scenario 1</b> -- "Low Initial Yield" Acquisition (7.0% IRR)		
<b>Scenario 2</b> -- "High Initial Yield" Acquisition (6.4% IRR)		
Lease Term (yrs)	15	15
Purchase Price	100	125
Initial Cap Rate	6.5%	7.5%
Premium to Market Rent	0%	30%
Rent increases/year	1.2%	1.2%
Residual Value (% of Purchase Price)	100%	70%
Disruption to CF from store closures	0%	25%
Year of closures	-	6
Downtime to Re-Lease (yrs)	-	1
Rent recapture as % of prior rent (incl. TI's)	100%	75%



# Investment Strategy: Results of Conservative Underwriting

Industry exposure reflects defensive, cycle-resilient business models

## 90+% of retail portfolio:

Has service, non-discretionary and/or low price point component

## Top non-retail tenants:

Comprised primarily of investment grade tenants such as FedEx, Boeing, GE, Walgreens



### Service-Oriented

**E-COMMERCE RESILIENT**

- Health & Fitness
- Theaters
- Convenience Stores



### Non-Discretionary

**DEFENSIVE**

- Drug Stores
- Grocery Stores
- Automotive Services



### Low Price Point

**CONSUMER RESILIENT**

- Dollar Stores
- Wholesale Clubs
- Quick Service Restaurants

# Investment Strategy: Disciplined Execution

Consistent, selective underwriting philosophy on strong sourced volume

Key Metrics Since 2010 (Excluding \$3.2 billion ARCT transaction):

**\$9.6 billion**

in property-level acquisition volume

**\$3.8 billion**

in non-investment grade retail acquisitions

**81%**

of volume associated with retail properties

**59%**

of volume leased to Investment grade tenants

**Broad blend**

of one-off, portfolio and entity-level deals

**Relationship-driven**

>80% of closed volume since 2010

	2010	2011	2012	2013 (Ex-ARCT)	2014	2015	2016	2017 YTD
<b>Investment Volume</b>	\$714 mil	\$1.02 bil	\$1.16 bil	\$1.51 bil	\$1.40 bil	\$1.26 bil	\$1.86 bil	\$692 mil
<b># of Properties</b>	186	164	423	459	507	286	505	126
<b>Initial Avg. Cap Rate</b>	7.9%	7.8%	7.2%	7.1%	7.1%	6.6%	6.3%	6.3%
<b>Initial Avg. Lease Term (yrs)</b>	15.7	13.4	14.6	14.0	12.8	16.5	14.7	14.8
<b>% Investment Grade</b>	46%	40%	64%	65%	66%	46%	64%	51%
<b>% Retail</b>	57%	60%	78%	84%	86%	87%	86%	95%
<b>Sourced Volume</b>	\$6 bil	\$13 bil	\$17 bil	\$39 bil	\$24 bil	\$32 bil	\$28 bil	\$18 bil
<b>Selectivity</b>	12%	8%	7%	4%	6%	4%	7%	4%
<b>Relationship Driven</b>	76%	96%	78%	66%	86%	94%	81%	81%

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# CAPITAL STRUCTURE AND SCALABILITY

# Conservative Capital Structure

Modest leverage, low cost of capital, ample liquidity provides financial flexibility

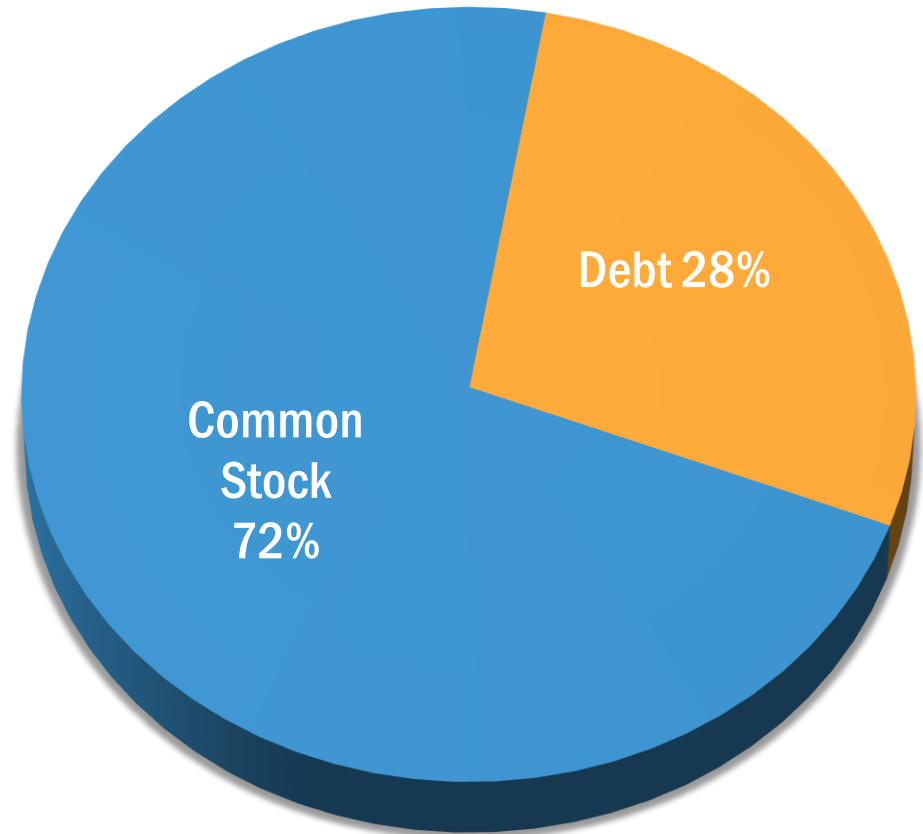
## **Common Stock: \$15 billion – 72%**

- **Shares/Units outstanding** – 274 million

## **Debt: \$6 billion – 28%**

- **Unsecured Notes/Bonds** - \$4.7 billion
- **Unsecured Term Loans** - \$320 million
- **Unsecured Ratings** - BBB+/Baa1/BBB+
- **Mortgages** - \$373 million
- **Revolving Credit Facility** - \$648 million

**Total Capitalization: \$21 billion**

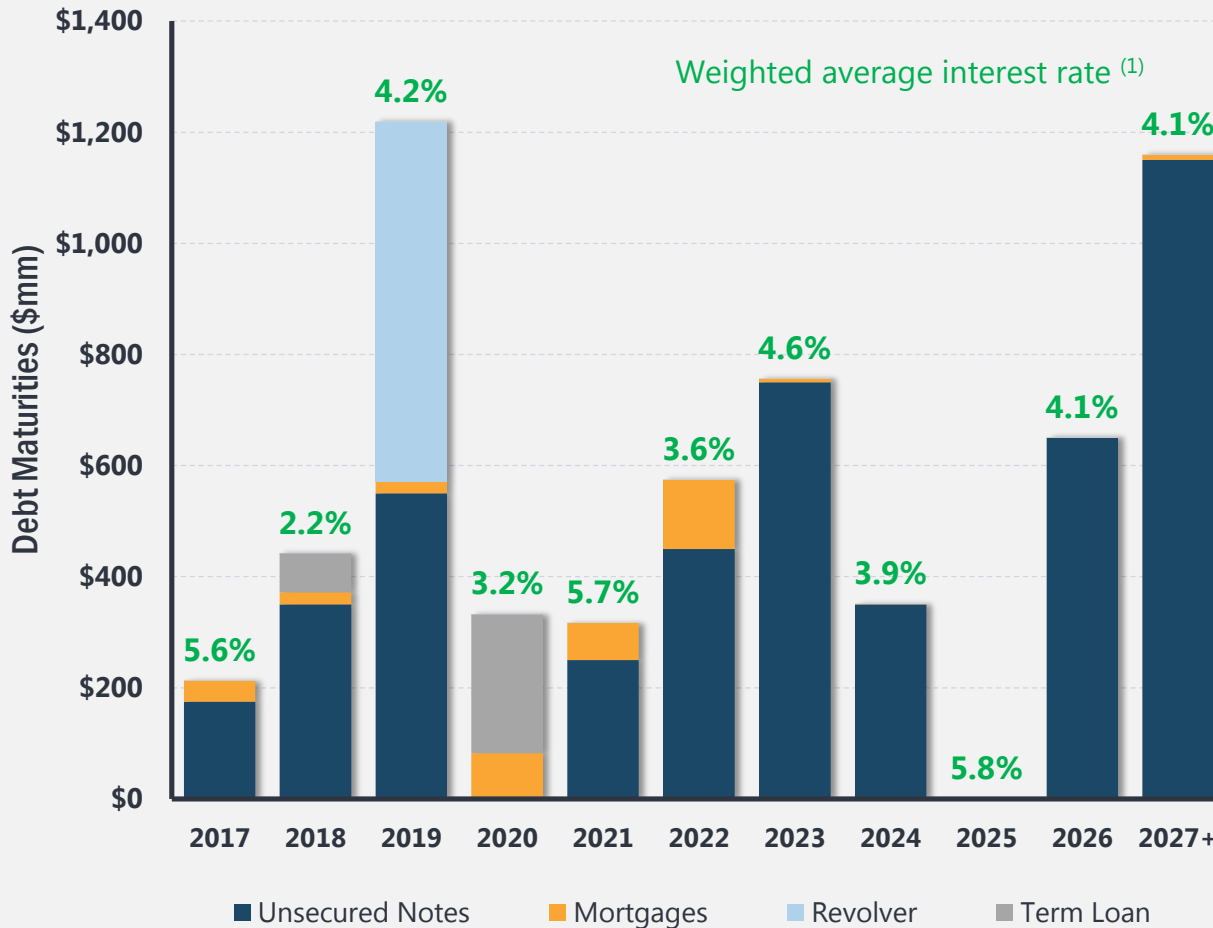




# Well-Laddered Debt Maturity Schedule

Limited re-financing and variable interest rate risk throughout debt maturity schedule

Laddered Maturity Schedule with Primarily Unsecured Investment Grade Rated Debt



## Key Metrics

- 89% **fixed rate** debt
- Weighted average rate of **4.1%** on debt
- **Staggered, 7.9-year** weighted average term for notes/bonds
- **Ample liquidity** with >\$1.35B available on revolver (L+90bps)
- **Free cash flow** of ~\$125mm/yr

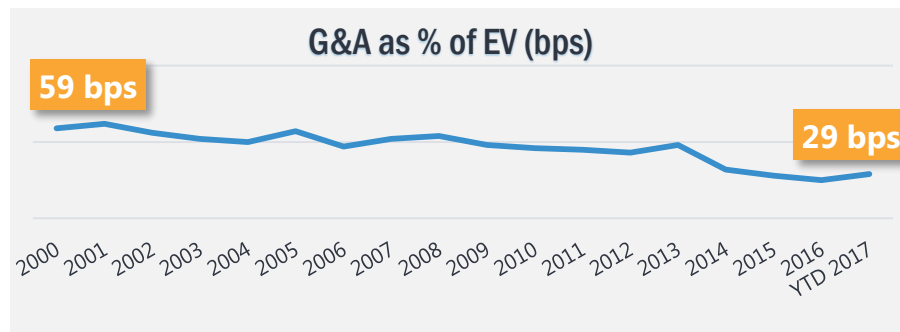
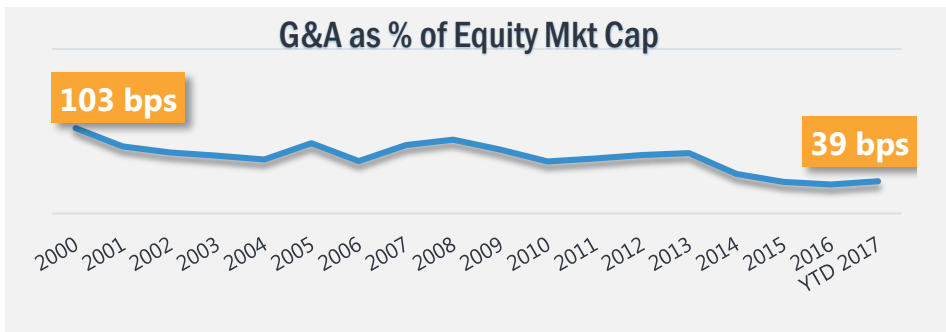
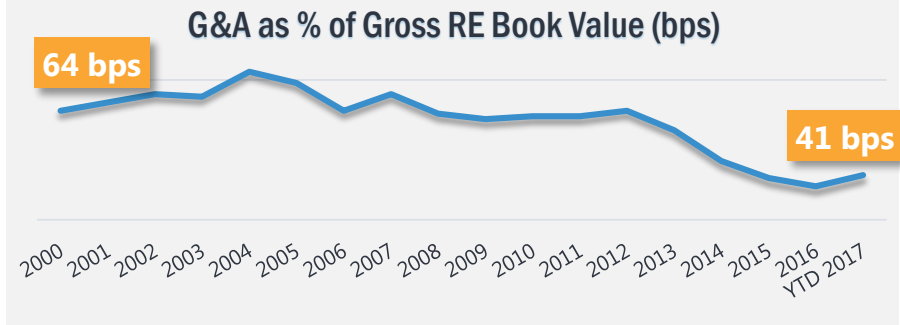
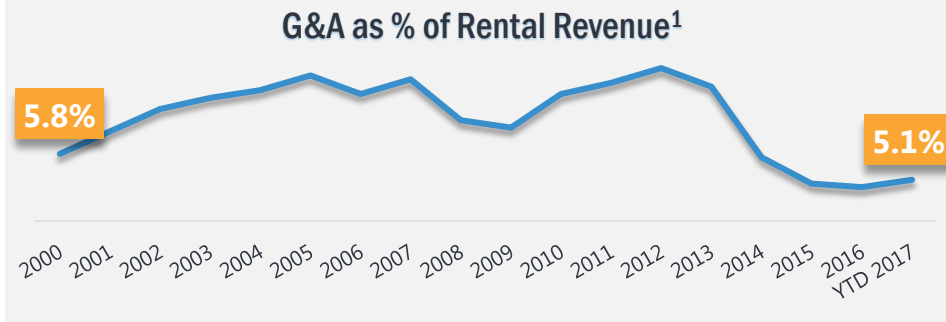
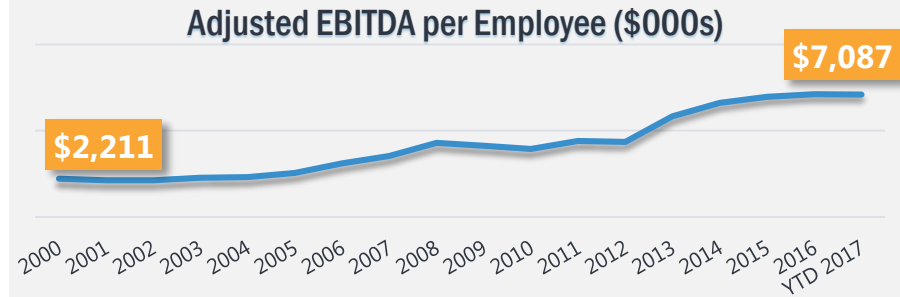
<sup>(1)</sup> Weighted average interest rates reflect variable-to-fixed interest rate swaps on term loans

# Scalability of Costs Contributes to Higher Relative Valuation

Relative NAV valuation comparisons should consider G&A efficiencies

~93% EBITDA margins, never below 90% since 1998

- Efficiency and scalability of business model leads net lease industry
- G&A expense should be treated the same as dollar of property-level cash flow
- Consensus NAV estimates generally exclude impact of G&A expenses, thus no explicit “credit” for G&A efficiencies is recognized
- Capping G&A with real estate multiple degrades NAV/sh more for smaller portfolios with less scalability



<sup>1</sup> G&A includes acquisition transaction costs; percentage of rental revenue calculation excludes tenant reimbursements from denominator  
YTD figures represent MRQ annualized, where applicable

Source: FactSet

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**DEPENDABLE  
DIVIDENDS**

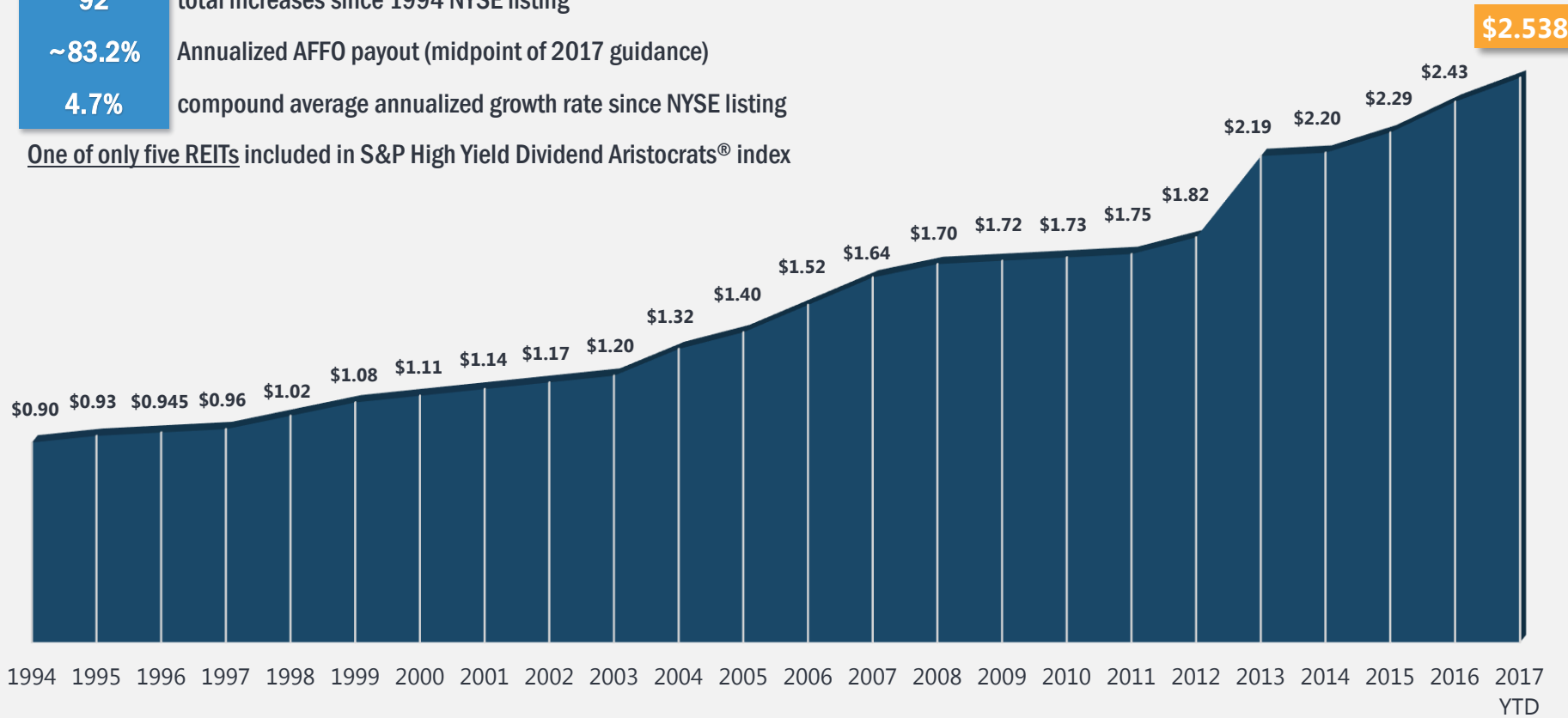
# Consistent Dividends That Grow Over Time

Steady dividend track record supported by inherently stable business model, disciplined execution

## Strong Dividend Track Record

- 79** consecutive quarterly increases
- 92** total increases since 1994 NYSE listing
- ~83.2%** Annualized AFFO payout (midpoint of 2017 guidance)
- 4.7%** compound average annualized growth rate since NYSE listing

One of only five REITs included in S&P High Yield Dividend Aristocrats® index



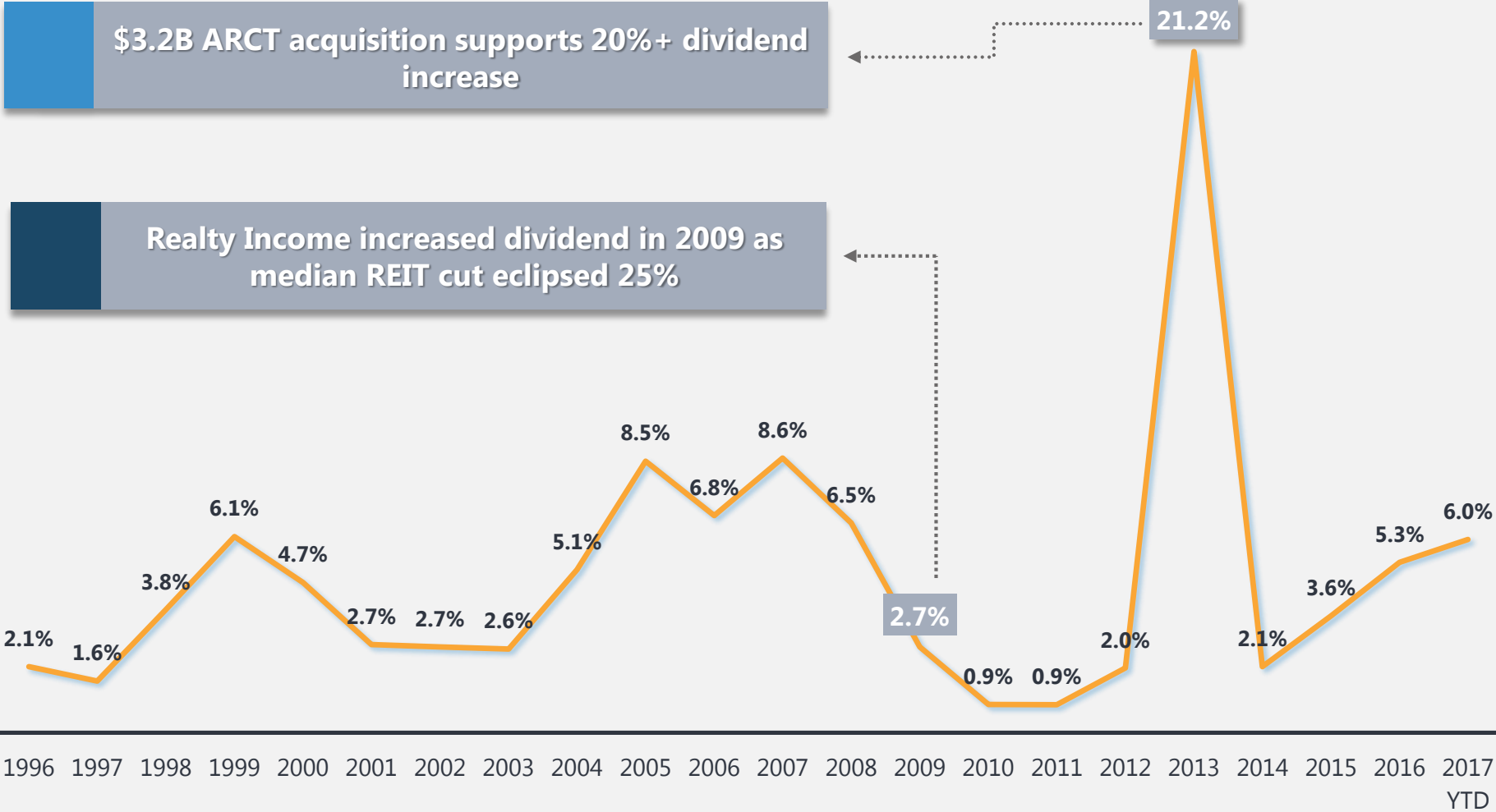
As of July 2017 dividend declaration  
 Annualized dividend amount reflects the December declared dividend per share annualized, with the exception of 2017, which reflects the July 2017 declared dividend annualized

# Dividend Track Record: Growth Through Variety of Economic Cycles

Zero dividend cuts in 22 years as public company

\$3.2B ARCT acquisition supports 20%+ dividend increase

Realty Income increased dividend in 2009 as median REIT cut eclipsed 25%



Growth rates based on payment date / 2017 YTD growth rate based on most recent dividend paid (July 2017) vs. July 2016

# Summary

- Long term-focused business strategy
- Diversified and actively managed portfolio
- Proven and disciplined relationship-driven acquisition strategy
- Conservative capital structure able to withstand economic volatility
- Precedent of outperforming S&P 500 and REITs since 1994 listing
- Attractive risk/reward vs. other REITs and blue chip equities
- Dependable monthly dividends with long track record of growth

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