



**NATIONAL RETAIL  
PROPERTIES.**  
NYSE:NNN



**CONSECUTIVE ANNUAL  
DIVIDEND INCREASES**

|                           |          |
|---------------------------|----------|
| Annual Dividend Increases | 30 Years |
| Company Founded           | 35 Years |
| New York Stock Exchange   | 25 Years |

*The value of a*  
**LONG-TERM  
PERSPECTIVE**

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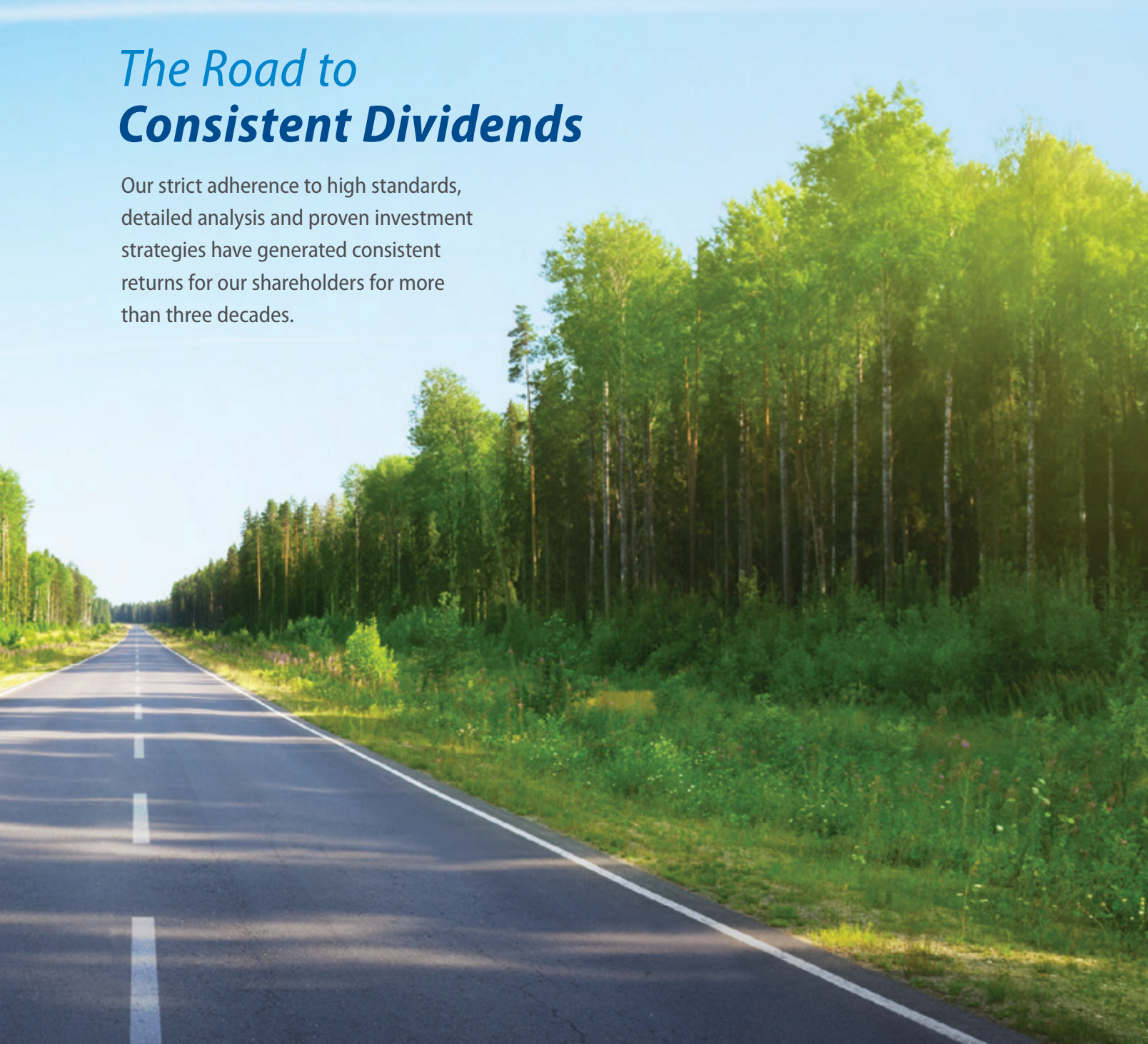




THE NNN REIT™

## *The Road to Consistent Dividends*

Our strict adherence to high standards, detailed analysis and proven investment strategies have generated consistent returns for our shareholders for more than three decades.



## TRIPLE NET LEASE

A net lease requires the tenant to directly pay many of the costs associated with a property. Our properties are typically leased on a **TRIPLE NET LEASE** basis, meaning the tenant pays for the real estate **TAXES, MAINTENANCE, INSURANCE** and utilities at the property level. We believe strongly that triple net leases provide increased stability to our rental revenue over the long term; we are insulated against increases in these property operating costs and our rental income goes directly to the bottom line. The real estate industry moniker for triple net leases is “NNN,” which has been the basis for our New York Stock Exchange ticker symbol since 1994.

## TOTAL SHAREHOLDER RETURN COMPARISON

(NNN = \$53.62 at December 31, 2019)

|                                     | 1 YEAR       | 2 YEARS      | 3 YEARS      | 5 YEARS      | 10 YEARS     | 15 YEARS     | 20 YEARS     | 25 YEARS     |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>NATIONAL RETAIL PROPERTIES</b>   | <b>14.8%</b> | <b>16.2%</b> | <b>11.3%</b> | <b>10.9%</b> | <b>15.1%</b> | <b>12.6%</b> | <b>15.9%</b> | <b>13.6%</b> |
| <b>Indices</b>                      |              |              |              |              |              |              |              |              |
| * NAREIT Equity REIT Index (FNERTR) | 28.7%        | 11.1%        | 10.3%        | 8.4%         | 12.6%        | 8.4%         | 11.6%        | 10.9%        |
| * Morgan Stanley REIT Index (RMS G) | 25.8%        | 9.6%         | 8.1%         | 7.0%         | 11.9%        | 7.9%         | 11.2%        | 10.5%        |
| S&P 500 Index (SPX)                 | 31.5%        | 12.1%        | 15.3%        | 11.7%        | 13.5%        | 9.0%         | 6.1%         | 10.2%        |

\* NNN is a member of this index Source: Bloomberg

## VALUE OF \$1,000 INVESTMENT

(As of December 31, 2019)

|                                     | 1 YEAR          | 2 YEAR          | 3 YEARS         | 5 YEARS         | 10 YEARS        | 15 YEARS        | 20 YEARS        | 25 YEARS        |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>NATIONAL RETAIL PROPERTIES</b>   | <b>\$ 1,148</b> | <b>\$ 1,351</b> | <b>\$ 1,378</b> | <b>\$ 1,680</b> | <b>\$ 4,077</b> | <b>\$ 5,915</b> | <b>\$19,194</b> | <b>\$24,023</b> |
| <b>Indices</b>                      |                 |                 |                 |                 |                 |                 |                 |                 |
| * NAREIT Equity REIT Index (FNERTR) | \$ 1,287        | \$ 1,234        | \$ 1,341        | \$ 1,498        | \$ 3,270        | \$ 3,330        | \$ 8,964        | \$ 13,223       |
| * Morgan Stanley REIT Index (RMS G) | \$ 1,258        | \$ 1,200        | \$ 1,261        | \$ 1,405        | \$ 3,084        | \$ 3,120        | \$ 8,313        | \$ 11,999       |
| S&P 500 Index (SPX)                 | \$ 1,315        | \$ 1,256        | \$ 1,531        | \$ 1,737        | \$ 3,560        | \$ 3,637        | \$ 3,238        | \$ 11,338       |

\* NNN is a member of this index





## MY FELLOW SHAREHOLDERS

2019 was a year of significant milestones for National Retail Properties: our 35th year in business; our 25th year listed on the New York Stock Exchange, and most importantly, our 30th consecutive year of annual dividend increases.

Very few public companies, and only two other REITs, can boast of the impressive track record of increasing the dividend for 30 consecutive years. Maintaining a safe and growing dividend is at the heart of our corporate culture, and there is nothing in which we take more pride than returning to you, the owners of the company, a meaningful CASH return on your investment each year. With a dividend payout ratio of 72% as of year-end, we remain well positioned to continue this string of dividend increases into the future.

Our steady execution continued to produce impressive outcomes, as our Core FFO per share increased by 4.2% over 2018 and our total shareholder return for 2019 was 14.8%.

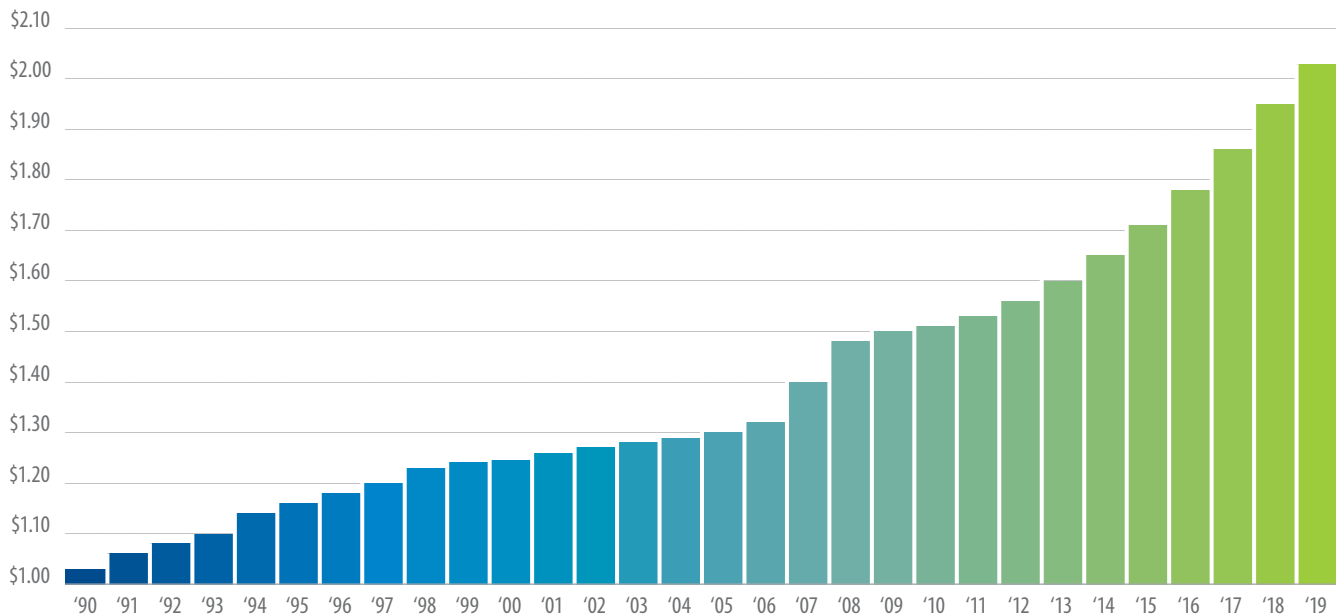
As you have heard many times before, we run our business with a long-term focus on multi-year results. True to that philosophy, National Retail Properties delivered Total Shareholder Returns that exceeded the REIT averages and many major indices over the past many years with a 25-year average annual total return of 13.6%.

We will highlight specific details of our impressive 2019 results throughout this annual report. Rather than reiterate those outcomes in this letter, I want to discuss some of the consistent themes that were drivers of our success in 2019 and that will remain pillars of our strategic plan for 2020.



## 30 CONSECUTIVE ANNUAL DIVIDEND INCREASES

Third longest run of all public REITS and longer than 99% of all public companies



## LONG-TERM FOCUS

I'll say it again – we run our business with a long-term focus in mind. Over the last few years our stock price has fluctuated based on a variety of external factors, all while our performance has consistently delivered mid-single digits per share growth. Our consistent performance resulted in total returns over the medium and long-term that have beaten the REIT averages, while taking below average risk.

Our focus on long-term results manifests itself in our selective underwriting of new acquisitions, our commitment to a low leveraged balance sheet with ample financial flexibility to weather market disruptions, our laser-like focus on consistent PER SHARE growth and our commitment to a safe and growing dividend.

## EXCEPTIONAL PEOPLE

Over 3,000 properties leased to more than 400 tenants; over \$650M of annual rent; more than \$330 million of dividends paid in 2019; all handled by 69 dedicated associates at National Retail Properties. Since 2013, we have increased the property count of our portfolio by 68%, but we have only increased our headcount by 15%. We invest heavily in technology and professional development to help each of our associates learn, grow and flourish in their professional careers.

The long tenure of our team is a key strategic advantage over our competitors. More than two-thirds of our associates have been with us for at least five years and, impressively, almost 50% of the associates have been with the company for 10 years or longer. This is a stark contrast with many of our peers, and a competitive advantage when it comes to institutional memory and commitment to our business model. I am awed and humbled every day by the talent and commitment of our team.



## CONSERVATIVE BALANCE SHEET MANAGEMENT

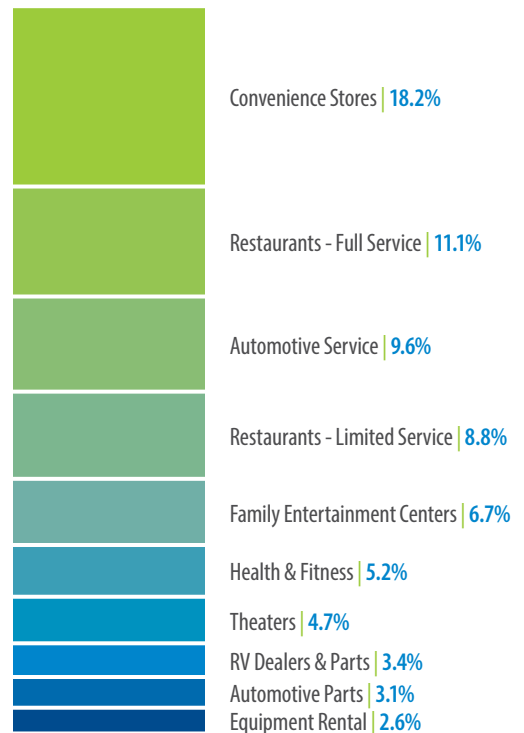
(As of December 31, 2019 – based on total gross book assets)



|  |   |
|--|---|
| <span style="color: #4CAF50;">■</span> <b>Common Equity</b><br>60.7%   \$5,142.8 Million | <span style="color: #66BB6A;">■</span> <b>Unsecured Debt</b><br>35.1%   \$2,976.3 Million |
| <span style="color: #009688;">■</span> <b>Preferred Equity</b><br>4.1%   \$345.0 Million | <b>Not Shown: Secured Debt</b><br>0.1%   \$12.1 Million                                   |

## TOP LINES OF TRADE

(As a percentage of annualized base rent as of December 31, 2019)



(Remaining 27 categories make up 26.6%)







## COMMITMENT TO ESG

Long before it was fashionable to focus on Environmental, Social and Governance topics in a public company, National Retail Properties was “walking the talk.”

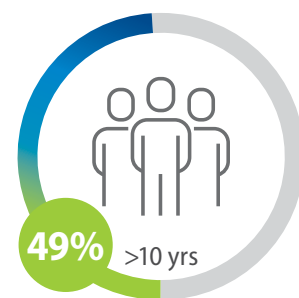
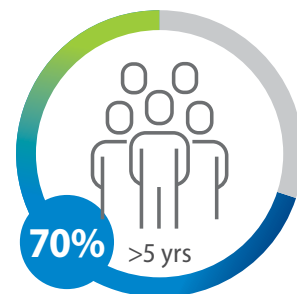
Although our triple net leases place exclusive control of the property operations in the hands of the tenants, we have taken steps to promote energy conservation and sustainability via our lease documents, our tenant outreach and the management of our (few) vacant properties. Internally, our Green Committee and Human Resources Department are regularly identifying ways to reduce the already small environmental footprint at our 26,000-square-foot corporate office in Orlando.

Our deep commitment to our associates’ personal and professional development is reflected not only in our long average tenure mentioned above, but also in the high participation rate by our associates in a wide variety of online courses offered by our curated NNN University, and by our tuition assistance program for those looking to further their formal education. In addition to doing their jobs and enhancing their knowledge, our associates give back to the local community with hundreds of hours of community service at local venues, including Ronald McDonald House, Give Kids the World and the Salvation Army. In addition to time, we also provide financial support to groups that serve urban youths, such as the Boys and Girls Clubs of Central Florida and Elevate Orlando.

For many years we have received some of the highest marks from ISS and other corporate governance rating agencies. Our board has long set a tone at the top which calls for the highest level of integrity, honesty and transparency, and that culture remains strong and healthy today.

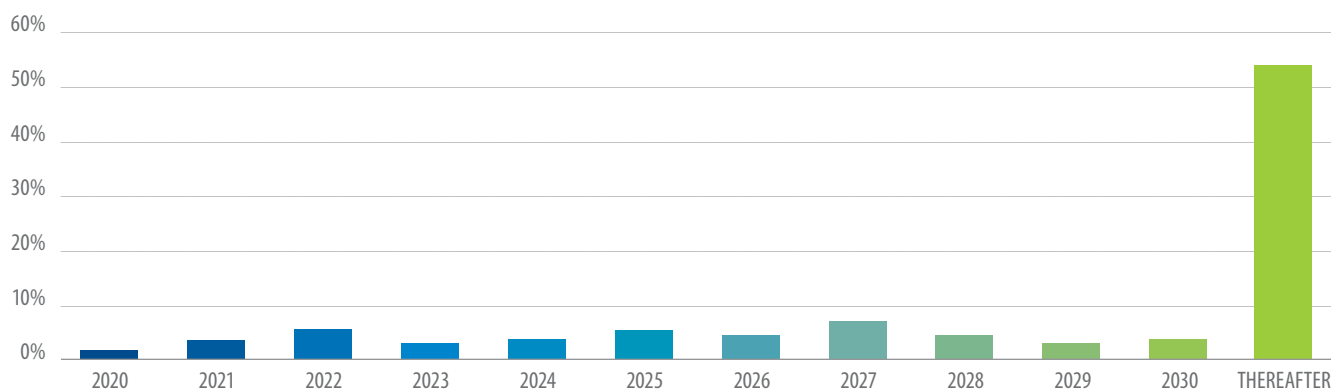
## EMPLOYEE TENURE

Average tenure of an NNN employee is **10 YEARS**



## LEASE EXPIRATIONS (As a percentage of annualized base rent as of December 31, 2019)

Weighted average remaining lease term is 11.2 years





**SAM KHATIB**

Director of Leasing & Asset Management

We consistently maintain a higher occupancy rate than the overall REIT industry average. Job one for us is to re-lease space, preferably as-is. In 2019, we renewed approximately 85% of our expiring leases with current tenants at 104% of the expiring rent without major lease incentives or tenant improvement dollars.

Of particular note is the recent transformation of our board of directors. In the last few years, we have refreshed our board with new high-powered, talented directors bringing broader diversity of background, experience, tenure and gender than ever before. Our board of directors is well positioned to provide effective and valuable oversight as we look ahead to the new decade.

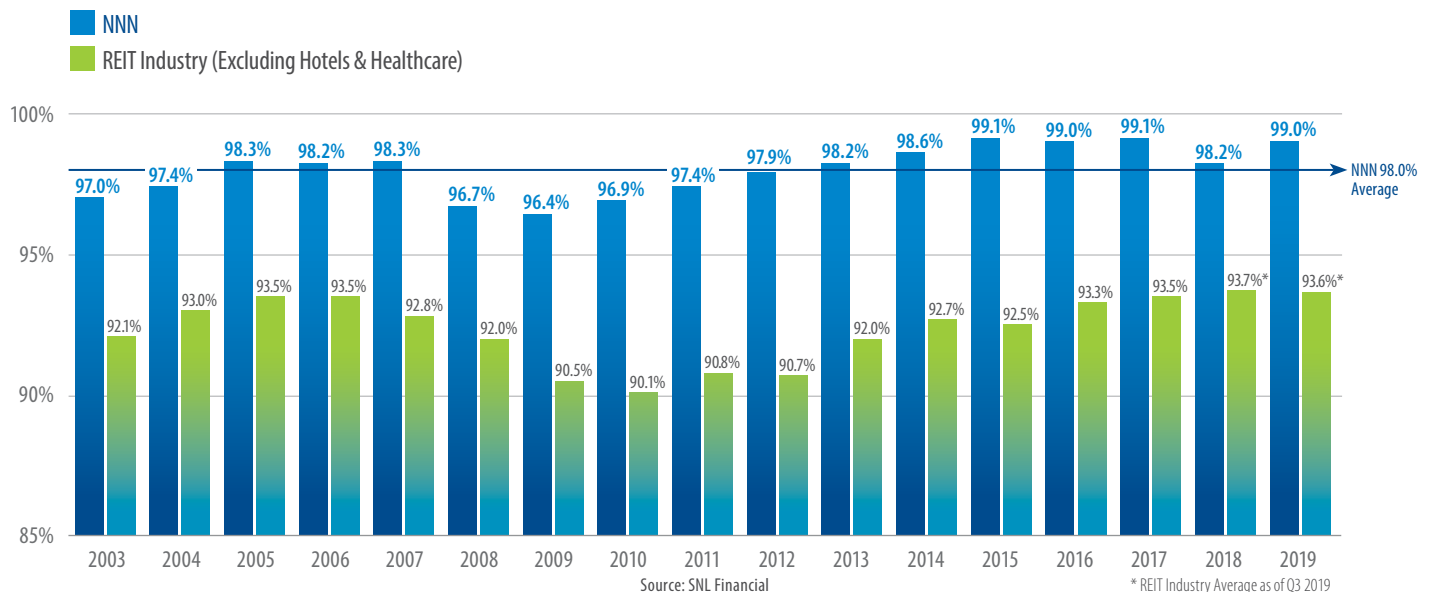
**CONSISTENT CASH FLOW FROM HIGH OCCUPANCY**

Our leases are typically 10 to 20 years in duration, and generally include rent escalations of 1.5% to 2% per year. This commitment to long lease duration differentiates National Retail Properties from many of our peers. Moreover, retailers generally do not want to relocate their stores at the end of the lease, which results in an historical long-term tenant renewal rate of 80-90% for our portfolio, all without material investment in lease incentives or tenant improvement dollars.

Our long-term occupancy rate has been consistently in the 97-99% range, and we are pleased to be at 99% as of the end of 2019.

Combined, these factors create a VERY steady, consistent, high-quality income stream which we believe is far superior to the other, more variable, income streams from shopping centers, malls, office buildings and other commercial property types.

**NNN'S STRATEGY RESULTS IN HIGHER OCCUPANCY, LESS VOLATILITY**







## RELATIONSHIP-FOCUSED ACQUISITION STRATEGY

One of the strategic moats around our business is our focus on building and maintaining deep relationships with our portfolio of large regional and national tenants. Over the past three years we have done business with more than 40 relationship tenants, investing over \$1.825 billion, and with those tenants, we develop a comprehensive win-win culture. To our tenants, a recurring relationship with National Retail Properties means reliability, certainty, and creative problem-solving, as well as all the benefits that come from having a professional landlord that is a long-term holder, with effectively no property level debt or joint ventures.

Of our \$752.5 million of total acquisitions in 2019, more than 80% of that amount was with a group of almost three dozen relationship tenants.

These tenant relationships take years to develop and involve tremendous effort across our entire company, but it is worth it. When we acquire properties directly from our relationship tenants, the tenant only wants to sign a long-term lease on a property in which it is confident of success, and thus we typically get the tenants' better properties. Our value proposition also enables us to typically obtain better-than-market yields, with a lease document that is tailored to our requirements. All of these beneficial factors support our high occupancy and high lease-renewal statistics.



### SHIRA MATISAK

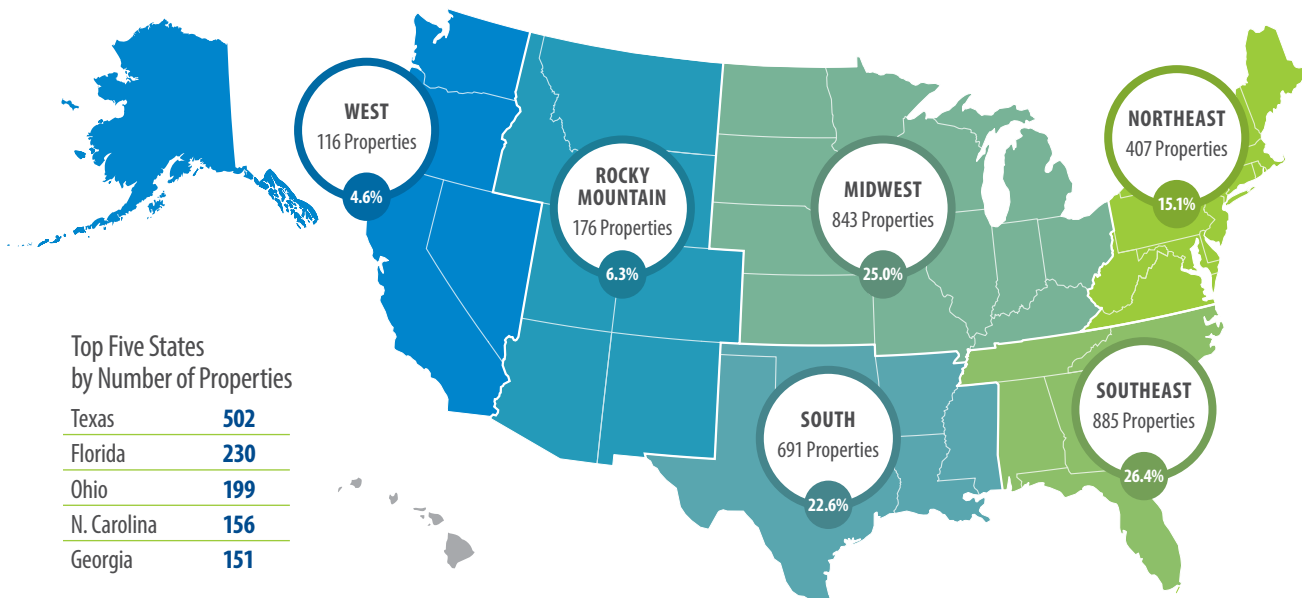
Human Resources Generalist

Our associates truly care about the communities where we live and work. We have longstanding relationships with several outstanding organizations including the Ronald McDonald House, the Boys and Girls Club of Central Florida, Elevate Orlando and others that make Orlando a better place to live. Our associates are actively volunteering and we organize several group volunteer days where they have opportunities to do everything from mentoring students to preparing, baking and serving meals to families.

## NATIONWIDE REACH

(As a percentage of annualized base rent as of December 31, 2019)

**3,118** Properties  
**400+** Tenants  
**30+** Lines of Trades





## STEVE HORN

Executive Vice President  
& Chief Acquisitions Officer

More than 80 percent of our dollars invested in 2019 were with relationship tenants. That gives us a built-in source for new properties in any given year. These acquisitions typically range from buildings that have existed and been on the operators' books for some time to newer buildings – or buildings still under construction – that they are looking to monetize. Sometimes one of our relationship tenants is acquiring another company and they use the real estate of the target company as part of their capital structure for that acquisition. In all of these cases, we've built and maintained years-long relationships that keep us very much in the conversation as these opportunities come to light.

## MAINTAIN A STRONG BALANCE SHEET AND ACCESS TO CAPITAL

Our longstanding philosophy is to operate with low leverage and to maintain access to all sources of capital, which has resulted in a fortress-like balance sheet. We are constantly monitoring the capital markets and ready to source capital when it is available and well-priced. That may mean some short term dilution, but it is absolutely the right approach to creating long-term shareholder value.

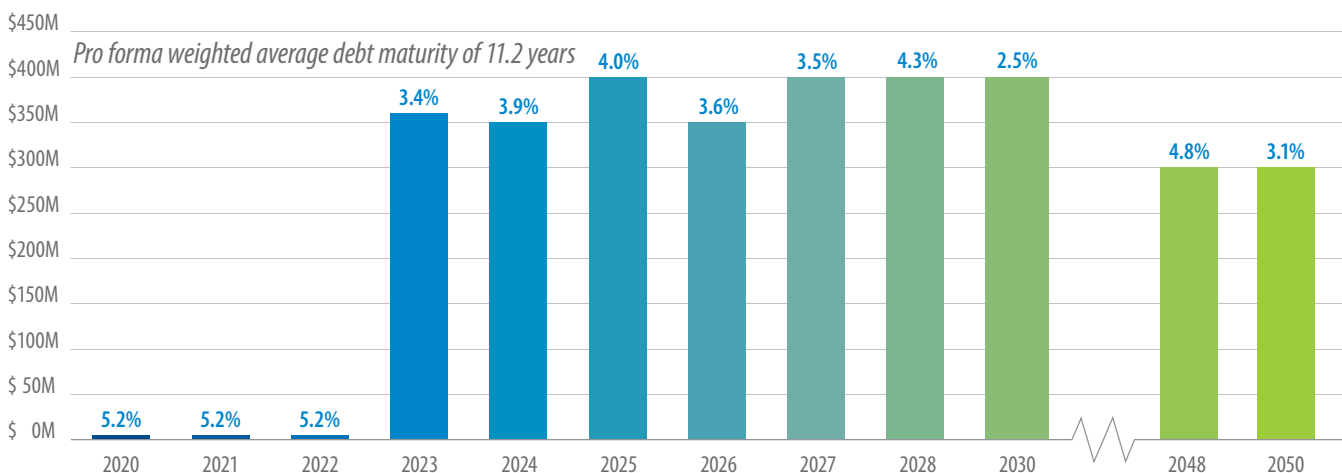
This approach is highlighted by our very successful overnight offering in the fall of 2019. As our common stock hovered around its 35-year high, we executed a highly oversubscribed overnight offering, raising almost \$400 million from the issuance of seven million shares at a compelling price of \$56.50 per share. We subsequently utilized \$288 million of those issuance proceeds to redeem our 5.7% Series E preferred stock, making us one of a very few REITs which has ever accretively redeemed preferred equity with common equity.

Our debt maturities are staggered over many years, minimizing exposure to interest rate spikes. As a result of our recently completed 10- and 30-year debt offerings and the announced 2022 note redemption in the first quarter of 2020, our weighted average debt duration will be 11 years, and the next material debt maturity is not until 2023. As we enter this new decade, our balance sheet is in as good a shape as it has ever been in, which positions us well to continue our acquisitions regardless of any possible choppiness in 2020's capital markets.

## WELL-LADDERED DEBT MATURITIES

(Pro forma as of December 31, 2019 – reflecting February 2020 issuance of 2030 and 2050 Notes and March 2020 redemption of \$325 million of 3.8% Notes due 2022; percentages shown are stated interest rates)

NNN's low leverage balance sheet strategy is enhanced by its well-laddered debt maturities.









I also want to highlight the strategic advantage of our disposition platform and execution. We own a deep pool of properties which can be sold individually into the private market at cap rates well below our current investment yields. Thus, we have another source of capital to accretively fund acquisitions, without the need to issue equity and grow our share count. Our property dispositions are primarily handled in-house by our own team, minimizing brokerage commissions and further keeping our “finger on the pulse of the market”. In 2019, we raised \$126 million from dispositions of 59 properties at an average cap rate of 5.9%. The fact that our average sale cap rate was meaningfully lower than our 6.9% average acquisition cap rate validates the strategic advantage of being able to create shareholder value by accretively recycling disposition proceeds.

## CORE COMPETENCY AS A REAL ESTATE COMPANY

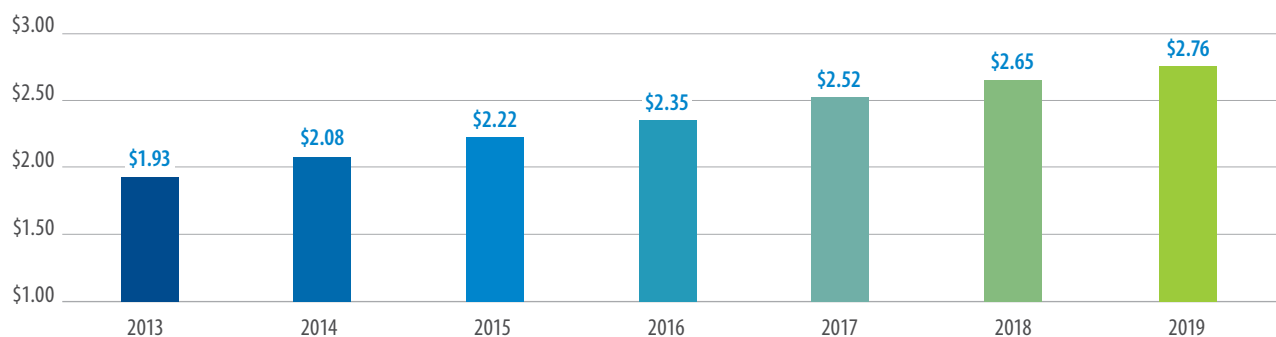
At our core, National Retail Properties is a real estate company focused exclusively on single tenant retail properties. Our properties tend to have strong retail real estate characteristics. They are generally located along high traffic roads with good visibility, access and signage. Our tenants are strong regional and national operators, engaged in businesses that focus on customer services, customer experiences, and e-commerce resistant consumer necessities.

Our underwriting of each new investment property includes a personal site visit and a thorough review of the market, including market rents and potential re-uses of the property. By keeping the rent as low as possible on our properties, we make it easier for the tenant to succeed at that location and we make it easier for ourselves to replace the rent if the property goes vacant.



## CORE FFO PER SHARE GROWTH

2013 - 2019 Compounded Annual Growth Rate of 6.14%





## JAY WHITEHURST

President and  
Chief Executive Officer

### COVID-19 Novel Coronavirus Commentary

*As this annual report is going to press, the coronavirus is just starting to spread across the U.S. and affect businesses and their customers. While there are too many unknowns to allow for predictions about the effect this will have on our tenants or our portfolio, there are certain core facts that bear repeating. Our top priority is the health, safety and welfare of our associates. And as you have heard many times, our business is built for a marathon. It is in moments like these that our historically stable dividend, strong balance sheet and strict underwriting prove most valuable. There is no doubt that some of our tenants will struggle over the short term, but our portfolio has withstood tough times before. We believe our conservative balance sheet provides us with a margin of safety to get us through choppy markets. While the coronavirus and related market disruption will affect all businesses, we anticipate that National Retail Properties is better positioned than most REITs to handle this unexpected event.*

Our asset management and leasing teams wake up every day thinking about how to create additional value from our portfolio. Nearby is a brief story of one property which highlights our high level of real estate expertise. We believe that this commitment to maintaining a true real-estate-focused culture, (versus a culture of buying high volumes of properties while using desktop tools), sets us apart from many REITs and aligns us perfectly with the goal of creating shareholder value via a long-term stable income stream.

## CONSISTENCY

As we've said before, the best word to describe National Retail Properties is "consistent." We maintain a consistent investment focus on single tenant retail properties. We have consistency of people and culture. We consistently raised the dividend for 30 consecutive years. We consistently maintained a conservative balance sheet philosophy that gives us flexibility and dry powder. And we have consistently generated mid-single digits per share growth on a multi-year basis.

As we look ahead to 2020, you should expect our execution to continue to follow these themes, which we believe will continue to produce a total shareholder return that will exceed the REIT averages over the long-term, while continuing to take below-average risk.

On behalf of the board of directors and all the dedicated associates at National Retail Properties, thank you for your investment, your trust and your continued support.

Best regards,

Julian E. (Jay) Whitehurst  
President and Chief Executive Officer

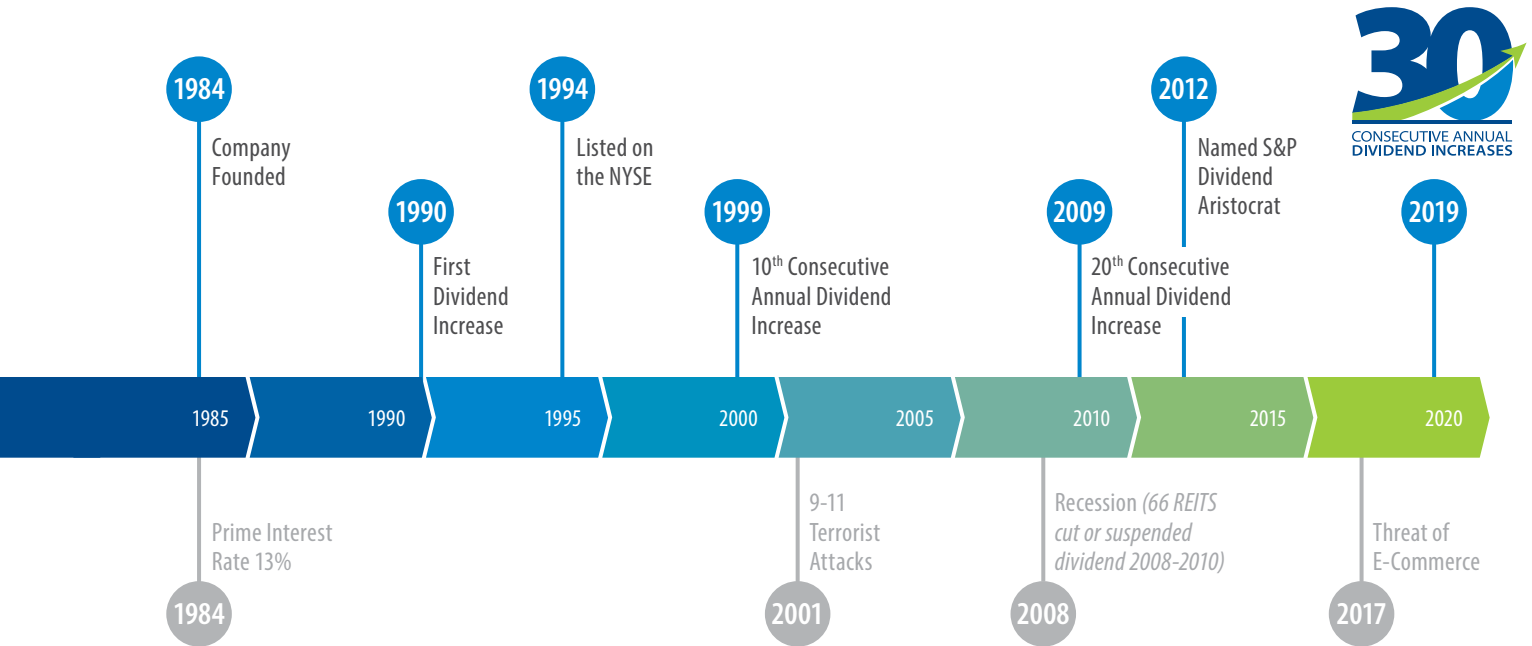






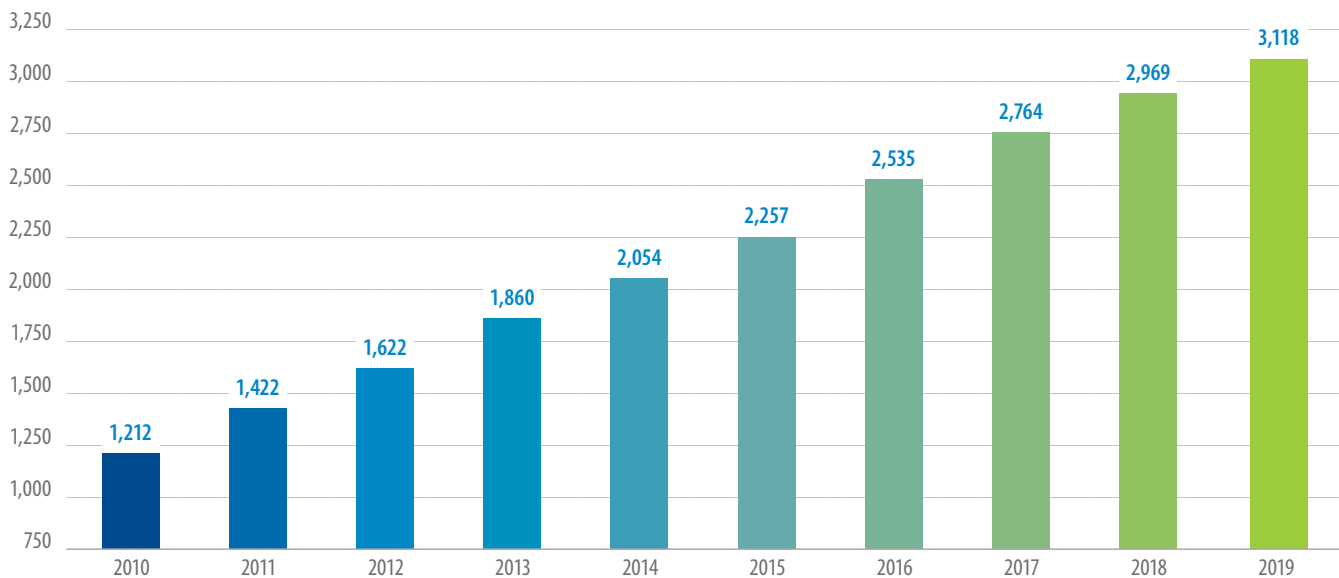
# NNN THROUGH 35 YEARS

Holding steadfast to conservative balance sheet and risk-averse investing philosophies has enabled NNN to remain consistently well-positioned through various market disruptions.



## PORTFOLIO GROWTH

(Number of properties owned as of December 31 for each respective year)



# HISTORICAL FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data)

|   | 2019        | 2018        | 2017        | 2016        | 2015        |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>GROSS REVENUES<sup>(1)</sup></b>   | \$ 673,599  | \$ 624,471  | \$ 585,255  | \$ 533,817  | \$ 483,025  |
| <b>EARNINGS FROM CONTINUING OPERATIONS</b>                                    | 299,608     | 292,485     | 265,371     | 239,506     | 197,961     |
| <b>NET EARNINGS</b>   | 299,608     | 292,485     | 265,371     | 239,506     | 197,961     |
| <b>NET EARNINGS ATTRIBUTABLE TO NNN</b>                                       | 299,180     | 292,447     | 264,973     | 239,500     | 197,836     |
| <b>TOTAL ASSETS</b>   | 7,434,867   | 7,103,438   | 6,560,534   | 6,334,151   | 5,460,044   |
| <b>TOTAL DEBT</b>   | 2,988,357   | 2,851,395   | 2,580,207   | 2,311,689   | 1,975,944   |
| <b>TOTAL STOCKHOLDERS' EQUITY OF NNN</b>                                      | 4,331,675   | 4,154,250   | 3,840,593   | 3,916,799   | 3,342,134   |
| <b>CASH DIVIDENDS DECLARED TO:</b>  |             |             |             |             |             |
| Common stockholders   | 333,692     | 303,164     | 277,120     | 257,007     | 228,699     |
| Series D preferred stockholders   | —           | —           | 3,598       | 19,047      | 19,047      |
| Series E preferred stockholders   | 13,201      | 16,387      | 16,387      | 16,387      | 16,387      |
| Series F preferred stockholders   | 17,940      | 17,940      | 17,940      | 3,189       | —           |
| <b>WEIGHTED AVERAGE COMMON SHARES:</b>  |             |             |             |             |             |
| Basic   | 164,688,498 | 155,744,601 | 149,111,188 | 144,176,224 | 133,998,674 |
| Diluted   | 165,083,679 | 156,295,619 | 149,432,641 | 144,660,633 | 134,489,416 |
| <b>PER SHARE INFORMATION:</b>   |             |             |             |             |             |
| Earnings from continuing operations and net earnings:                         |             |             |             |             |             |
| Basic   | \$ 1.56     | 1.65        | \$ 1.45     | \$ 1.39     | \$ 1.21     |
| Diluted   | 1.56        | 1.65        | 1.45        | 1.38        | 1.20        |
| Cash dividends declared per share to:   |             |             |             |             |             |
| Common stockholders   | 2.03        | 1.95        | 1.86        | 1.78        | 1.71        |
| Series D preferred depositary stockholders                                    | —           | —           | 0.312847    | 1.656250    | 1.656250    |
| Series E preferred depositary stockholders                                    | 1.147917    | 1.425000    | 1.425000    | 1.425000    | 1.425000    |
| Series F preferred depositary stockholders                                    | 1.300000    | 1.300000    | 1.300000    | 0.231111    | —           |
| <b>OTHER DATA:</b>  |             |             |             |             |             |
| Cash flows provided by (used in):   |             |             |             |             |             |
| Operating activities  | \$ 501,727  | 471,909     | \$ 421,557  | \$ 415,337  | \$ 341,095  |
| Investing activities  | (619,408)   | (609,371)   | (625,557)   | (779,943)   | (644,544)   |
| Financing activities  | 4,526       | 250,365     | (89,176)    | 644,886     | 307,105     |
| <b>FUNDS FROM OPERATIONS – AVAILABLE TO COMMON STOCKHOLDERS<sup>(2)</sup></b> | 446,661     | 395,337     | 359,179     | 330,544     | 289,193     |

<sup>(1)</sup> Gross revenues include the aggregate of total revenue and interest and other income found on the Consolidated Statements of Income and Comprehensive Income.

<sup>(2)</sup> The National Association of Real Estate Investment Trusts ("NAREIT") developed Funds from Operations ("FFO") as a relative non-U.S. generally accepted accounting principles ("GAAP") financial measure of performance of a REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is defined by NAREIT and is used by NNN as follows: net earnings (computed in accordance with GAAP) plus depreciation and amortization of real estate assets, excluding gains (or including losses) and any applicable taxes and non-controlling interests on the disposition of certain assets, any impairment charges on a depreciable real estate asset and NNN's share of these items from NNN's unconsolidated partnerships and joint ventures.





## THE STAYING POWER OF STRONG RETAIL REAL ESTATE CHARACTERISTICS

At NNN, we have long recognized the importance of good real estate locations. Many times, the difference between what is considered an 'A' retail location and a 'B' location is as little as 300 feet. With the right retail real estate characteristics — such as being at or near a signalized intersection and providing easy access for customers — a good location will outlast even the original retail tenant. An example of that is our location in Altamonte Springs, Florida.

Originally part of a citrus produce operation, the property at the northeast corner of Forest City Road (FL State Road 434) and Semoran Boulevard (FL State Road 436) became a Scotty's lumber and hardware store in 1979. We acquired the property in 1996 and redeveloped the site into an OfficeMax, which leased the property until 2015. Today, the parcel is home to both Walgreen's and a PDQ restaurant. Throughout those transitions, the strong retail real estate characteristics endured and drew the next generation of retailers to the site.

Chief Investment Officer Paul Bayer, who oversees the NNN portfolio, said: ***"While our tenants are very important, we remain deeply focused on the underlying real estate. It is important to make sure that the underlying real estate has strong fundamentals, which should preserve and most likely increase the value of the real estate over time. Strong demographics, good access, visibility and high traffic counts, all characteristics of the site in Altamonte Springs, are critical for maintaining/increasing the value of our portfolio. Sites like this generate strong interest when they become available based on their location. This interest, coupled with our expertise in construction and development, allows us to redevelop the property to secure the tenants that will give us the best possible return on our investment."***

In this case, the best possible return has come from redeveloping this strong retail corner location. If that same strategy is called for again at this location 30 or 40 years from now, we are ready to do it again.

# CORPORATE RESPONSIBILITY

National Retail Properties takes seriously our responsibility to all of our stakeholders and our community.

NNN is focused on achieving success for our shareholders, providing a world class working environment for our associates, enriching our community and maximizing the preservation of environmental resources. We do this not just because it is the right thing to do, but because it is critical to the long-term success of our shareholders, associates and community.



## OUR PEOPLE

- We promote a healthy work-life balance and wellness
- We offer competitive market-based pay, bonuses and long-term incentives
- We encourage continued professional and personal development through hundreds of hours of training



## OUR ETHICS

- We operate with the highest ethical standards and best-in-class corporate governance standards
- We've adopted a set of Guiding Principles, which include our Corporate Governance Guidelines, Code of Business Conduct Policy and Whistleblower Policy. All associates are required to annually acknowledge they have read and will comply with these policies.



## OUR ENVIRONMENT

- We are committed to good stewardship of the environment both at our headquarters and at our properties across the country
- Our headquarters building is EPA Energy Star certified
- We utilize environmentally friendly and energy efficient lighting, water usage and single stream recycling



## OUR COMMUNITY

- We encourage associate volunteerism and philanthropy
- We partner with leading area charities providing mentoring, monetary donations and associate volunteer days

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-11290

**NATIONAL RETAIL PROPERTIES, INC.**

(Exact name of registrant as specified in its charter)

Maryland

56-1431377

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

450 South Orange Avenue, Suite 900

Orlando, Florida 32801

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (407) 265-7348

Securities registered pursuant to Section 12(b) of the Act:

| <i>Title of each class:</i>  | <i>Trading Symbol(s)</i> | <i>Name of exchange on which registered:</i> |
|--|--------------------------|--|
| Common Stock, \$0.01 par value   | NNN                      | New York Stock Exchange                      |
| Depository Shares, each representing one-hundredth of a share of 5.200% Series F Preferred Stock, \$0.01 par value | NNN/PF                   | New York Stock Exchange                      |

Securities registered pursuant to section 12(g) of the Act:

None  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

At June 30, 2019, the aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant was \$8,616,156,714 based upon the last reported sale price on the New York Stock Exchange on June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter. The determination of affiliate status is solely for the purpose of this report and shall not be construed as an admission for the purposes of determining affiliate status.

The number of shares of common stock outstanding as of January 31, 2020 was 171,697,831.

***DOCUMENTS INCORPORATED BY REFERENCE:***

Registrant incorporates by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K portions of National Retail Properties, Inc.'s definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission (the "Commission") pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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## PART I

*Unless the context otherwise requires, references in this Annual Report on Form 10-K to the terms “registrant” or “NNN” or the “Company” refer to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN may elect to treat certain subsidiaries as taxable real estate investment trust subsidiaries, (“TRS”).*

### Forward-Looking Statements

Statements contained in this Annual Report on Form 10-K, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). Also, when NNN uses any of the words “anticipate,” “assume,” “believe,” “estimate,” “expect,” “intend,” or similar expressions, NNN is making forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are based upon present expectations and reasonable assumptions, NNN’s actual results could differ materially from those set forth in the forward-looking statements. Further, forward-looking statements speak only as of the date they are made, and NNN undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time, unless required by law. The following are some of the risks and uncertainties, although not all risks and uncertainties, that could cause our actual results to differ materially from those presented in our forward-looking statements:

- Changes in financial and economic conditions may have an adverse impact on NNN, its tenants, and commercial real estate in general;
- Loss of rent from tenants would reduce NNN’s cash flow;
- A significant portion of NNN’s annual base rent is concentrated in specific industry classifications, tenants and geographic locations;
- NNN may not be able to successfully execute its acquisition or development strategies;
- NNN may not be able to dispose of properties consistent with its operating strategy;
- Certain provisions of NNN’s leases or loan agreements may be unenforceable;
- Competition from numerous other real estate investment trusts (“REIT”), commercial developers, real estate limited partnerships and other investors may impede NNN’s ability to grow;
- NNN’s loss of key management personnel could adversely affect performance and the value of its securities;
- Uninsured losses may adversely affect NNN’s operating results and asset values;
- NNN’s ability to fully control the management of its net-leased properties may be limited;
- Vacant properties or bankrupt tenants could adversely affect NNN’s business or financial condition;
- NNN’s failure to maintain effective internal control over financial reporting could have a material adverse effect on its business, operating results and the market value of NNN’s securities;
- Cybersecurity risks and cyber incidents could adversely affect NNN’s business, disrupt operations and expose NNN to liabilities to tenants, employees, capital providers, and other third parties;
- Future investment in international markets could subject NNN to additional risks;
- NNN may suffer a loss in the event of a default or bankruptcy of a tenant or borrower;
- Property ownership through joint ventures and partnerships could limit NNN’s control of those investments;
- Acts of violence, terrorist attacks or war may affect the markets in which NNN operates and NNN’s results of operations;
- Changes in accounting pronouncements could adversely impact NNN’s or NNN’s tenants’ reported financial performance;
- NNN may be unable to obtain debt or equity capital on favorable terms, if at all;
- The amount of debt NNN has and the restrictions imposed by that debt could adversely affect NNN’s business and financial condition;
- NNN is obligated to comply with financial and other covenants in its debt instruments that could restrict its operating activities, and the failure to comply with such covenants could result in defaults that accelerate the payment of such debt;
- The market value of NNN’s equity and debt securities is subject to various factors that may cause significant fluctuations or volatility;
- NNN’s ability to pay dividends in the future is subject to many factors;
- The phase-out of LIBOR could affect interest rates under NNN’s variable rate debt;
- Owning real estate and indirect interests in real estate carries inherent risks;
- NNN’s real estate investments are illiquid;
- NNN may be subject to known or unknown environmental liabilities and hazardous materials on Properties owned by NNN;

- The cost of complying with changes in governmental laws and regulations may adversely affect NNN's results of operations;
- NNN's failure to qualify as a REIT for federal income tax purposes could result in significant tax liability;
- Even if NNN remains qualified as a REIT, NNN faces other tax liabilities that reduce operating results and cash flow;
- Adverse legislative or regulatory tax changes could reduce NNN's earnings and cash flow and the market value of NNN's securities; and
- Compliance with REIT requirements, including distribution requirements, may limit NNN's flexibility and may negatively affect NNN's operating decisions;
- The share ownership restrictions of the Internal Revenue Code for REITs and the 9.8% share ownership limit in NNN's charter may inhibit market activity in NNN's shares of stock and restrict NNN's business combination opportunities; and
- Non-compliance with Title III of the Americans with Disabilities Act of 1990 could have an adverse effect on NNN's business and operating results.

In addition, NNN describes risks and uncertainties that could cause actual results and events to differ materially in "Risk Factors" (Part I, Item 1A of this Annual Report on Form 10-K), "Quantitative and Qualitative Disclosures about Market Risk" (Part II, Item 7A), and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" (Part II, Item 7).

## **Item 1. Business**

### The Company

NNN, a Maryland corporation, is a fully integrated REIT formed in 1984. NNN's assets are primarily real estate assets. NNN's consolidated financial statements are included in Item 8 of this Annual Report on Form 10-K.

The common shares of National Retail Properties, Inc. are traded on the New York Stock Exchange (the "NYSE") under the ticker symbol "NNN." The Company has one series of preferred shares outstanding which is traded in the form of depositary shares: the depositary shares, each representing 1/100<sup>th</sup> of a share of 5.200% Series F Cumulative Redeemable Preferred Stock, par value \$0.01 per share ("Series F Preferred Stock"), are traded on the NYSE under the symbol "NNN/PF."

### *Real Estate Assets*

NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and are primarily held for investment ("Properties" or "Property Portfolio," or individually a "Property"). NNN owned 3,118 Properties with an aggregate gross leasable area of approximately 32,460,000 square feet, located in 48 states, with a weighted average remaining lease term of 11.2 years as of December 31, 2019. Approximately 99 percent of the Properties were leased as of December 31, 2019.

### *Competition*

NNN faces active competition from many sources, both domestically and internationally, for net-lease investment opportunities in commercial properties. Competitors may be willing to accept rates of return, prices, lease terms, other transaction terms, or levels of risk that NNN finds unacceptable.

### *Employees*

As of January 31, 2020, NNN employed 70 associates.

### Business Strategies and Policies

The following is a discussion of NNN's operating strategy and certain of its investment, financing and other policies. These strategies and policies have been set by management and the Board of Directors and, in general, may be amended or revised from time to time by management and the Board of Directors without a vote of NNN's stockholders.



## *Operating Strategies*

NNN's strategy is to invest primarily in retail real estate that is typically well located within each local market for its tenants' retail lines of trade. Management believes that these types of properties, generally leased pursuant to triple-net leases, provide attractive opportunities for stable current returns and the potential for increased returns and capital appreciation. Triple-net leases typically require the tenant to pay property operating expenses such as insurance, utilities, repairs, maintenance, capital expenditures and real estate taxes and assessments. Initial lease terms are generally 10 to 20 years.

NNN holds each Property until it determines that the sale of such Property is advantageous in view of NNN's investment objectives. In deciding whether to sell a Property, factors NNN may consider include, but are not limited to, potential capital appreciation, net cash flow, tenant credit quality, tenant's line of trade, portfolio composition, market lease rates, local market conditions, future uses of the Property, potential use of sale proceeds and federal income tax considerations.

NNN's management team focuses on certain key indicators to evaluate the financial condition and operating performance of NNN. These key indicators for NNN include items such as: the composition of the Property Portfolio (such as tenant, geographic and line of trade diversification), the occupancy rate of the Property Portfolio, certain financial performance ratios and profitability measures, industry trends, and industry performance compared to that of NNN.

NNN evaluates the creditworthiness of its current and prospective tenants. This evaluation may include reviewing available financial statements, store level financial performance, press releases, public credit ratings from major credit rating agencies, industry news publications and financial market data (debt and equity pricing). NNN may also evaluate the business and operations of its tenants, including past payment history and periodically meeting with senior management of certain tenants.

The operating strategies employed by NNN have allowed NNN to increase the annual dividend (paid quarterly) per common share for 30 consecutive years. NNN is one of only three publicly traded REITs to increase its annual dividend per common share for 30 or more consecutive years.

## *Investment in Real Estate or Interests in Real Estate*

NNN's management believes that single tenant, freestanding net lease retail properties will continue to provide attractive investment opportunities and that NNN is well suited to take advantage of these opportunities because of its experience in accessing capital markets, and its ability to source, underwrite and acquire such properties.

In evaluating a particular acquisition, management may consider a variety of factors, including but not limited to:

- the location, visibility and accessibility of the property,
- the geographic area and demographic characteristics of the community,
- the local real estate market conditions, including potential for growth, redevelopment, market rents, and existing or potential competing properties or retailers,
- the size, age and title status of the property,
- the quality of construction and design and the current physical condition of the property,
- the potential for, and current extent of, any environmental problems,
- the purchase price,
- the non-financial lease terms of the proposed acquisition,
- the availability of funds or other consideration for the proposed acquisition and the cost thereof,
- the compatibility of the property with NNN's existing Property Portfolio,
- the property-level operating history,
- the financial and other characteristics of the existing tenant,
- the tenant's business plan, operating history and management team,
- the tenant's industry,
- the terms of any lease,
- the rent to be paid by the tenant,
- any existing indebtedness encumbering the property which may be assumed in connection with acquiring or refinancing these investments, and
- the merits relative to other opportunities.

NNN intends to engage in future investment activities in a manner that is consistent with the maintenance of its status as a REIT for federal income tax purposes. Additionally, NNN does not intend to engage in activities that will make NNN an investment company under the Investment Company Act of 1940, as amended.

## *Investments in Real Estate Mortgages and Securities of or Interests in Entities Engaged in Real Estate Activities*

While NNN's primary business objectives emphasize retail properties, NNN may invest in (i) a wide variety of property and tenant types, (ii) leases, mortgages and other types of real estate interests, (iii) loans secured by personal property, (iv) loans secured by partnership or membership interests in partnerships or limited liability companies, respectively, or (v) securities of other REITs, or other issuers, including for the purpose of exercising control over such entities.

### *Financing Strategy*

NNN's financing objective is to manage its capital structure effectively in order to provide sufficient capital to execute its operating strategies while servicing its debt requirements and providing value to its stockholders. NNN generally utilizes debt and equity security offerings, bank borrowings, proceeds from the sale of Properties, and to a lesser extent, internally generated funds to meet its capital needs.

NNN typically funds its short-term liquidity requirements including investments in additional properties with advances from its \$900,000,000 unsecured revolving credit facility ("Credit Facility"). As of December 31, 2019, \$133,600,000 was outstanding and \$766,400,000 was available for future borrowings under the Credit Facility.

As of December 31, 2019, NNN's ratio of total debt to total gross assets (before accumulated depreciation and amortization) was approximately 35 percent and the ratio of secured indebtedness to total gross assets was less than one percent. The ratio of total debt to total market capitalization was approximately 25 percent. Certain financial agreements contain covenants that limit NNN's ability to incur additional debt under certain circumstances.

NNN anticipates it will be able to obtain additional financing for short-term and long-term liquidity requirements as further described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity." However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to NNN.

The organizational documents of NNN do not limit the absolute amount or percentage of indebtedness that NNN may incur. Additionally, NNN may change its financing strategy at any time.

### *Strategies and Policy Changes*

Any of NNN's strategies or policies described above may be changed at any time by NNN without notice to or a vote of NNN's stockholders.

### Property Portfolio

As of December 31, 2019, NNN owned 3,118 Properties with an aggregate gross leasable area of approximately 32,460,000 square feet, located in 48 states, with a weighted average remaining lease term of 11.2 years. Approximately 99 percent of total Properties were leased as of December 31, 2019.

The following table summarizes the Property Portfolio as of December 31, 2019 (in thousands):

|          | Size <sup>(1)</sup> |     |         | Total Dollars Invested <sup>(2)</sup> |      |         |
|----------|---------------------|-----|---------|---------------------------------------|------|---------|
|          | High                | Low | Average | High                                  | Low  | Average |
| Land     | 6,586               | 5   | 103     | \$ 11,899                             | \$ 5 | \$ 814  |
| Building | 179                 | 1   | 11      | 45,286                                | 19   | 1,938   |

<sup>(1)</sup> Approximate square feet.

<sup>(2)</sup> Costs vary depending upon size, improvements, local market conditions and other factors.

As of December 31, 2019, NNN has committed to fund construction on 19 Properties. The improvements on such Properties are estimated to be completed within 12 months. These construction commitments, as of December 31, 2019, are outlined in the table below (dollars in thousands):

|                                 |                  |
|---------------------------------|------------------|
| Total commitment <sup>(1)</sup> | \$ 75,927        |
| Less amount funded              | 44,368           |
| Remaining commitment            | <u>\$ 31,559</u> |

(1) Includes land, construction costs, tenant improvements, lease costs and capitalized interest.

## Leases

The following is a summary of the general structure of the leases in the Property Portfolio, although the specific terms of each lease can vary significantly. Generally, the Property leases provide for initial terms of 10 to 20 years. As of December 31, 2019, the weighted average remaining lease term of the Property Portfolio was approximately 11.2 years. The Properties are generally leased under triple-net leases, which require the tenant to pay all property taxes and assessments, to maintain the interior and exterior of the property, and to carry property and liability insurance coverage. NNN's leases provide for annual base rental payments (generally payable in monthly installments) ranging from \$6,000 to \$3,714,000 (average of \$215,000), and generally provide for increases in rent as a result of (i) increases in the Consumer Price Index ("CPI"), (ii) fixed increases, or, to a lesser extent, (iii) increases in the tenant's sales volume.

Generally, NNN's leases provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions provided under the initial lease term. Some of the leases also provide that in the event NNN wishes to sell the Property subject to that lease, NNN first must offer the lessee the right to purchase the Property on the same terms and conditions as any offer which NNN intends to accept for the sale of the Property.

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of the Property Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2019:

|      | % of Annual Base Rent <sup>(1)</sup> | # of Properties | Gross Leasable Area <sup>(2)</sup> |            | % of Annual Base Rent <sup>(1)</sup> | # of Properties | Gross Leasable Area <sup>(2)</sup> |
|------|--------------------------------------|-----------------|------------------------------------|------------|--------------------------------------|-----------------|------------------------------------|
| 2020 | 1.7%                                 | 66              | 688,000                            | 2026       | 4.5%                                 | 174             | 1,672,000                          |
| 2021 | 3.5%                                 | 115             | 1,253,000                          | 2027       | 7.1%                                 | 194             | 2,582,000                          |
| 2022 | 5.5%                                 | 123             | 1,634,000                          | 2028       | 4.5%                                 | 153             | 1,158,000                          |
| 2023 | 2.9%                                 | 118             | 1,471,000                          | 2029       | 3.0%                                 | 75              | 1,030,000                          |
| 2024 | 3.7%                                 | 100             | 1,600,000                          | Thereafter | 58.3%                                | 1,799           | 16,880,000                         |
| 2025 | 5.3%                                 | 167             | 1,850,000                          |            |                                      |                 |                                    |

<sup>(1)</sup> Based on annualized base rent for all leases in place as of December 31, 2019.

<sup>(2)</sup> Approximate square feet.

The following table summarizes the diversification of the Property Portfolio based on the top 10 lines of trade:

| Top 10 Lines of Trade                                  | % of Annual Base Rent <sup>(1)</sup> |               |               |
|--|--------------------------------------|---------------|---------------|
|  | 2019                                 | 2018          | 2017          |
| 1. Convenience stores                                  | 18.2%                                | 18.0%         | 18.1%         |
| 2. Restaurants - full service                          | 11.1%                                | 11.4%         | 12.1%         |
| 3. Automotive service                                  | 9.6%                                 | 8.6%          | 6.9%          |
| 4. Restaurants - limited service                       | 8.8%                                 | 8.9%          | 7.6%          |
| 5. Family entertainment centers                        | 6.7%                                 | 7.1%          | 6.4%          |
| 6. Health and fitness                                  | 5.2%                                 | 5.6%          | 5.6%          |
| 7. Theaters  | 4.7%                                 | 5.0%          | 4.8%          |
| 8. Recreational vehicle dealers, parts and accessories | 3.4%                                 | 3.4%          | 3.4%          |
| 9. Automotive parts                                    | 3.1%                                 | 3.4%          | 3.6%          |
| 10. Equipment rental                                   | 2.6%                                 | 1.9%          | 2.0%          |
| Other  | 26.6%                                | 26.7%         | 29.5%         |
|  | <u>100.0%</u>                        | <u>100.0%</u> | <u>100.0%</u> |

<sup>(1)</sup> Based on annualized base rent for all leases in place as of December 31 of the respective year.

The following table summarizes the diversification of the Property Portfolio by state as of December 31, 2019:

|     | State          | # of Properties | % of Annual Base Rent <sup>(1)</sup> |
|-----|----------------|-----------------|--------------------------------------|
| 1.  | Texas          | 502             | 17.6%                                |
| 2.  | Florida        | 230             | 8.8%                                 |
| 3.  | Ohio           | 199             | 5.8%                                 |
| 4.  | Illinois       | 142             | 5.0%                                 |
| 5.  | Georgia        | 151             | 4.5%                                 |
| 6.  | North Carolina | 156             | 4.5%                                 |
| 7.  | Indiana        | 146             | 4.0%                                 |
| 8.  | Tennessee      | 142             | 3.8%                                 |
| 9.  | Virginia       | 117             | 3.6%                                 |
| 10. | California     | 65              | 3.3%                                 |
|     | Other          | 1,268           | 39.1%                                |
|     |                | <u>3,118</u>    | <u>100.0%</u>                        |

(1) Based on annualized base rent for all leases in place as of December 31, 2019.

As of December 31, 2019, NNN did not have any tenant that accounted for ten percent or more of its rental income.

#### Governmental Regulations Affecting Properties

*Property Environmental Considerations.* Subject to a determination of the level of risk and potential cost of remediation, NNN may acquire a property where some level of environmental contamination may exist. Investments in real property create a potential for substantial environmental liability for the owner of such property from the presence or discharge of hazardous materials on the property or the improper disposal of hazardous materials emanating from the property, regardless of fault. In order to mitigate exposure to environmental liability, NNN maintains an environmental insurance policy which provides some coverage for substantially all of the Properties. As a part of its acquisition due diligence process, NNN obtains an environmental site assessment for each property. In such cases where NNN intends to acquire a property where some level of contamination may exist, NNN generally requires the seller or tenant to (i) remediate the problem, (ii) indemnify NNN for environmental liabilities, and/or (iii) agree to other arrangements deemed appropriate by NNN, including, under certain circumstances, the purchase of environmental insurance to address environmental conditions at the property. NNN may incur costs if the seller or tenant does not comply with these requirements.

As of February 4, 2020, NNN has 73 Properties currently under some level of environmental remediation and/or monitoring. In general, the responsible party (which may include the seller, a previous owner, the tenant or an adjacent or former land owner) is liable for the cost of the environmental remediation for each of these Properties.

*Americans with Disabilities Act of 1990.* The Properties, as commercial facilities, are required to comply with Title III of the Americans with Disabilities Act of 1990 and similar state and local laws and regulations (collectively, the "ADA"). The tenants will typically have primary responsibility for complying with the ADA, but NNN may incur costs if the tenant does not comply. As of February 4, 2020, NNN has not been notified by any governmental authority of, nor is NNN's management aware of, any non-compliance with the ADA that NNN's management believes would have a material adverse effect on its business, financial position or results of operations.

*Other Regulations.* State and local fire, life-safety and similar entities regulate the use of the Properties. NNN's leases generally require each tenant to undertake primary responsibility for complying with regulations, but failure to comply could result in fines by governmental authorities, awards of damages to private litigants, or restrictions on the ability to conduct business on such properties.

### *Additional Information*

NNN's executive offices are located at 450 S. Orange Avenue, Suite 900, Orlando, Florida 32801, and its telephone number is (407) 265-7348.

NNN's website is located at [www.nnnreit.com](http://www.nnnreit.com). NNN intends to comply with the requirements of Item 5.05 of Form 8-K regarding amendments to and waivers under the code of business conduct and ethics applicable to its Chief Executive Officer, Principal Financial Officer and Principal Accounting Officer by providing such information on its website within four days after effecting any amendment to, or granting any waiver under, that code, and NNN will maintain such information on its website for at least twelve months. The information contained on NNN's website does not constitute part of this Form 10-K.

On NNN's website you can also obtain, free of charge, a copy of this Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15 (d) of the Exchange Act of 1934, as amended, as soon as reasonably practicable, after NNN files such material electronically with, or furnish it to, the Securities and Exchange Commission ("Commission" or "SEC"). The public may read and obtain a copy of any materials NNN files electronically with the Commission at [www.sec.gov](http://www.sec.gov).

Additional information on NNN's website includes the guiding policies adopted by NNN, which include NNN's Corporate Governance Guidelines, Code of Business Conduct Policy and Whistleblower Policy, as well as NNN's stance on corporate governance, social responsibility and environmental practices and impact.

### **Item 1A. Risk Factors**

Carefully consider the following risks and all of the other information set forth in this Annual Report on Form 10-K, including the consolidated financial statements and the notes thereto. If any of the events or developments described below were actually to occur, NNN's business, financial condition or results of operations could be adversely affected.

#### Risks Related to NNN's Business and Operations

*Financial and economic conditions may have an adverse impact on NNN, its tenants, and commercial real estate in general.*

Financial and economic conditions can be challenging and volatile and any worsening of such conditions, including any disruption in the capital markets, could adversely affect NNN's business and results of operations. Such conditions could also affect the financial condition of NNN's tenants, developers, borrowers, lenders or the institutions that hold NNN's cash balances and short-term investments, which may expose NNN to increased risks of default by these parties.

There can be no assurance that actions of the United States Government, the Federal Reserve or other government and regulatory bodies attempting to stabilize the economy or financial markets will achieve their intended effect. Additionally, some of these actions may adversely affect financial institutions, capital providers, retailers, consumers, NNN's financial condition, NNN's results of operations or the trading price of NNN's shares.

Potential consequences of challenging and volatile financial and economic conditions include:

- the financial condition of NNN's tenants may be adversely affected, which may result in tenant defaults under the leases due to bankruptcy, lack of liquidity, operational failures or for other reasons,
- the ability to raise equity capital or to raise equity capital or borrow on terms and conditions that NNN finds acceptable may be limited or unavailable, which could reduce NNN's ability to pursue acquisition and development opportunities and refinance existing debt, reduce NNN's returns from acquisition and development activities, reduce NNN's ability to make cash distributions to its stockholders and increase NNN's future interest expense,
- the recognition of impairment charges on or reduced values of the Properties, may adversely affect NNN's results of operations,
- reduced values of the Properties may limit NNN's ability to dispose of assets at attractive prices and reduce the availability of buyer financing, and
- the value and liquidity of NNN's short-term investments and cash deposits could be reduced as a result of (i) a deterioration of the financial condition of the institutions that hold NNN's cash deposits or the institutions or assets in which NNN has made short-term investments, (ii) the dislocation of the markets for NNN's short-term investments, (iii) increased volatility in market rates for such investments or (iv) other factors.

*Loss of rent from tenants would reduce NNN's cash flow.*

NNN's tenants encounter significant macroeconomic, governmental and competitive forces. Adverse changes in consumer spending or consumer preferences for particular goods, services or store based retailing could severely impact their ability to pay rent. Shifts from in-store to online shopping could increase due to changing consumer shopping patterns as well as the increase in consumer adoption and use of mobile electronic devices. This expansion of e-commerce could have an adverse impact on NNN's tenants' ongoing viability and the size, type and location of space tenants lease in the future. NNN cannot predict with certainty what tenants will want or what the impact will be on market rents. The default, financial distress, bankruptcy or liquidation of one or more of NNN's tenants could cause substantial vacancies in the Property Portfolio. Vacancies reduce NNN's revenues, increase property expenses and could decrease the value of each vacant Property. Upon the expiration of a lease, the tenant may choose not to renew the lease and NNN may not be able to re-lease the vacant Property at a comparable lease rate. Furthermore, NNN may incur additional expenditures in connection with such renewal or re-leasing.

*A significant portion of the source of the Property Portfolio annual base rent is concentrated in specific industry classifications, tenants and geographic locations.*

As of December 31, 2019, approximately,

- 54.4% of the Property Portfolio annual base rent is generated from tenants in five retail lines of trade, including convenience stores (18.2%) and full-service and limited-service restaurants (19.9%),
- 21.0% of the Property Portfolio annual base rent is generated from five tenants, 7-Eleven (5.0%), Mister Car Wash (4.6%), Camping World (4.2%), LA Fitness (3.7%) and Flynn Restaurant Group (Taco Bell/Arby's) (3.5%), and
- 41.7% of the Property Portfolio annual base rent is generated from properties located in five states, including Texas (17.6%) and Florida (8.8%).

Any financial hardship and/or economic changes in these lines of trade, tenants or states could have an adverse effect on NNN's results of operations.

*NNN may not be able to successfully execute its acquisition or development strategies.*

NNN may not be able to implement its investment strategies successfully. Additionally, NNN cannot assure that its Property Portfolio will expand at all, or if it will expand at any specified rate or to any specified size. In addition, investment in additional real estate assets is subject to a number of risks. Because NNN expects to invest in markets other than the ones in which its current Properties are located or properties which may be leased to tenants other than those to which NNN has historically leased properties, NNN will also be subject to the risks associated with investment in new markets, new lines of trade or with new tenants that may be relatively unfamiliar to NNN's management team.

NNN's development activities are subject to, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks from factors beyond NNN's control, such as weather or labor conditions or material shortages), the risk of finding tenants for the properties and the ability to obtain both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken or provide a tenant the opportunity to delay rent commencement, reduce rent or terminate a lease. Any of these situations may delay or eliminate proceeds or cash flows NNN expects from these projects, which could have an adverse effect on NNN's financial condition.

*NNN may not be able to dispose of properties consistent with its operating strategy.*

NNN may be unable to sell Properties targeted for disposition under favorable terms due to adverse market conditions or possible prohibitive tax liability. This may adversely affect, among other things, NNN's ability to sell under favorable terms, execute its operating strategy, achieve target earnings or returns, retire or repay debt or pay dividends.

*Certain provisions of NNN's leases or loan agreements may be unenforceable.*

NNN's rights and obligations with respect to its leases, mortgage loans or other loans are governed by written agreements. A court could determine that one or more provisions of such an agreement are unenforceable, such as a particular remedy, a master lease covenant, a loan prepayment provision or a provision governing NNN's security interest in the underlying collateral of a borrower or lessee. NNN could be adversely impacted if this were to happen with respect to an asset or group of assets.

*Competition from numerous other REITs, commercial developers, real estate limited partnerships and other investors may impede NNN's ability to grow.*

NNN may not complete suitable property acquisitions or developments on advantageous terms, if at all, due to competition for such properties with others engaged in real estate investment activities or lack of properties for sale on terms deemed acceptable to NNN. NNN's inability to successfully acquire or develop new properties may affect NNN's ability to achieve anticipated return on investment or realize its investment strategy, which could have an adverse effect on its results of operations.

*NNN's loss of key management personnel could adversely affect performance and the value of its securities.*

NNN is dependent on the efforts of its key management. Competition for senior management personnel can be intense and NNN may not be able to retain its key management. Although NNN believes qualified replacements could be found for any departures of key management, the loss of their services could adversely affect NNN's performance and the value of its securities.

*Uninsured losses may adversely affect NNN's operating results and asset values.*

The Properties are generally covered by comprehensive liability, fire, and extended insurance coverage. NNN believes that the insurance carried on its Properties is adequate and in accordance with industry standards. There are, however, types of losses (such as from hurricanes, floods, earthquakes or other types of natural disasters or wars or other acts of violence) which may be uninsurable, self-insured by tenants, or the cost of insuring against these losses may not be economically justifiable in the opinion of tenants or NNN. If an uninsured loss occurs or a loss exceeds policy limits, NNN could lose both its invested capital and anticipated revenues from the property, thereby reducing NNN's cash flow and asset value.

*NNN's ability to fully control the management of its net-leased properties may be limited.*

The tenants of net-leased properties are responsible for maintenance and other day-to-day management of the Properties. If a Property is not adequately maintained in accordance with the terms of the applicable lease, NNN may incur expenses for deferred maintenance expenditures or other liabilities when the lease expires. While NNN's leases generally provide for recourse against the tenant in these instances, a bankrupt or financially troubled tenant may be more likely to defer maintenance and it may be more difficult to enforce remedies against such a tenant. Although NNN endeavors to monitor compliance by tenants with their lease obligations, NNN may not always be able to ascertain or forestall deterioration in the condition of a property or the financial circumstances of a tenant.

*Vacant properties or bankrupt tenants could adversely affect NNN's business or financial condition.*

As of December 31, 2019, NNN owned 32 vacant, un-leased Properties, which accounted for approximately one percent of total Properties held in the Property Portfolio. NNN is actively marketing these Properties for sale or lease but may not be able to sell or lease these Properties on favorable terms or at all. The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with NNN could have a material adverse effect on the liquidity and results of operations of NNN if NNN is unable to re-lease the Properties at comparable rental rates and in a timely manner. As of February 10, 2020, less than two percent of total Properties, and less than one percent of aggregate gross leasable area held in the Property Portfolio, was leased to two tenants that are currently in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, these tenants have the right to reject or affirm their leases with NNN.

*NNN's failure to maintain effective internal control over financial reporting could have a material adverse effect on its business, operating results and the market value of NNN's securities.*

Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of the Company's internal control over financial reporting. If NNN fails to maintain the adequacy of its internal control over financial reporting, as such standards may be modified, supplemented or amended from time to time, NNN may not be able to ensure that it can conclude on an ongoing basis that it has effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Moreover, effective internal control over financial reporting, particularly those related to revenue recognition, are necessary for NNN to produce reliable financial reports and to maintain its qualification as a REIT and are important in helping to prevent financial fraud. If NNN cannot provide reliable financial reports or prevent fraud, its business and operating results could be harmed, REIT qualification could be jeopardized, investors could lose confidence in the Company's reported financial information, the company's access to capital could be impaired, and the trading price of NNN's shares could drop significantly.

*Cybersecurity risks and cyber incidents could adversely affect NNN's business, disrupt operations and expose NNN to liabilities to tenants, employees, capital providers, and other third parties.*

NNN uses information technology and other computer resources to carry out important operational activities and to maintain its business records. As part of NNN's normal business activities, NNN collects and stores certain personal identifying and confidential information relating to its tenants, employees, vendors and suppliers, and maintains operational and financial information related to NNN's business. NNN has implemented systems and processes intended to address ongoing and evolving cybersecurity risks, secure its information technology, applications and computer systems, and prevent unauthorized access to or loss of sensitive, confidential and personal data. Although NNN and its service providers employ what NNN believes are adequate security, disaster recovery and other preventative and corrective measures, NNN's security measures, taken as a whole, may not be sufficient for all possible situations and may be vulnerable to, among other things, fraud, hacking, employee error, system error, and faulty password management.

NNN's ability to conduct its business may be impaired if its information technology resources, including its websites or e-mail systems, are compromised, degraded, damaged or fail, whether due to a virus or other harmful circumstance, fraud, intentional penetration or disruption of its information technology resources by:

- a third party,
- natural disaster,
- a failure of hardware or software due to a design or programmatic flaw,
- a failure of hardware or software security controls,
- telecommunications system failure,
- service provider error or failure,
- fraudulent transactions,
- intentional or unintentional personnel actions, or
- lost connectivity to NNN's networked resources.

A significant and extended disruption could damage NNN's business or reputation and cause:

- loss of revenues or tenant relationships,
- unintended and/or unauthorized public disclosure or the misappropriation of proprietary, personal identifying and confidential information, and
- NNN to incur significant expenses to address and remediate or otherwise resolve these kinds of issues.

The release of confidential information may also lead to litigation or other proceedings against NNN by affected individuals, business partners and/or regulators, and the outcome of such proceedings, which could include losses, penalties, fines, injunctions, expenses and charges recorded against NNN's earnings and cause NNN reputational harm, could have a material and adverse effect on NNN's business, financial position or results of operations.

In addition, the costs of maintaining adequate protection against data security threats, based on considerations of their evolution, increasing sophistication, pervasiveness and frequency and/or government-mandated standards or obligations regarding protective efforts, could be material to NNN's financial position or results of operations in a particular period or over various periods.

*Future investment in international markets could subject NNN to additional risks.*

If NNN expands its operating strategy to include investment in international markets, NNN could face additional risks, including foreign currency exchange rate fluctuations, operational risks due to local economic and political conditions and laws and policies of the U.S. affecting foreign investment.

*NNN may suffer a loss in the event of a default or bankruptcy of a borrower.*

As of December 31, 2019, NNN had no outstanding mortgages and notes receivable. If a borrower defaults on a mortgage or other loan made by NNN, and does not have sufficient assets to satisfy the loan, NNN may suffer a loss of principal and interest. In the event of the bankruptcy of a borrower, NNN may not be able to recover against all or any of the assets of the borrower, or the collateral may not be sufficient to satisfy the balance due on the loan. In addition, certain of NNN's loans may be subordinate to other debt of a borrower. These investments are typically loans secured by a borrower's pledge of its ownership interests in the entity that owns the real estate or other assets and are typically subordinated to senior loans encumbering the underlying real estate or assets. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. If a borrower defaults on the debt senior to NNN's loan, or in the event of the bankruptcy of a borrower, NNN's loan will be satisfied only after the borrower's senior creditors' claims are satisfied.



Where debt senior to NNN's loans exists, the presence of intercreditor arrangements may limit NNN's ability to amend loan documents, assign the loans, accept prepayments, exercise remedies and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy proceedings and litigation can significantly increase the time needed for NNN to acquire underlying collateral, if any, in the event of a default, during which time the collateral may decline in value. In addition, there are significant costs and delays associated with the foreclosure process.

*Property ownership through joint ventures and partnerships could limit NNN's control of those investments.*

Joint ventures or partnerships involve risks not otherwise present for direct investments by NNN. It is possible that NNN's co-venturers or partners may have different interests or goals than NNN at any time and they may take actions contrary to NNN's requests, policies or objectives, including NNN's policy with respect to maintaining its qualification as a REIT. Other risks of joint venture or partnership investments include impasses on decisions because in some instances no single co-venturer or partner has full control over the joint venture or partnership, respectively, or the co-venturer or partner may become insolvent, bankrupt or otherwise unable to contribute to the joint venture or partnership, respectively. Further, disputes may develop with a co-venturer or partner over decisions affecting the property, joint venture or partnership that may result in litigation, arbitration or some other form of dispute resolution.

*Acts of violence, terrorist attacks or war may affect the markets in which NNN operates and NNN's results of operations.*

Terrorist attacks or other acts of violence may negatively affect NNN's operations. There can be no assurance that there will not be terrorist attacks against businesses within the United States. These attacks may directly or indirectly impact NNN's physical facilities or the businesses or the financial condition of its tenants, developers, borrowers, lenders or financial institutions with which NNN has a relationship. The United States is engaged in armed conflict, which could have an impact on these parties. The consequences of armed conflict are unpredictable, and NNN may not be able to foresee events that could have an adverse effect on its business or be insured for such.

More generally, any of these events or threats of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economies. They also could result in, or cause a deepening of, economic recession in the United States or abroad. Any of these occurrences could have an adverse impact on NNN's financial condition or results of operations.

*Changes in accounting pronouncements could adversely impact NNN's or NNN's tenants' reported financial performance.*

Accounting policies and methods are fundamental to how NNN records and reports its financial condition and results of operations. From time to time the Financial Accounting Standards Board ("FASB") and the Commission, who create and interpret appropriate accounting standards, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of NNN's financial statements. These changes could have a material impact on NNN's reported financial condition and results of operations. In some cases, NNN could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements. Similarly, these changes could have a material impact on NNN's tenants' reported financial condition or results of operations and affect their preferences regarding leasing real estate.

#### Risks Related to Financing NNN's Business

*NNN may be unable to obtain debt or equity capital on favorable terms, if at all.*

NNN may be unable to obtain capital on favorable terms, if at all, to further its business objectives or meet its existing obligations. Nearly all of NNN's debt, including the Credit Facility, is subject to balloon principal payments due at maturity. These maturities range between 2022 and 2048. NNN's ability to make these scheduled principal payments may be adversely impacted by NNN's inability to extend or refinance the Credit Facility, the inability to dispose of assets at an attractive price or the inability to obtain additional debt or equity capital. Capital that may be available may be materially more expensive or available under terms that are materially more restrictive which would have an adverse impact on NNN's business, financial condition and results of operations.

*The amount of debt NNN has and the restrictions imposed by that debt could adversely affect NNN's business and financial condition.*

As of December 31, 2019, NNN had outstanding debt, including mortgages payable of \$12,059,000, total unsecured notes payable of \$2,842,698,000 and \$133,600,000 was outstanding on the Credit Facility. NNN's organizational documents do not limit the level or amount of debt that it may incur. If NNN incurs additional indebtedness and permits a higher degree of leverage, debt service requirements would increase and could adversely affect NNN's financial condition and results of operations, as well as NNN's ability to pay principal and interest on the outstanding indebtedness or cash dividends to its stockholders. In addition, increased leverage could increase the risk that NNN may default on its debt obligations.

The amount of debt outstanding at any time could have important consequences to NNN's stockholders. For example, it could:

- require NNN to dedicate a substantial portion of its cash flow from operations to payments on its debt, thereby reducing funds available for operations, real estate investments and other business opportunities that may arise in the future,
- increase NNN's vulnerability to general adverse economic and industry conditions,
- limit NNN's ability to obtain any additional financing it may need in the future for working capital, debt refinancing, capital expenditures, real estate investments, development or other general corporate purposes,
- make it difficult to satisfy NNN's debt service requirements,
- limit NNN's ability to pay dividends in cash on its outstanding common and preferred stock,
- limit NNN's flexibility in planning for, or reacting to, changes in its business and the factors that affect the profitability of its business, and
- limit NNN's flexibility in conducting its business, which may place NNN at a disadvantage compared to competitors with less debt or debt with less restrictive terms.

NNN's ability to make scheduled payments of principal or interest on its debt, or to retire or refinance such debt will depend primarily on its future performance, which to a certain extent is subject to the creditworthiness of its tenants, competition, and economic, financial, and other factors beyond its control. There can be no assurance that NNN's business will continue to generate sufficient cash flow from operations in the future to service its debt or meet its other cash needs. If NNN is unable to generate sufficient cash flow from its business, it may be required to refinance all or a portion of its existing debt, sell assets or obtain additional financing to meet its debt obligations and other cash needs.

NNN cannot assure stockholders that any such refinancing, sale of assets or additional financing would be possible or, if possible, on terms and conditions, including but not limited to the interest rate, which NNN would find acceptable or would not result in a material decline in earnings.

*NNN is obligated to comply with financial and other covenants in its debt instruments that could restrict its operating activities, and the failure to comply with such covenants could result in defaults that accelerate the payment of such debt.*

As of December 31, 2019, NNN had approximately \$2,988,357,000 of outstanding indebtedness, of which approximately \$12,059,000 was secured indebtedness. NNN's unsecured debt instruments contain various restrictive covenants which include, among others, provisions restricting NNN's ability to:

- incur or guarantee additional debt,
- make certain distributions, investments and other restricted payments,
- enter into transactions with certain affiliates,
- create certain liens,
- consolidate, merge or sell NNN's assets, and
- pre-pay debt.

NNN's secured debt instruments generally contain customary covenants, including, among others, provisions:

- requiring the maintenance of the property securing the debt,
- restricting its ability to sell, assign or further encumber the properties securing the debt,
- restricting its ability to incur additional debt on the property securing the debt,
- restricting modifications to property improvements,
- restricting its ability to amend or modify existing leases on the property securing the debt, and
- establishing certain prepayment restrictions.

In addition, NNN's debt instruments may contain cross-default provisions, in which case a default of NNN under one debt instrument will be a default of NNN under multiple or all debt instruments of NNN.

NNN's ability to meet some of its debt covenants, including covenants related to the condition of the property or payment of real estate taxes, may be dependent on the performance by NNN's tenants under their leases.

In addition, certain covenants in NNN's debt instruments, including its Credit Facility, require NNN, among other things, to:

- limit certain leverage ratios,
- maintain certain minimum interest and debt service coverage ratios, and
- limit investments in certain types of assets.

NNN's failure to comply with certain of its debt covenants could result in defaults that accelerate the payment under such debt and limit the dividends paid to NNN's common and preferred stockholders which would likely have a material adverse impact on NNN's financial condition and results of operations. In addition, these defaults could impair its access to the debt and equity markets.

*The market value of NNN's equity and debt securities is subject to various factors that may cause significant fluctuations or volatility.*

As with other publicly traded securities, the market price of NNN's equity and debt securities depends on various factors, which may change from time-to-time and/or may be unrelated to NNN's financial condition, operating performance or prospects that may cause significant fluctuations or volatility in such prices. These factors, among others, include:

- general economic and financial market conditions,
- level and trend of interest rates,
- changes in government taxation or regulatory policies,
- NNN's ability to access the capital markets to raise additional capital,
- the issuance of additional equity or debt securities,
- changes in NNN's funds from operations or earnings estimates,
- changes in NNN's debt ratings or analyst ratings,
- NNN's financial condition and performance,
- market perception of NNN compared to other REITs, and
- market perception of REITs compared to other investment sectors.

*NNN's ability to pay dividends in the future is subject to many factors.*

NNN's ability to pay dividends may be impaired if any of the risks described in this section were to occur. In addition, payment of NNN's dividends depends upon NNN's earnings, financial condition, maintenance of NNN's REIT status and other factors as NNN's Board of Directors may deem relevant from time to time.

*The phase-out of LIBOR could affect interest rates under NNN's variable rate debt.*

LIBOR is used as a reference rate for NNN's revolving Credit Facility. On July 27, 2017, the United Kingdom's Financial Conduct Authority announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear if LIBOR will cease to exist at that time, if a new method of calculating LIBOR will be established, or if an alternative reference rate will be established. The Federal Reserve Board and the Federal Reserve Bank of New York organized the Alternative Reference Rates Committee which identified the Secured Overnight Financing Rate ("SOFR") as its preferred alternative to U.S. dollar LIBOR in derivatives and other financial contracts. NNN is not able to predict when LIBOR will cease to be available or if SOFR, or another alternative rate reference rate, attains market traction as a LIBOR replacement. If LIBOR ceases to exist, NNN will need to agree upon a benchmark replacement index with the bank, and as such the interest rate on its Credit Facility may change. The new rate may not be as favorable as those in effect prior to any LIBOR phase-out. Furthermore, the transition process may result in delays in funding, higher interest expense, additional expenses, and increased volatility in markets for instruments that currently rely on LIBOR, all of which could negatively impact NNN's cash flow.

## General Real Estate Risks

*Owning real estate and indirect interests in real estate carries inherent risks.*

NNN's economic performance and the value of its real estate assets are subject to the risk that if the Properties do not generate revenues sufficient to meet its operating expenses, including debt service, NNN's cash flow and ability to pay distributions to its stockholders will be adversely affected. As a real estate company, NNN is susceptible to the following real estate industry risks, which are beyond its control:

- changes in national, regional and local economic conditions and outlook,
- decreases in consumer spending and retail sales or adverse changes in consumer preferences for particular goods, services or store based retailing,
- economic downturns in the areas where the Properties are located,
- adverse changes in local real estate market conditions, such as an oversupply of space, reduction in demand for space, loss of a large employer, intense competition for tenants, or a demographic change,
- changes in tenant or consumer preferences that reduce the attractiveness of the Properties to tenants,
- changes in zoning, regulatory restrictions, or tax laws, and
- changes in interest rates or availability of financing.

All of these factors could result in decreases in market rental rates and increases in vacancy rates, which could adversely affect NNN's results of operations.

*NNN's real estate investments are illiquid.*

Because real estate investments are relatively illiquid, NNN's ability to adjust the portfolio promptly in response to economic or other conditions is limited. Certain significant expenditures generally do not change in response to economic or other conditions, including: (i) debt service (if any), (ii) real estate taxes, and (iii) operating and maintenance costs. This combination of variable revenue and relatively fixed expenditures may result, under certain market conditions, in reduced earnings and could have an adverse effect on NNN's financial condition.

*NNN may be subject to known or unknown environmental liabilities and hazardous materials on Properties owned by NNN.*

There may be known or unknown environmental liabilities associated with Properties owned or acquired in the future by NNN. Certain particular uses of some Properties may also have a heightened risk of environmental liability because of the hazardous materials used in performing services on those Properties, such as convenience stores with underground petroleum storage tanks or auto parts and auto service businesses using petroleum products, paint and machine solvents. Some of the Properties may contain asbestos or asbestos-containing materials, or may contain or may develop mold or other bio-contaminants. Asbestos-containing materials must be handled, managed and removed in accordance with applicable governmental laws, rules and regulations. Mold and other bio-contaminants can produce airborne toxins, may cause a variety of health issues in individuals and must be remediated in accordance with applicable governmental laws, rules and regulations.

As part of its due diligence process, NNN generally obtains an environmental site assessment for each Property it acquires. In cases where NNN intends to acquire real estate where evidence of some level of known contamination may exist, NNN generally requires the seller or tenant to (i) remediate the contamination in accordance with applicable laws, rules and regulations, (ii) indemnify NNN for environmental liabilities, and/or (iii) agree to other arrangements deemed appropriate by NNN, including, under certain circumstances, the purchase of environmental insurance. Although sellers or tenants may be contractually responsible for remediating hazardous materials on a property and may be responsible for indemnifying NNN for any liability resulting from the use of a Property and for any failure to comply with any applicable environmental laws, rules or regulations, NNN has no assurance that sellers, tenants or any other responsible party shall be able to meet their remediation and indemnity obligations to NNN. A tenant, seller or any other responsible party may not have the financial ability to meet its remediation and indemnity obligations to NNN when required. Furthermore, NNN may have strict liability to governmental agencies or third parties as a result of the existence of hazardous materials on Properties, whether or not NNN knew about or caused such hazardous materials to exist.

As of February 4, 2020, NNN has 73 Properties currently under some level of environmental remediation and/or monitoring. In general, the responsible party (which may include the seller, a previous owner, the tenant or an adjacent or former land owner) is liable for the cost of the environmental remediation for each of these Properties.

If NNN is responsible for hazardous materials located on its Properties, NNN's liability may include investigation and remediation costs, property damage to third parties, personal injury to third parties, and governmental fines and

penalties. Furthermore, the presence of hazardous materials on a Property may adversely impact the Property value or NNN's ability to sell the Property. Significant environmental liability could impact NNN's results of operations, ability to make distributions to stockholders, and its ability to meet its debt obligations.

In order to mitigate exposure to environmental liability, NNN maintains an environmental insurance policy which provides some coverage for substantially all of its Properties. However, the policy is subject to exclusions and limitations and does not cover all of the Properties owned by NNN. For those Properties covered under the policy, insurance may not fully compensate NNN for any environmental liability. NNN has no assurance that the insurer on its environmental insurance policy will be able to meet its obligations under the policy. NNN may not desire to renew the environmental insurance policy in place upon expiration or a replacement policy may not be available at a reasonable cost, if at all.

#### Risks Related to Government Regulations and Tax Matters

*Costs of complying with changes in governmental laws and regulations may adversely affect NNN's results of operations.*

NNN cannot predict what laws or regulations will be enacted in the future, how future laws or regulations will be administered or interpreted, or how future laws or regulations will affect NNN, its Properties or its tenants, including, but not limited to environmental laws and regulations. Compliance with new laws or regulations, or stricter interpretation of existing laws, may require NNN, its tenants, or consumers to incur significant expenditures, impose significant liability, restrict or prohibit business activities and could cause a material adverse effect on NNN's results of operation.

*NNN's failure to qualify as a REIT for federal income tax purposes could result in significant tax liability.*

NNN intends to operate in a manner that will allow NNN to continue to qualify as a REIT. NNN believes it has been organized as, and its past and present operations qualify NNN as a REIT. However, the Internal Revenue Service ("IRS") could successfully assert that NNN is not qualified as such. In addition, NNN may not remain qualified as a REIT in the future. Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986, as amended (the "Code") for which there are only limited judicial or administrative interpretations and involves the determination of various factual matters and circumstances not entirely within NNN's control. Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for NNN to qualify as a REIT or avoid significant tax liability.

If NNN fails to qualify as a REIT, it would not be allowed a deduction for dividends paid to stockholders in computing taxable income and would become subject to federal income tax at regular corporate rates. In this event, NNN could be subject to potentially significant tax liabilities and penalties. Unless entitled to relief under certain statutory provisions, NNN would also be disqualified from treatment as a REIT for the four taxable years following the year during which the qualification was lost.

*Even if NNN remains qualified as a REIT, NNN faces other tax liabilities that reduce operating results and cash flow.*

Even if NNN remains qualified for taxation as a REIT, NNN is subject to certain federal, state and local taxes on its income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. Any increase of these taxes would decrease earnings and cash available for distribution to stockholders. In addition, in order to meet certain REIT qualification requirements, NNN may elect to own some of its assets in a TRS.

*Adverse legislative or regulatory tax changes could reduce NNN's earnings and cash flow and the market value of NNN's securities.*

At any time, the federal and state income tax laws or the administrative interpretations of those laws may change. Any such changes may have current and retroactive effects, and could adversely affect NNN or its stockholders. Legislation could cause shares in non-REIT entities to be a more attractive investment to individual investors than shares in REITs, and could have an adverse effect on the value of NNN's securities.

*Compliance with REIT requirements, including distribution requirements, may limit NNN's flexibility and may negatively affect NNN's operating decisions.*

To maintain its status as a REIT for U.S. federal income tax purposes, NNN must meet certain requirements on an on-going basis, including requirements regarding its sources of income, the nature and diversification of its assets, the amounts NNN distributes to its stockholders and the ownership of its shares. NNN may also be required to make distributions to its stockholders when it does not have funds readily available for distribution or at times when NNN's funds are otherwise needed to fund expenditures or debt service requirements. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, so long as it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2019, NNN believes it has qualified as a REIT. Notwithstanding NNN's qualification for taxation as a REIT, NNN is subject to certain state income, franchise and excise taxes.

*The share ownership restrictions of the Internal Revenue Code for REITs and the 9.8% share ownership limit in NNN's charter may inhibit market activity in NNN's shares of stock and restrict NNN's business combination opportunities.*

In order to qualify as a REIT, five or fewer individuals, as defined in the Internal Revenue Code, may not own, actually or constructively, more than 50% in value of NNN's issued and outstanding shares of stock at any time during the last half of each taxable year, other than the first year for which a REIT election is made. Attribution rules in the Internal Revenue Code determine if any individual or entity actually or constructively owns NNN's shares of stock under this requirement. Additionally, at least 100 persons must beneficially own NNN's shares of stock during at least 335 days of a taxable year for each taxable year, other than the first year for which a REIT election is made. To help insure that NNN meets these tests, among other purposes, NNN's charter restricts the acquisition and ownership of NNN's shares of stock.

NNN's charter, with certain exceptions, authorizes NNN's Board of Directors to take such actions as are necessary and desirable to preserve NNN's qualification as a REIT while NNN so qualifies. Unless exempted by the Board of Directors, for so long as NNN qualifies as a REIT, NNN's charter prohibits, among other limitations on ownership and transfer of shares of NNN's stock, any person from beneficially or constructively owning (applying certain attribution rules under the Internal Revenue Code) more than 9.8% in value of the aggregate of NNN's outstanding shares of stock and more than 9.8% (in value or in number of shares, whichever is more restrictive) of any class or series of NNN's shares of stock. The Board of Directors, in its sole discretion and upon receipt of certain representations and undertakings, may exempt a person (prospectively or retrospectively) from the ownership limits. However, the Board of Directors may not, among other limitations, grant an exemption from these ownership restrictions to any proposed transferee whose ownership, direct or indirect, in excess of the 9.8% ownership limit would result in the termination of NNN's qualification as a REIT. These restrictions on transferability and ownership will not apply, however, if the Board of Directors determines that it is no longer in NNN's best interest to continue to qualify as a REIT or that compliance with the restrictions is no longer required in order for us to continue to so qualify as a REIT. These ownership limits could delay or prevent a transaction or a change in control that might involve a premium price for our Common Stock or otherwise be in the best interest of NNN's stockholders.

*Non-compliance with Title III of the Americans with Disabilities Act of 1990 could have an adverse effect on NNN's business and operating results.*

The Properties, as commercial facilities, are required to comply with the ADA. NNN's tenants will typically have primary responsibility for complying with the ADA, but NNN may incur costs if the tenant does not comply.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Please refer to Item 1. "Business."

**Item 3. Legal Proceedings**

In the ordinary course of its business, NNN is a party to various legal actions that management believes are routine in nature and incidental to the operation of the business of NNN. Management does not believe that any of these proceedings are material.

**Item 4. Mine Safety Disclosures**

None.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Market Information.

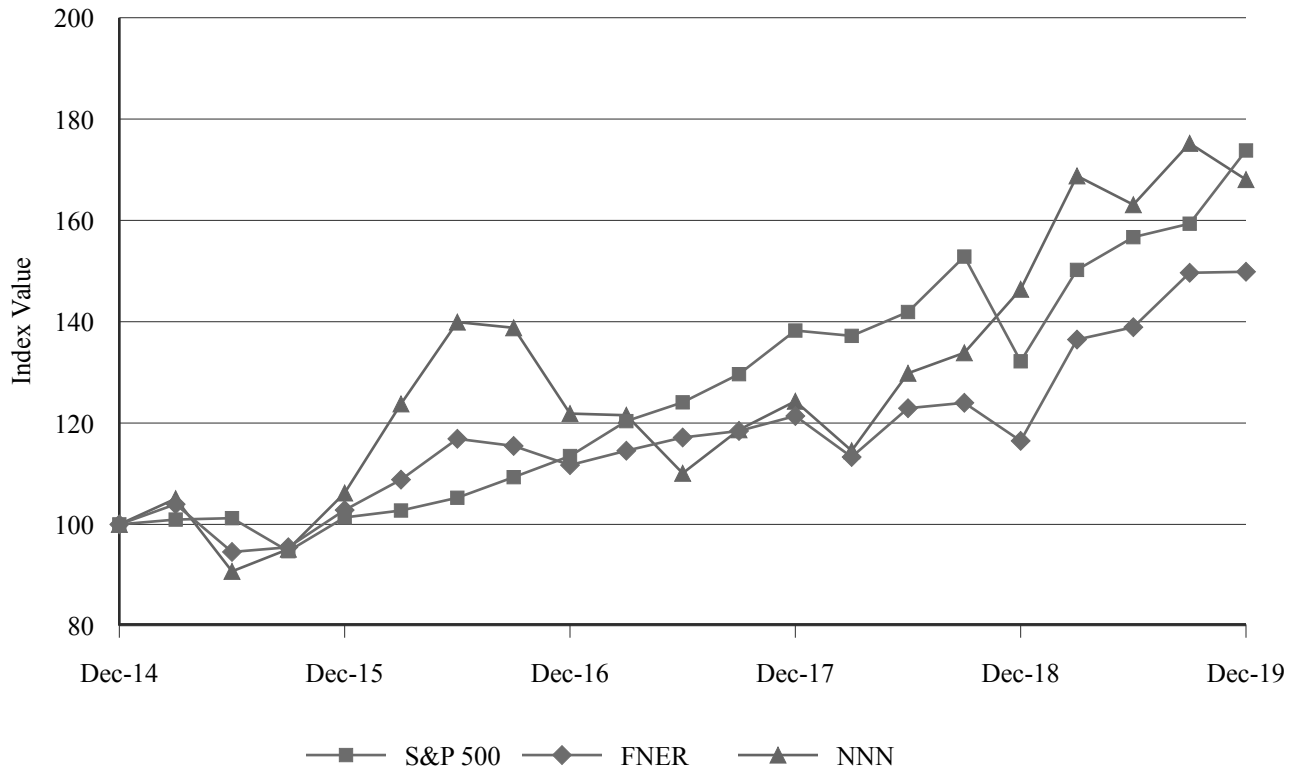
The common stock of NNN currently is traded on the NYSE under the symbol “NNN.”

Performance Graphs.

Set forth below is a line graph comparing the cumulative total stockholder return on NNN’s common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the FTSE National Association of Real Estate Investment Trusts Equity Index (“FNER”) and the S&P 500 Index (“S&P”) for the five-year period commencing December 31, 2014 and ending December 31, 2019. The graph assumes an investment of \$100 on December 31, 2014.

**Comparison to Five-Year Cumulative Total Return**

**Indexed Total Return  
(As of December 31, 2019)**

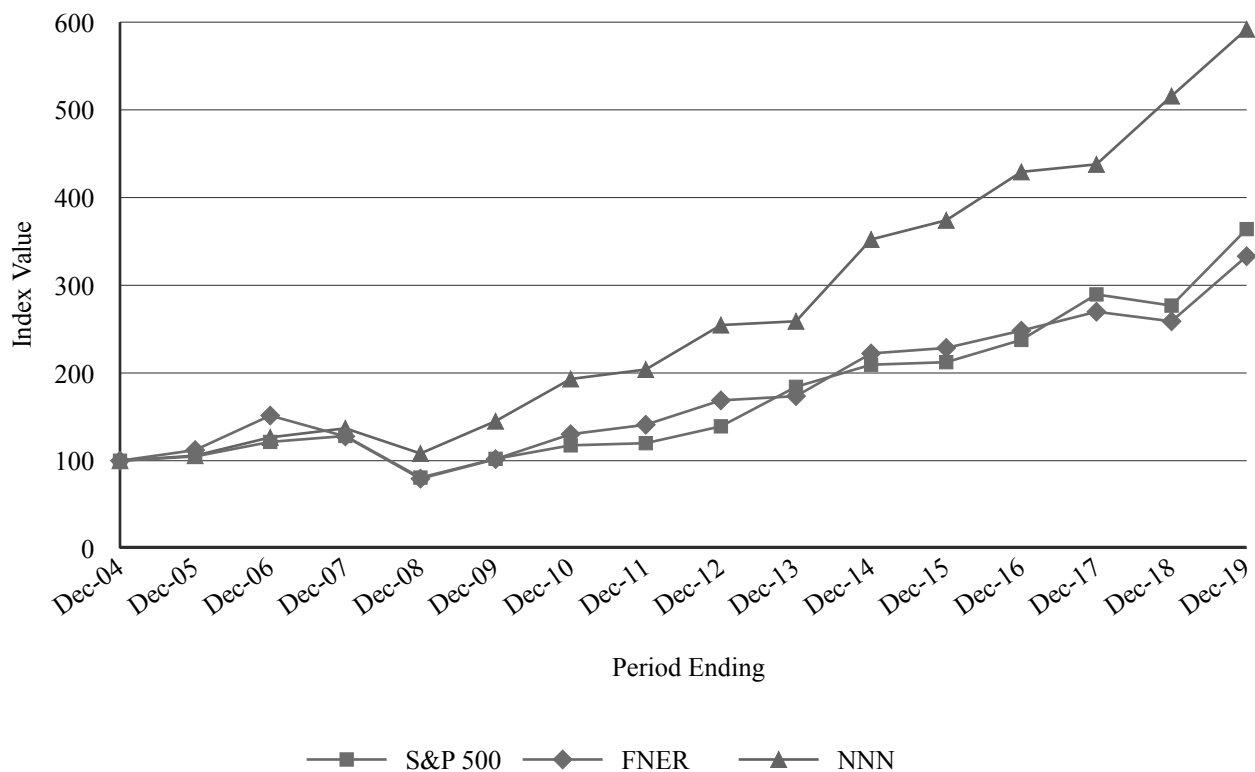




Set forth below is a line graph comparing the cumulative total stockholder return on NNN's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the FTSE National Association of Real Estate Investment Trusts Equity Index ("FNER") and the S&P 500 Index ("S&P") for the fifteen-year period commencing December 31, 2004 and ending December 31, 2019. The graph assumes an investment of \$100 on December 31, 2004.

### Comparison to Fifteen-Year Cumulative Total Return

**Indexed Total Return  
(As of December 31, 2019)**



#### Dividends.

NNN intends to pay regular quarterly dividends to its stockholders, although all future distributions will be declared and paid at the discretion of the Board of Directors and will depend upon cash generated by operating activities, NNN's financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Code and such other factors as the Board of Directors deems relevant.

In January 2020, NNN declared dividends payable to its stockholders of \$88,148,000, or \$0.515 per share, of common stock.

#### Holders.

On January 31, 2020, there were 1,679 registered holders of record of NNN's common stock. Many of NNN's shares of common stock are held by brokers and institutions on behalf of stockholders, NNN is unable to estimate the total number of stockholders represented by these record holders.

#### Securities Authorized for Issuance Under Equity Compensation Plans.

None.

#### Sale of Unregistered Securities.

None.

#### Issuer Purchases of Equity Securities.

None.

## Item 6. Selected Financial Data

The following table sets forth selected, historical, consolidated financial data for NNN and should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements of and the related notes included elsewhere in this Annual Report on Form 10-K.

### Historical Financial Highlights (dollars in thousands, except per share data)

|   | 2019        | 2018        | 2017        | 2016        | 2015        |
|---|-------------|-------------|-------------|-------------|-------------|
| Gross revenues <sup>(1)</sup>   | \$ 673,599  | \$ 624,471  | \$ 585,255  | \$ 533,817  | \$ 483,025  |
| Earnings from continuing operations                                       | 299,608     | 292,485     | 265,371     | 239,506     | 197,961     |
| Net earnings  | 299,608     | 292,485     | 265,371     | 239,506     | 197,961     |
| Net earnings attributable to NNN  | 299,180     | 292,447     | 264,973     | 239,500     | 197,836     |
| Total assets  | 7,434,867   | 7,103,438   | 6,560,534   | 6,334,151   | 5,460,044   |
| Total debt  | 2,988,357   | 2,851,395   | 2,580,207   | 2,311,689   | 1,975,944   |
| Total stockholders’ equity of NNN   | 4,331,675   | 4,154,250   | 3,840,593   | 3,916,799   | 3,342,134   |
| Cash dividends declared to:   |             |             |             |             |             |
| Common stockholders   | 333,692     | 303,164     | 277,120     | 257,007     | 228,699     |
| Series D preferred stockholders   | —           | —           | 3,598       | 19,047      | 19,047      |
| Series E preferred stockholders   | 13,201      | 16,387      | 16,387      | 16,387      | 16,387      |
| Series F preferred stockholders   | 17,940      | 17,940      | 17,940      | 3,189       | —           |
| Weighted average common shares:   |             |             |             |             |             |
| Basic   | 164,688,498 | 155,744,601 | 149,111,188 | 144,176,224 | 133,998,674 |
| Diluted   | 165,083,679 | 156,295,619 | 149,432,641 | 144,660,633 | 134,489,416 |
| Earnings from continuing operations per share and net earnings per share: |             |             |             |             |             |
| Basic   | 1.56        | 1.65        | 1.45        | 1.39        | 1.21        |
| Diluted   | 1.56        | 1.65        | 1.45        | 1.38        | 1.20        |
| Cash dividends declared per share to:                                     |             |             |             |             |             |
| Common stockholders   | 2.03        | 1.95        | 1.86        | 1.78        | 1.71        |
| Series D preferred depositary stockholders                                | —           | —           | 0.312847    | 1.656250    | 1.656250    |
| Series E preferred depositary stockholders                                | 1.147917    | 1.425000    | 1.425000    | 1.425000    | 1.425000    |
| Series F preferred depositary stockholders                                | 1.300000    | 1.300000    | 1.300000    | 0.231111    | —           |
| Other data:   |             |             |             |             |             |
| Cash flows provided by (used in):   |             |             |             |             |             |
| Operating activities  | \$ 501,727  | \$ 471,909  | \$ 421,557  | \$ 415,337  | \$ 341,095  |
| Investing activities  | (619,408)   | (609,371)   | (625,557)   | (779,943)   | (644,544)   |
| Financing activities  | 4,526       | 250,365     | (89,176)    | 644,886     | 307,105     |
| Funds from operations – available to common stockholders <sup>(2)</sup>   | 446,661     | 395,337     | 359,179     | 330,544     | 289,193     |

<sup>(1)</sup> Gross revenues include the aggregate of *total revenue* and *interest and other income* found on the Consolidated Statements of Income and Comprehensive Income.

<sup>(2)</sup> The National Association of Real Estate Investment Trusts (“NAREIT”) developed Funds from Operations (“FFO”) as a relative non-U.S. generally accepted accounting principles (“GAAP”) financial measure of operating performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is defined by NAREIT and is used by NNN as follows: net earnings (computed in accordance with GAAP) plus depreciation and amortization of assets unique to the real estate industry, excluding gains (or including losses), any applicable taxes and noncontrolling interests on the disposition of certain assets, any impairment charges on a depreciable real estate asset and NNN’s share of these items from NNN’s unconsolidated partnerships and joint ventures.

## **Funds From Operations (FFO) Reconciliation**

FFO is generally considered by industry analysts to be an appropriate measure of operating performance of real estate companies. FFO does not necessarily represent cash provided by operating activities in accordance with GAAP and should not be considered an alternative to net earnings as an indication of NNN's operating performance or to cash flow as a measure of liquidity or ability to make distributions. Management considers FFO an appropriate measure of operating performance of an equity REIT because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time, and because industry analysts have accepted it as an operating performance measure. NNN's computation of FFO may differ from the methodology for calculating FFO used by other equity REITs, and therefore, may not be comparable to such other REITs.

The following table reconciles FFO to the most directly comparable GAAP measure, net earnings for the years ended December 31:

|  | 2019              | 2018              | 2017              | 2016              | 2015              |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Reconciliation of funds from operations:   |                   |                   |                   |                   |                   |
| Net earnings available to common stockholders  | \$ 258,183        | \$ 258,120        | \$ 217,193        | \$ 200,877        | \$ 162,402        |
| Real estate depreciation and amortization  | 188,537           | 174,076           | 173,404           | 148,779           | 134,380           |
| Gain on disposition of real estate, net of income tax expense and noncontrolling interests | (32,051)          | (65,070)          | (36,258)          | (27,137)          | (10,397)          |
| Impairment losses – depreciable real estate, net of recoveries and income tax expense      | 31,992            | 28,211            | 4,840             | 8,025             | 2,808             |
| FFO available to common stockholders   | <u>\$ 446,661</u> | <u>\$ 395,337</u> | <u>\$ 359,179</u> | <u>\$ 330,544</u> | <u>\$ 289,193</u> |

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This section generally discusses 2019 and 2018 items and year-to-year comparisons between 2019 and 2018. Discussions of 2017 items and year-to-year comparisons between 2018 and 2017 that are not included in this annual report on Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission (the "Commission") on February 12, 2019.

The term "NNN" or the "Company" refers to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN may elect to treat certain subsidiaries as taxable real estate investment trust subsidiaries, ("TRS").

### **Forward-Looking Statements**

The following discussion and analysis should be read in conjunction with "Item 6. Selected Financial Data," and the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. NNN makes statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in this report entitled "Forward-Looking Statements." Certain risks may cause NNN's actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see "Item 1A. Risk Factors."

### **Overview**

NNN, a Maryland corporation, is a fully integrated real estate investment trust ("REIT") formed in 1984. NNN's assets are primarily real estate assets. NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and are primarily held for investment ("Properties," or "Property Portfolio," or individually a "Property").

NNN owned 3,118 Properties with an aggregate gross leasable area of approximately 32,460,000 square feet, located in 48 states, with a weighted average remaining lease term of 11.2 years as of December 31, 2019. Approximately 99 percent of the Properties were leased as of December 31, 2019.

NNN's management team focuses on certain key indicators to evaluate the financial condition and operating performance of NNN. The key indicators for NNN include items such as: the composition of the Property Portfolio (such as tenant, geographic and line of trade diversification), the occupancy rate of the Property Portfolio, certain financial performance ratios and profitability measures, industry trends and industry performance compared to that of NNN.

NNN evaluates the creditworthiness of its current and prospective tenants. This evaluation may include reviewing available financial statements, store level financial performance, press releases, public credit ratings from major credit rating agencies, industry news publications and financial market data (debt and equity pricing). NNN may also evaluate the business and operations of its tenants, including past payment history and periodically meeting with senior management of certain tenants.

NNN continues to maintain its diversification by tenant, geography and tenant's line of trade. NNN's largest lines of trade concentrations are the convenience store and restaurant (including full and limited service) sectors. These sectors represent a large part of the freestanding retail property marketplace and NNN's management believes these sectors present attractive investment opportunities. The Property Portfolio is geographically concentrated in the south and southeast United States, which are regions of historically above-average population growth. Given these concentrations, any financial hardship within these sectors or geographic regions could have a material adverse effect on the financial condition and operating performance of NNN.

As of December 31, 2019, 2018 and 2017, the Property Portfolio has remained at least 98 percent leased. As of December 31, 2019, the average remaining lease term of the Property Portfolio was 11.2 years, which was consistent with the past three years. High occupancy levels coupled with a net lease structure, provides enhanced probability of maintaining operating earnings.

## **Critical Accounting Policies and Estimates**

The preparation of NNN's consolidated financial statements in conformance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as other disclosures in the financial statements. On an ongoing basis, management evaluates its estimates and assumptions; however, actual results may differ from these estimates and assumptions, which in turn could have a material impact on NNN's financial statements. A summary of NNN's accounting policies and procedures are included in Note 1 of NNN's consolidated financial statements. Management believes the following critical accounting policies, among others, affect its more significant estimates and assumptions used in the preparation of NNN's consolidated financial statements.

*Real Estate Portfolio.* NNN records the acquisition of real estate at cost, including acquisition and closing costs. The cost of properties developed or funded by NNN includes direct and indirect costs of construction, property taxes, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy.

*Purchase Accounting for Acquisition of Real Estate.* In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance on business combinations, consideration for the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and tenant improvements and, if applicable, to identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and value of in-place leases, as applicable, based on their respective fair values.

*Lease Accounting.* Effective January 1, 2019, NNN adopted FASB Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)," ("ASC 842") using the modified retrospective approach in which the cumulative effect of applying the new standard was recognized at the date of initial application with an immaterial positive adjustment to NNN's opening balance of accumulated deficit. The modified retrospective approach provides a method for recording existing leases upon adoption which in comparative periods approximates the results of a full retrospective approach. NNN elected the package of practical expedients permitted under the transition guidance (which included: (i) an entity need not reassess whether any expired or existing contracts are or contain leases, (ii) an entity need not reassess the lease classification for any expired or existing leases, and (iii) an entity need not reassess initial direct costs for any existing leases), the land easement practical expedient to carry forward existing accounting treatment on existing land easements, and the lease and non-lease component combined practical expedient.

NNN estimates the collectability of its accounts receivable related to rents, expense reimbursements and other revenues. NNN analyzes accounts receivable and historical bad debt levels, tenant credit-worthiness and current economic trends when evaluating the probable collection. At the point NNN deems the collection of lease payments not probable, a bad debt is recognized for any outstanding receivable and any related accrued rent and, subsequently, any lease revenue is only recognized when cash receipts are received.

Adoption of the new standard resulted in the recording of right-of-use ("ROU") assets and operating lease liabilities of approximately \$7,735,000 and \$10,155,000 respectively, as of January 1, 2019. Additional disclosures are included in Note 3 – Right-Of-Use Assets and Operating Lease Liabilities. The consolidated financial statements for the year ended December 31, 2019 are presented under the new standard, while comparative periods presented are not adjusted and continue to be reported in accordance with NNN's historical accounting policy. ASC 842 did not materially impact NNN's financial position or results of operations and had no impact on cash flows.

*Real Estate – Held For Sale.* Real estate held for sale is not depreciated and is recorded at the lower of cost or fair value, less costs to sell.

*Impairment – Real Estate.* Based upon certain events or changes in circumstances, management periodically assesses its Properties for possible impairment whenever the carrying value of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions or the ability of NNN to re-lease or sell properties that are currently vacant or become vacant in a reasonable period of time. Management evaluates whether an impairment in carrying value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), and the residual value of the real estate, with the carrying value of the individual asset. The future undiscounted cash flows are primarily driven by estimated future market rents. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its estimated fair value.

*Revenue Recognition.* Rental revenues for properties under construction commence upon completion of construction of the leased asset and delivery of the leased asset to the tenant. Rental revenues for non-development real estate assets are recognized when earned in accordance with the FASB guidance included in *Leases*, based on the terms of the lease of the leased asset. Lease termination fees are recognized when collected subsequent to the related lease that is cancelled and NNN no longer has continuing involvement with the former tenant with respect to that property.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606). The core principle of ASU 2014-09, is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Certain contracts are excluded from ASU 2014-09, including lease contracts within the scope of the FASB guidance included in *Leases* (Topic 842). NNN determined the key revenue stream impacted by ASU 2014-09 is *gain on disposition of real estate* reported on the Consolidated Statements of Income and Comprehensive Income. NNN evaluates any separate contracts or performance obligations to determine proper timing and/or amount of revenue recognition, as well as, transaction price allocation.

*New Accounting Pronouncements.* Refer to Note 1 of the December 31, 2019, Consolidated Financial Statements for a summary and the anticipated impact of each accounting pronouncement on NNN's financial position or results of operations.

## **Results of Operations**

### **Property Analysis**

*General.* The following table summarizes the Property Portfolio as of December 31:

|  | 2019       | 2018       | 2017       |
|--|------------|------------|------------|
| <b>Properties Owned:</b>                           |            |            |            |
| Number   | 3,118      | 2,969      | 2,764      |
| Total gross leasable area (square feet)            | 32,460,000 | 30,487,000 | 29,093,000 |
| <b>Properties:</b>                                 |            |            |            |
| Leased and unimproved land                         | 3,086      | 2,917      | 2,740      |
| Percent of Properties – leased and unimproved land | 99%        | 98%        | 99%        |
| Weighted average remaining lease term (years)      | 11.2       | 11.5       | 11.5       |
| Total gross leasable area (square feet) – leased   | 31,818,000 | 29,439,000 | 28,703,000 |

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of the Property Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2019:

|      | % of Annual Base Rent <sup>(1)</sup> | # of Properties | Gross Leasable Area <sup>(2)</sup> |            | % of Annual Base Rent <sup>(1)</sup> | # of Properties | Gross Leasable Area <sup>(2)</sup> |
|------|--------------------------------------|-----------------|------------------------------------|------------|--------------------------------------|-----------------|------------------------------------|
| 2020 | 1.7%                                 | 66              | 688,000                            | 2026       | 4.5%                                 | 174             | 1,672,000                          |
| 2021 | 3.5%                                 | 115             | 1,253,000                          | 2027       | 7.1%                                 | 194             | 2,582,000                          |
| 2022 | 5.5%                                 | 123             | 1,634,000                          | 2028       | 4.5%                                 | 153             | 1,158,000                          |
| 2023 | 2.9%                                 | 118             | 1,471,000                          | 2029       | 3.0%                                 | 75              | 1,030,000                          |
| 2024 | 3.7%                                 | 100             | 1,600,000                          | Thereafter | 58.3%                                | 1,799           | 16,880,000                         |
| 2025 | 5.3%                                 | 167             | 1,850,000                          |            |                                      |                 |                                    |

<sup>(1)</sup> Based on the annualized base rent for all leases in place as of December 31, 2019.

<sup>(2)</sup> Approximate square feet.

The following table summarizes the diversification of the Property Portfolio based on the top 10 lines of trade:

| Top 10 Lines of Trade                                  | % of Annual Base Rent <sup>(1)</sup> |               |               |
|--|--------------------------------------|---------------|---------------|
|  | 2019                                 | 2018          | 2017          |
| 1. Convenience stores                                  | 18.2%                                | 18.0%         | 18.1%         |
| 2. Restaurants - full service                          | 11.1%                                | 11.4%         | 12.1%         |
| 3. Automotive service                                  | 9.6%                                 | 8.6%          | 6.9%          |
| 4. Restaurants - limited service                       | 8.8%                                 | 8.9%          | 7.6%          |
| 5. Family entertainment centers                        | 6.7%                                 | 7.1%          | 6.4%          |
| 6. Health and fitness                                  | 5.2%                                 | 5.6%          | 5.6%          |
| 7. Theaters  | 4.7%                                 | 5.0%          | 4.8%          |
| 8. Recreational vehicle dealers, parts and accessories | 3.4%                                 | 3.4%          | 3.4%          |
| 9. Automotive parts                                    | 3.1%                                 | 3.4%          | 3.6%          |
| 10. Equipment rental                                   | 2.6%                                 | 1.9%          | 2.0%          |
| Other  | 26.6%                                | 26.7%         | 29.5%         |
|  | <u>100.0%</u>                        | <u>100.0%</u> | <u>100.0%</u> |

<sup>(1)</sup> Based on annualized base rent for all leases in place as of December 31 of the respective year.

The following table summarizes the diversification of the Property Portfolio by state as of December 31, 2019:

| State             | # of Properties | % of Annual Base Rent <sup>(1)</sup> |
|-------------------|-----------------|--------------------------------------|
| 1. Texas          | 502             | 17.6%                                |
| 2. Florida        | 230             | 8.8%                                 |
| 3. Ohio           | 199             | 5.8%                                 |
| 4. Illinois       | 142             | 5.0%                                 |
| 5. Georgia        | 151             | 4.5%                                 |
| 6. North Carolina | 156             | 4.5%                                 |
| 7. Indiana        | 146             | 4.0%                                 |
| 8. Tennessee      | 142             | 3.8%                                 |
| 9. Virginia       | 117             | 3.6%                                 |
| 10. California    | 65              | 3.3%                                 |
| Other             | 1,268           | 39.1%                                |
|                   | <u>3,118</u>    | <u>100.0%</u>                        |

<sup>(1)</sup> Based on annualized base rent for all leases in place as of December 31, 2019.

*Property Acquisitions.* The following table summarizes the Property acquisitions for each of the years ended December 31 (dollars in thousands):

|                                       | 2019       | 2018       | 2017       |
|---------------------------------------|------------|------------|------------|
| Acquisitions:                         |            |            |            |
| Number of Properties                  | 210        | 265        | 276        |
| Gross leasable area (square feet)     | 3,164,000  | 2,167,000  | 2,243,000  |
| Initial cash yield                    | 6.9%       | 6.8%       | 6.9%       |
| Total dollars invested <sup>(1)</sup> | \$ 752,497 | \$ 715,572 | \$ 754,892 |

<sup>(1)</sup> Includes dollars invested in projects under construction or tenant improvements for each respective year.

NNN typically funds Property acquisitions either through borrowings under NNN's unsecured revolving credit facility (the "Credit Facility") or by issuing its debt or equity securities in the capital markets.

*Property Dispositions.* The following table summarizes the Properties sold by NNN for each of the years ended December 31 (dollars in thousands):

|                                    | 2019       | 2018       | 2017      |
|------------------------------------|------------|------------|-----------|
| Number of properties               | 59         | 61         | 48        |
| Gross leasable area (square feet)  | 1,113,000  | 686,000    | 346,000   |
| Net sales proceeds                 | \$ 126,194 | \$ 147,646 | \$ 96,757 |
| Gain on disposition of real estate | \$ 32,463  | \$ 65,070  | \$ 36,655 |
| Cap rate                           | 5.9%       | 5.1%       | 6.0%      |

NNN typically uses the proceeds from a Property disposition to either pay down the Credit Facility or reinvest in real estate.

### **Analysis of Revenue**

*General.* NNN's total revenues have increased for the year ended December 31, 2019, as compared to the same periods ended in 2018 and 2017. This increase is primarily due to the increase in rental income from Property acquisitions (See "Results of Operations – Property Analysis – Property Acquisitions"). NNN anticipates increases in rental income will continue to come from additional Property acquisitions and increases in rents pursuant to existing lease terms.

The following summarizes NNN's revenues for each of the years ended December 31 (dollars in thousands):

|   | 2019       | 2018       | 2017       | 2019<br>Versus<br>2018<br>Percent | 2018<br>Versus<br>2017<br>Percent |
|---|------------|------------|------------|-----------------------------------|-----------------------------------|
| Rental Revenues <sup>(1)</sup>                          | \$ 652,220 | \$ 604,615 | \$ 568,083 | 7.9%                              | 6.4 %                             |
| Real estate expense reimbursement from tenants          | 16,789     | 16,784     | 15,512     | —                                 | 8.2 %                             |
| Rental income   | 669,009    | 621,399    | 583,595    | 7.7%                              | 6.5 %                             |
| Interest and other income from real estate transactions | 1,478      | 1,262      | 1,338      | 17.1%                             | (5.7)%                            |
| Total revenues  | \$ 670,487 | \$ 622,661 | \$ 584,933 | 7.7%                              | 6.4 %                             |

<sup>(1)</sup> Includes rental income from operating leases, earned income from direct financing leases and percentage rent ("Rental Revenues").

### ***Comparison of Revenues – 2019 versus 2018***

*Rental Income.* Rental income increased for the year ended December 31, 2019, as compared to the same period in 2018 primarily due to Property acquisitions:

- (i) a partial year of Rental Revenue from 210 Properties with aggregate gross leasable area of approximately 3,164,000 square feet acquired in 2019, and
- (ii) a full year of Rental Revenue from 265 Properties with a gross leasable area of approximately 2,167,000 square feet acquired in 2018.

### ***Comparison of Revenues – 2018 versus 2017***

Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of NNN's Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Commission on February 12, 2019, for a detailed comparison of revenues for the years ended December 31, 2018 versus December 31, 2017.



## Analysis of Expenses

*General.* Operating expenses increased primarily due to the increase in depreciation expense resulting from the continued growth of NNN's Property Portfolio during the year ended December 31, 2019, as compared to the same period in 2018. The following summarizes NNN's expenses for the year ended December 31 (dollars in thousands):

|   | 2019       | 2018       | 2017       | 2019<br>Versus<br>2018<br>Percent | 2018<br>Versus<br>2017<br>Percent |
|---|------------|------------|------------|-----------------------------------|-----------------------------------|
| General and administrative  | \$ 37,651  | \$ 34,248  | \$ 33,805  | 9.9 %                             | 1.3 %                             |
| Real estate   | 27,656     | 25,099     | 23,105     | 10.2 %                            | 8.6 %                             |
| Depreciation and amortization   | 188,871    | 174,398    | 173,720    | 8.3 %                             | 0.4 %                             |
| Impairment losses – real estate and other charges,<br>net of recoveries | 31,992     | 28,211     | 8,955      | 13.4 %                            | 215.0 %                           |
| Retirement severance costs  | —          | 1,013      | 7,845      | (100.0)%                          | (87.1)%                           |
| Total operating expenses  | \$ 286,170 | \$ 262,969 | \$ 247,430 | 8.8 %                             | 6.3 %                             |
| Interest and other income   | \$ (3,112) | \$ (1,810) | \$ (322)   | 71.9 %                            | 462.1 %                           |
| Interest expense  | 120,023    | 115,847    | 109,109    | 3.6 %                             | 6.2 %                             |
| Leasing transaction costs   | 261        | —          | —          | N/C <sup>(1)</sup>                | —                                 |
| Loss on early extinguishment of debt                                    | —          | 18,240     | —          | (100.0)%                          | N/C <sup>(1)</sup>                |
| Total other expenses (revenues)   | \$ 117,172 | \$ 132,277 | \$ 108,787 | (11.4)%                           | 21.6 %                            |

As a percentage of total revenues:

|                            |      |      |      |
|----------------------------|------|------|------|
| General and administrative | 5.6% | 5.5% | 5.8% |
| Real estate                | 4.1% | 4.0% | 4.0% |

<sup>(1)</sup> Not calculable ("N/C")

### ***Comparison of Expenses – 2019 versus 2018***

*General and Administrative Expenses.* General and administrative expenses increased in amount and remained relatively flat as a percentage of total revenues for the year ended December 31, 2019, as compared to the same period in 2018. The increase in general and administrative expenses for the year ended December 31, 2019, is primarily attributable to an increase in compensation costs.

*Real Estate.* Real estate expenses increased in amount and remained relatively flat as a percentage of revenues for the year ended December 31, 2019, as compared to the same period in 2018. NNN focuses on real estate expenses, net of reimbursements from tenants. NNN's net real estate expenses for the years ended December 31, 2019 and 2018 were \$10,867,000 and \$8,315,000, respectively. The increase is primarily attributable to expenses from certain properties that became vacant during the years ended December 31, 2019 and 2018.

*Depreciation and Amortization.* Depreciation and amortization expenses increased in amount for the year ended December 31, 2019, as compared to the same period in 2018. The increase in expenses is primarily due to the acquisition of 210 Properties with an aggregate gross leasable area of approximately 3,164,000 square feet in 2019 and 265 Properties with an aggregate gross leasable area of approximately 2,167,000 square feet in 2018.

*Impairment Losses – Real Estate and Other Charges, Net of Recoveries.* NNN reviews long-lived assets for impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at a price that exceeds NNN's carrying value. Management evaluates whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), and the residual value of the real estate, with the carrying cost of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value. During the years ended December 31, 2019 and 2018, NNN recorded \$31,992,000 and \$28,211,000, respectively, of real estate impairments.

*Interest Expense.* Interest expense increased for the year ended December 31, 2019, compared to the same period in 2018. The increase is attributable to an increase in outstanding debt, including the following activity related to NNN's notes payable (dollars in thousands):

| Transaction           | Effective Date | Principal  | Stated Interest Rate | Original Maturity |
|-----------------------|----------------|------------|----------------------|-------------------|
| Issuance 2028 Notes   | September 2018 | \$ 400,000 | 4.300%               | October 2028      |
| Issuance 2048 Notes   | September 2018 | 300,000    | 4.800%               | October 2048      |
| Redemption 2021 Notes | October 2018   | (300,000)  | 5.500%               | July 2021         |

The increase in interest expense for 2019 is partially offset by a decrease of \$97,529,000 in the weighted average outstanding balance on the Credit Facility, from \$121,587,000 at December 31, 2018 to \$24,058,000 at December 31, 2019.

*Loss on Early Extinguishment of Debt.* In October 2018, NNN redeemed the \$300,000,000 5.500% notes payable that were due in July 2021. The notes were redeemed at a price equal to 100% of the principal amount, plus (i) a make-whole amount of \$18,240,000, and (ii) all accrued and unpaid interest.

### ***Comparison of Expenses – 2018 versus 2017***

Refer to “Management's Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of [NNN's Annual Report on Form 10-K for the year ended December 31, 2018](#) filed with the Commission on February 12, 2019, for a detailed comparison of expenses for the years ended December 31, 2018 versus December 31, 2017.

### **Impact of Inflation**

NNN's leases typically contain provisions to mitigate the adverse impact of inflation on NNN's results of operations. Tenant leases generally provide for limited increases in rent as a result of fixed increases, increases in the CPI, and/or, to a lesser extent, increases in the tenant's sales volume. During times when inflation is greater than increases in rent, rent increases will not keep up with the rate of inflation.

Properties are leased to tenants under long-term, net leases which typically require the tenant to pay certain operating expenses for a Property, thus, NNN's exposure to inflation is reduced with respect to these expenses. Inflation may have an adverse impact on NNN's tenants.

### **Liquidity**

*General.* NNN's demand for funds has been and will continue to be primarily for (i) payment of operating expenses and cash dividends; (ii) Property acquisitions and development; (iii) capital expenditures; (iv) payment of principal and interest on its outstanding indebtedness; and (v) other investments.

NNN expects to meet short-term liquidity requirements through cash provided from operations and NNN's Credit Facility. As of December 31, 2019, \$133,600,000 was outstanding and \$766,400,000 was available for future borrowings under the Credit Facility. NNN anticipates its long-term capital needs will be funded by the Credit Facility, cash provided from operations, the issuance of long-term debt or the issuance of common or preferred equity or other instruments convertible into or exchangeable for common or preferred equity. However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to NNN.

*Cash and Cash Equivalents.* NNN's cash and cash equivalents includes the aggregate of *cash and cash equivalents* and *restricted cash and cash held in escrow* from the Consolidated Balance Sheets. NNN did not have *restricted cash or cash held in escrow* as of December 31, 2019, 2018 and 2017. The table below summarizes NNN's cash flows for each of the years ended December 31 (dollars in thousands):

|  | 2019            | 2018              | 2017            |
|--|-----------------|-------------------|-----------------|
| <b>Cash and cash equivalents:</b>          |                 |                   |                 |
| Provided by operating activities           | \$ 501,727      | \$ 471,909        | \$ 421,557      |
| Used in investing activities               | (619,408)       | (609,371)         | (625,557)       |
| Provided by (used in) financing activities | 4,526           | 250,365           | (89,176)        |
| Increase (decrease)                        | (113,155)       | 112,903           | (293,176)       |
| Net cash at beginning of year              | 114,267         | 1,364             | 294,540         |
| Net cash at end of year                    | <u>\$ 1,112</u> | <u>\$ 114,267</u> | <u>\$ 1,364</u> |

Cash provided by operating activities represents cash received primarily from Rental Revenues and interest income less cash used for general and administrative expenses. NNN's cash flow from operating activities has been sufficient to pay the distributions for each period presented. The change in cash provided by operations for the years ended December 31, 2019, 2018 and 2017, is primarily the result of changes in revenues and expenses as discussed in "Results of Operations." Cash generated from operations is expected to fluctuate in the future.

Changes in cash for investing activities are primarily attributable to acquisitions and dispositions of Properties. NNN typically uses proceeds from its Credit Facility to fund the acquisition of its Properties.

NNN's financing activities for the year ended December 31, 2019, included the following significant transactions:

(i) Issuance of common stock resulted in the following net proceeds:

- \$379,410,000 from the issuance of 7,000,000 shares of common stock in September,
- \$19,442,000 from the issuance of 362,918 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan ("DRIP"), and
- \$125,905,000 from the issuance of 2,344,022 shares of common stock in connection with the at-the-market ("ATM") equity program.

(ii) Dividends paid:

- \$13,201,000 to holders of the depositary shares of NNN's 5.700% Series E Cumulative Redeemable Preferred Stock (the "Series E Preferred Stock"),
- \$17,940,000 to holders of the depositary shares of NNN's 5.200% Series F Cumulative Redeemable Preferred Stock (the "Series F Preferred Stock"), and
- \$333,692,000 to common stockholders.

*Financing Strategy.* NNN's financing objective is to manage its capital structure effectively in order to provide sufficient capital to execute its operating strategy while servicing its debt requirements, maintaining its investment grade credit rating, staggering debt maturities and providing value to NNN's stockholders. NNN generally utilizes debt and equity security offerings, bank borrowings, proceeds from the disposition of certain properties, and to a lesser extent, internally generated funds to meet its capital needs.

NNN typically funds its short-term liquidity requirements, including investments in additional Properties, with cash from its Credit Facility. As of December 31, 2019, \$133,600,000 was outstanding and \$766,400,000 was available for future borrowings under the Credit Facility.

As of December 31, 2019, NNN's ratio of total debt to total gross assets (before accumulated depreciation and amortization) was approximately 35 percent and the ratio of secured indebtedness to total gross assets was less than one percent. The ratio of total debt to total market capitalization was approximately 25 percent. Certain financial agreements to which NNN is a party contain covenants that limit NNN's ability to incur additional debt under certain circumstances. The organizational documents of NNN do not limit the absolute amount or percentage of indebtedness that NNN may incur. Additionally, NNN may change its financing strategy.

*Contractual Obligations and Commercial Commitments.* The information in the following table summarizes NNN's contractual obligations and commercial commitments outstanding as of December 31, 2019. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of December 31, 2019.

|  | Expected Maturity Date (dollars in thousands) |                   |                   |                   |                   |                   |                     |
|--|---|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
|  | Total   | 2020              | 2021              | 2022              | 2023              | 2024              | Thereafter          |
| Long-term debt <sup>(1)</sup>            | \$ 2,886,837                                  | \$ 596            | \$ 630            | \$ 325,664        | \$ 359,947        | \$ 350,000        | \$ 1,850,000        |
| Long-term debt – interest <sup>(2)</sup> | 991,971                                       | 112,365           | 112,331           | 109,724           | 91,520            | 80,456            | 485,575             |
| Credit Facility                          | 133,600                                       | —                 | —                 | 133,600           | —                 | —                 | —                   |
| Headquarters office lease                | 4,233   | 773               | 788               | 804               | 821               | 837               | 210                 |
| Ground leases                            | 8,446   | 564               | 573               | 582               | 582               | 601               | 5,544               |
| Total contractual cash obligations       | <u>\$ 4,025,087</u>                           | <u>\$ 114,298</u> | <u>\$ 114,322</u> | <u>\$ 570,374</u> | <u>\$ 452,870</u> | <u>\$ 431,894</u> | <u>\$ 2,341,329</u> |

(1) Includes only principal amounts outstanding under mortgages payable and notes payable and excludes unamortized mortgage premiums, note discounts and note costs.

(2) Interest calculation based on stated rate of the principal amount.

In addition to the contractual obligations outlined above, NNN has committed to fund construction on 19 Properties. The improvements on such Properties are estimated to be completed within 12 months. These construction commitments, at December 31, 2019, are outlined in the table below (dollars in thousands):

|                                 |                  |
|---------------------------------|------------------|
| Total commitment <sup>(1)</sup> | \$ 75,927        |
| Less amount funded              | 44,368           |
| Remaining commitment            | <u>\$ 31,559</u> |

(1) Includes land, construction costs, tenant improvements, lease costs and capitalized interest

As of December 31, 2019, NNN did not have any other material contractual cash obligations, such as purchase obligations, financing lease obligations or other long-term liabilities other than those reflected in the table. In addition to items reflected in the table, NNN has issued preferred stock with cumulative preferential cash distributions, as described below under "Dividends."

Management anticipates satisfying these obligations with a combination of NNN's cash provided from operations, current capital resources on hand, its Credit Facility, debt or equity financings and asset dispositions.

Generally the Properties are leased under long-term triple net leases, which require the tenant to pay all property taxes and assessments, to maintain the interior and exterior of the Property, and to carry property and liability insurance coverage. Therefore, management anticipates that capital demands to meet obligations with respect to these Properties will be modest for the foreseeable future and can be met with funds from operations and working capital. Certain Properties are subject to leases under which NNN retains responsibility for specific costs and expenses associated with the Property. Management anticipates the costs associated with these Properties, NNN's vacant Properties or those Properties that become vacant will also be met with funds from operations and working capital. NNN may be required to borrow under its Credit Facility or use other sources of capital in the event of significant capital expenditures or major repairs.

The lost revenues and increased property expenses resulting from vacant Properties or uncollectibility of lease revenues could have a material adverse effect on the liquidity and results of operations if NNN is unable to re-lease the Properties at comparable rental rates and in a timely manner. As of December 31, 2019, NNN owned 32 vacant, un-leased Properties which accounted for approximately one percent of total Properties held in the Property Portfolio. Additionally, as of February 10, 2020, less than two percent of total Properties, and less than one percent of aggregate gross leasable area held in the Property Portfolio, was leased to two tenants that are currently in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, these tenants have the right to reject or affirm their leases with NNN.

NNN generally monitors the financial performance of its significant tenants on an ongoing basis.

*Dividends.* NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and related regulations and intends to continue to operate so as to remain qualified as a REIT for federal income tax purposes. NNN generally will not be subject to federal income tax on income that it distributes to its stockholders, provided that it distributes 100 percent of its REIT taxable income and meets certain other requirements

for qualifying as a REIT. If NNN fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four years following the year during which qualification is lost. Such an event could materially adversely affect NNN's income and ability to pay dividends. NNN believes it has been structured as, and its past and present operations qualify NNN as, a REIT.

One of NNN's primary objectives is to distribute a substantial portion of its funds available from operations to its stockholders in the form of dividends, while retaining sufficient cash for reserves and working capital purposes and maintaining its status as a REIT.

The following table outlines the dividends declared and paid for NNN's common stock for the years ended December 31 (dollars in thousands, except per share data):

|           | 2019       | 2018       | 2017       |
|-----------|------------|------------|------------|
| Dividends | \$ 333,692 | \$ 303,164 | \$ 277,120 |
| Per share | 2.030      | 1.950      | 1.860      |

The following presents the characterizations for tax purposes of such common stock dividends for the years ended December 31:

|                                | 2019               |                         | 2018               |                         | 2017               |                  |
|--------------------------------|--------------------|-------------------------|--------------------|-------------------------|--------------------|------------------|
| Ordinary dividends             | \$ 1.762899        | 86.8423% <sup>(1)</sup> | \$ 1.658604        | 85.0566% <sup>(1)</sup> | \$ 1.559781        | 83.8592%         |
| Capital gain                   | —                  | —%                      | 0.015534           | 0.7966%                 | 0.035041           | 1.8839%          |
| Unrecaptured Section 1250 Gain | —                  | —%                      | 0.042818           | 2.1958%                 | 0.012194           | 0.6556%          |
| Nontaxable distributions       | 0.267101           | 13.1577%                | 0.233044           | 11.9510%                | 0.252984           | 13.6013%         |
|                                | <u>\$ 2.030000</u> | <u>100.0000%</u>        | <u>\$ 1.950000</u> | <u>100.0000%</u>        | <u>\$ 1.860000</u> | <u>100.0000%</u> |

<sup>(1)</sup> Eligible for the 20% qualified business income deduction under section 199A of the Code that was amended by the Tax Cuts and Jobs Act signed into law on December 22, 2017, ("TCJA").

On January 15, 2020, NNN declared a dividend of \$0.515 per share, payable February 14, 2020, to its common stockholders of record as of January 31, 2020.

Holders of NNN's preferred stock issuances are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash distributions based on the stated rate and liquidation preference per annum. The following table outlines the dividends declared and paid for NNN's preferred stock for the years ended December 31 (dollars in thousands, except per share data):

|  | 2019     | 2018     | 2017     |
|--|----------|----------|----------|
| <b>Series D Preferred Stock<sup>(1)</sup>:</b> |          |          |          |
| Dividends                                      | \$ —     | \$ —     | \$ 3,598 |
| Per share                                      | —        | —        | 0.312847 |
| <b>Series E Preferred Stock<sup>(2)</sup>:</b> |          |          |          |
| Dividends                                      | 13,201   | 16,387   | 16,387   |
| Per share                                      | 1.147917 | 1.425000 | 1.425000 |
| <b>Series F Preferred Stock<sup>(3)</sup>:</b> |          |          |          |
| Dividends                                      | 17,940   | 17,940   | 17,940   |
| Per share                                      | 1.300000 | 1.300000 | 1.300000 |

<sup>(1)</sup> The Series D Preferred Stock was redeemed in February 2017. The dividends paid in 2017 include accumulated and unpaid dividends through, but not including, the redemption date.

<sup>(2)</sup> The Series E Preferred Stock was redeemed in October 2019. The dividends paid in 2019 include accumulated and unpaid dividends through, but not including, the redemption date.

<sup>(3)</sup> The Series F Preferred Stock was issued in October 2016 and has no maturity date and will remain outstanding unless redeemed by NNN. The earliest redemption date for the Series F Preferred Stock is October 2021.

The following presents the characterizations for tax purposes of such preferred stock dividends for the years ended December 31:

|                         | Ordinary Dividends       | Capital Gain | Unrecaptured Section 1250 Gain | Totals      |
|-------------------------|--------------------------|--------------|--------------------------------|-------------|
| <b>2019</b>             |                          |              |                                |             |
| Percentage of Total     | 100.0000% <sup>(3)</sup> | —            | —                              | 100.0000%   |
| Series E <sup>(2)</sup> | \$ 1.147917              | \$ —         | \$ —                           | \$ 1.147917 |
| Series F                | \$ 1.300000              | \$ —         | \$ —                           | \$ 1.300000 |
| <b>2018</b>             |                          |              |                                |             |
| Percentage of Total     | 96.6015% <sup>(3)</sup>  | 0.9047%      | 2.4938%                        | 100.0000%   |
| Series E                | \$ 1.376571              | \$ 0.012892  | \$ 0.035537                    | \$ 1.425000 |
| Series F                | \$ 1.255820              | \$ 0.011761  | \$ 0.032419                    | \$ 1.300000 |
| <b>2017</b>             |                          |              |                                |             |
| Percentage of Total     | 97.0607%                 | 2.1804%      | 0.7589%                        | 100.0000%   |
| Series D <sup>(1)</sup> | \$ 0.303652              | \$ 0.006821  | \$ 0.002374                    | \$ 0.312847 |
| Series E                | \$ 1.383115              | \$ 0.031071  | \$ 0.010814                    | \$ 1.425000 |
| Series F                | \$ 1.261789              | \$ 0.028345  | \$ 0.009866                    | \$ 1.300000 |

<sup>(1)</sup> The Series D Preferred Stock was redeemed in February 2017. The dividends paid in 2017 included accumulated and unpaid dividends through, but not including, the redemption date.

<sup>(2)</sup> The Series E Preferred Stock was redeemed in October 2019. The dividends paid in 2019 included accumulated and unpaid dividends through, but not including, the redemption date.

<sup>(3)</sup> Eligible for the 20% qualified business income deduction under section 199A of the Code as amended by the TCJA.

## **Capital Resources**

Generally, cash needs for Property acquisitions, debt payments, capital expenditures, development and other investments have been funded by equity and debt offerings, bank borrowings, the sale of Properties and, to a lesser extent, by internally generated funds. Cash needs for operating and interest expenses and dividends have generally been funded by internally generated funds. If available, future sources of capital include proceeds from the public or private offering of NNN's debt or equity securities, secured or unsecured borrowings from banks or other lenders, proceeds from the sale of Properties, as well as undistributed funds from operations.

## **Debt**

The following is a summary of NNN's total outstanding debt as of December 31 (dollars in thousands):

|                        | 2019                | Percentage of Total | 2018                | Percentage of Total |
|------------------------|---------------------|---------------------|---------------------|---------------------|
| Line of credit payable | \$ 133,600          | 4.5%                | \$ —                | —%                  |
| Mortgages payable      | 12,059              | 0.4%                | 12,694              | 0.4%                |
| Notes payable          | 2,842,698           | 95.1%               | 2,838,701           | 99.6%               |
| Total outstanding debt | <u>\$ 2,988,357</u> | <u>100.0%</u>       | <u>\$ 2,851,395</u> | <u>100.0%</u>       |

*Indebtedness.* NNN expects to use indebtedness primarily for property acquisitions and development of single-tenant retail properties, either directly or through investment interests. Additionally, indebtedness may be used to refinance existing indebtedness.

*Line of Credit Payable.* In October 2017, NNN amended its credit agreement to increase the borrowing capacity under its Credit Facility from \$650,000,000 to \$900,000,000 and amend certain other terms under the former Credit Facility. The Credit Facility had a weighted average outstanding balance of \$24,058,000 and a weighted average interest rate of 2.8% for the year ended December 31, 2019. The Credit Facility matures January 2022, unless the Company exercises its option to extend maturity to January 2023. As of December 31, 2019, the Credit Facility bears interest at LIBOR plus 87.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature for NNN to increase the facility size up to \$1,600,000,000, subject to lender approval. As of December 31, 2019, \$133,600,000 was outstanding and \$766,400,000 was available for future borrowings under the Credit Facility.

In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain certain (i) leverage ratios, (ii) debt service coverage, (iii) cash flow coverage, and (iv) investment limitations. At December 31, 2019, NNN was in compliance with those covenants. In the event that NNN violates any of these restrictive financial covenants, it could cause the indebtedness under the Credit Facility to be accelerated and may impair NNN's access to the debt and equity markets and limit NNN's ability to pay dividends to its common and preferred stockholders, each of which would likely have a material adverse impact on NNN's financial condition and results of operations.

*Mortgages Payable.* As of December 31, 2019 and 2018, NNN had mortgages payable, including unamortized premium and net of unamortized debt costs, of \$12,059,000 and \$12,694,000 respectively. The mortgages payable had an interest rate of 5.23% and matures July 2023. The loan is secured by a first lien on five of the Properties and the carrying value of the assets was \$19,944,000 as of December 31, 2019.

*Notes Payable.* Each of NNN's outstanding series of unsecured notes is summarized in the table below (dollars in thousands):

| Notes <sup>(1)</sup> | Issue Date     | Principal  | Discount <sup>(2)</sup> | Net Price  | Stated Rate | Effective Rate <sup>(3)</sup> | Maturity Date |
|----------------------|----------------|------------|-------------------------|------------|-------------|-------------------------------|---------------|
| 2022                 | August 2012    | \$ 325,000 | \$ 4,989                | \$ 320,011 | 3.800%      | 3.985%                        | October 2022  |
| 2023                 | April 2013     | 350,000    | 2,594                   | 347,406    | 3.300%      | 3.388%                        | April 2023    |
| 2024                 | May 2014       | 350,000    | 707                     | 349,293    | 3.900%      | 3.924%                        | June 2024     |
| 2025                 | October 2015   | 400,000    | 964                     | 399,036    | 4.000%      | 4.029%                        | November 2025 |
| 2026                 | December 2016  | 350,000    | 3,860                   | 346,140    | 3.600%      | 3.733%                        | December 2026 |
| 2027                 | September 2017 | 400,000    | 1,628                   | 398,372    | 3.500%      | 3.548%                        | October 2027  |
| 2028                 | September 2018 | 400,000    | 2,848                   | 397,152    | 4.300%      | 4.388%                        | October 2028  |
| 2048                 | September 2018 | 300,000    | 4,239                   | 295,761    | 4.800%      | 4.890%                        | October 2048  |

(1) The proceeds from the note issuance were used to pay down outstanding indebtedness of NNN's Credit Facility, fund future property acquisitions and for general corporate purposes. Proceeds from the issuance of the 2028 Notes and the 2048 Notes were also used to redeem all of the \$300,000 5.500% notes payable that were due 2021.

(2) The note discounts are amortized to interest expense over the respective term of each debt obligation using the effective interest method.

(3) Includes the effects of the discount at issuance.

NNN entered into forward starting swaps which were hedging the risk of changes in forecasted interest payments on the forecasted issuance of long-term debt. Upon the issuance of a series of unsecured notes, NNN terminated such derivatives as outlined in the following table (dollars in thousands):

| Notes | Terminated     | Description                  | Aggregate Notional Amount | Liability (Asset) Fair Value When Terminated <sup>(1)</sup> | Fair Value Deferred In Other Comprehensive Income <sup>(2)</sup> |
|-------|----------------|------------------------------|---------------------------|---|--|
| 2023  | April 2013     | Four forward starting swaps  | \$ 240,000                | \$ 3,156  | \$ 3,141   |
| 2024  | May 2014       | Three forward starting swaps | 225,000                   | 6,312   | 6,312  |
| 2025  | October 2015   | Four forward starting swaps  | 300,000                   | 13,369  | 13,369   |
| 2026  | December 2016  | Two forward starting swaps   | 180,000                   | (13,352)  | (13,345)   |
| 2027  | September 2017 | Two forward starting swaps   | 250,000                   | 7,690   | 7,688  |
| 2028  | September 2018 | Two forward starting swaps   | 250,000                   | (4,080)   | (4,080)  |

<sup>(1)</sup> The deferred liability (asset) is being amortized over the term of the respective notes using the effective interest method.

<sup>(2)</sup> The amount reported in accumulated other comprehensive income will be reclassified to interest expense as interest payments are made on the related notes payable.

Each series of notes represents senior, unsecured obligations of NNN and is subordinated to all secured indebtedness of NNN. The notes are redeemable at the option of NNN, in whole or in part, at a redemption price equal to the sum of (i) the principal amount of the notes being redeemed plus all accrued and unpaid interest thereon through the redemption date, and (ii) the make-whole amount, if any, as defined in the applicable supplemental indenture relating to the notes.

In connection with the outstanding note offerings, NNN incurred debt issuance costs totaling \$26,932,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been deferred and are being amortized over the term of the respective notes using the effective interest method.

In October 2018, NNN redeemed the \$300,000,000 5.500% notes payable that were due in July 2021. The notes were redeemed at a price equal to 100% of the principal amount, plus (i) a make-whole amount of \$18,240,000, and (ii) all accrued and unpaid interest.

In accordance with the terms of the indentures, pursuant to which NNN's notes have been issued, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain (i) certain leverage ratios, and (ii) certain interest coverage. At December 31, 2019, NNN was in compliance with those covenants. NNN's failure to comply with certain of its debt covenants could result in defaults that accelerate the payment under such debt and limit the dividends paid to NNN's common and preferred stockholders which would likely have a material adverse impact on NNN's financial condition and results of operations. In addition, these defaults could impair its access to the debt and equity markets.

During the year ended December 31, 2019, NNN entered into three forward starting swaps with a total notional amount of \$200,000,000 to hedge the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt. The outstanding forward swaps were designated as cash flow hedges, and as of December 31, 2019, had a fair value of \$5,524,000 included in *other liabilities* and *accumulated other comprehensive income (loss)* on the Consolidated Balance Sheets. These derivative financial instruments were still outstanding as of December 31, 2019.



## Debt and Equity Securities

NNN has used, and expects to use in the future, issuances of debt and equity securities primarily to pay down its outstanding indebtedness and to finance acquisitions. In February 2018, NNN filed a shelf registration statement with the Commission which was automatically effective and permits the issuance by NNN of an indeterminate amount of debt and equity securities.

A description of NNN's outstanding series of publicly held notes is found under "Debt – Notes Payable" above.

NNN completed the following underwritten public offering of cumulative redeemable preferred stock that is still outstanding ("Preferred Stock Shares") (dollars in thousands, except per share data):

| Series                  | Dividend Rate <sup>(1)</sup> | Issued       | Depository Shares Outstanding <sup>(2)</sup> | Gross Proceeds | Stock Issuance Costs <sup>(3)</sup> | Dividend Per Depository Share | Earliest Redemption Date |
|-------------------------|------------------------------|--------------|--|----------------|-------------------------------------|-------------------------------|--------------------------|
| Series F <sup>(4)</sup> | 5.200%                       | October 2016 | 13,800,000                                   | \$ 345,000     | \$ 10,897                           | \$ 1.300000                   | October 2021             |

<sup>(1)</sup> Holders are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends.

<sup>(2)</sup> Representing 1/100th of a preferred share. Series F issuance included 1,800,000 depository shares in connection with the underwriters' over-allotment.

<sup>(3)</sup> Consisting primarily of underwriting commissions and fees, rating agency fees, legal and accounting fees and printing expenses.

<sup>(4)</sup> NNN used the net proceeds from the offering to repay outstanding indebtedness under its Credit Facility, fund property acquisitions and for general corporate purposes.

The Preferred Stock Shares underlying the depository shares rank senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Preferred Stock Shares have no maturity date and will remain outstanding unless redeemed. In addition, upon a change of control, as defined in the articles supplementary fixing the rights and preferences of the Preferred Stock Shares, NNN may redeem the Preferred Stock Shares underlying the depository shares at a redemption price of \$2,500.00 per share (or \$25.00 per depository share), plus all accumulated and unpaid dividends, and in limited circumstances the holders of depository shares may convert some or all of their Preferred Stock Shares into shares of NNN's common stock at conversion rates provided in the related articles supplementary. As of February 11, 2020, the Series F Preferred Stock Shares were not redeemable.

In October 2019, NNN redeemed all outstanding depository shares (11,500,000) representing interests in its 5.700% Series E Preferred Stock. The Series E Preferred Stock was redeemed at \$25.00 per depository share, plus all accrued and unpaid dividends through, but not including, the redemption date, for an aggregate redemption price of \$25.079167 per depository share. The excess carrying amount of preferred stock redeemed over the cash paid to redeem the preferred stock was \$9,856,000 of issuance costs.

*Common Stock Issuances.* In September 2019, NNN filed a prospectus supplement to the prospectus contained in its February 2018 shelf registration statement and issued 7,000,000 shares of common stock at a price of \$56.50 per share and received net proceeds of \$379,410,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$16,090,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses. NNN used the net proceeds from this offering to redeem the Series E Preferred Stock, repay outstanding indebtedness under the Credit Facility, to fund property acquisitions, and for general corporate purposes.

*Dividend Reinvestment and Stock Purchase Plan.* In February 2018, NNN filed a shelf registration statement with the Commission for its DRIP which permits the issuance by NNN of 10,000,000 shares of common stock. NNN's DRIP provides an economical and convenient way for current stockholders and other interested new investors to invest in NNN's common stock. The following outlines the common stock issuances pursuant to the DRIP for the years ended December 31 (dollars in thousands):

|                        | 2019      | 2018      | 2017     |
|------------------------|-----------|-----------|----------|
| Shares of common stock | 362,918   | 311,048   | 229,696  |
| Net proceeds           | \$ 19,442 | \$ 13,264 | \$ 9,391 |

*At-The-Market Offerings.* NNN has established an ATM which allows NNN to sell shares of common stock from time to time. The following table outlines NNN's active ATM programs for the three years ended December 31, 2019:

|   | 2018 ATM      | 2016 ATM      |
|---|---------------|---------------|
| Established date                            | February 2018 | March 2016    |
| Termination date                            | February 2021 | February 2018 |
| Total allowable shares                      | 12,000,000    | 12,000,000    |
| Total shares issued as of December 31, 2019 | 9,722,185     | 10,044,656    |

The following table outlines the common stock issuances pursuant to NNN's ATM equity programs for the years ended December 31 (dollars in thousands, except per share data):

|                                     | 2019       | 2018       | 2017       |
|-------------------------------------|------------|------------|------------|
| Shares of common stock              | 2,344,022  | 7,378,163  | 5,821,366  |
| Average price per share (net)       | \$ 53.71   | \$ 44.48   | \$ 41.88   |
| Net proceeds                        | \$ 125,905 | \$ 328,196 | \$ 243,822 |
| Stock issuance costs <sup>(1)</sup> | \$ 1,431   | \$ 3,821   | \$ 3,782   |

<sup>(1)</sup> Stock issuance costs consist primarily of underwriters' fees and commissions, and legal and accounting fees.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

NNN is exposed to interest rate risk primarily as a result of its variable rate Credit Facility and its fixed rate debt which is used to finance NNN's development and acquisition activities, as well as for general corporate purposes. NNN's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, NNN borrows at both fixed and variable rates on its long-term debt. As of December 31, 2019, NNN had three forward starting swaps with a total notional amount of \$200,000,000 to hedge the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt.

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of December 31, 2019 and 2018. The table presents principal payments and related interest rates by year for debt obligations outstanding as of December 31, 2019. The variable interest rate shown represents the weighted average rate for the Credit Facility for the year ended December 31, 2019. The table incorporates only those debt obligations that existed as of December 31, 2019, and it does not consider those debt obligations or positions which could arise after this date and therefore has limited predictive value. As a result, NNN's ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, NNN's hedging strategies at that time and interest rates. If interest rates on NNN's variable rate debt increased by one percent, NNN's interest expense would have increased by less than one percent for the year ended December 31, 2019.

|                   | Debt Obligations (dollars in thousands) |                                |                          |                                |                               |                         |
|-------------------|---|--------------------------------|--------------------------|--------------------------------|-------------------------------|-------------------------|
|                   | Variable Rate Debt                      |                                | Fixed Rate Debt          |                                |                               |                         |
|                   | Credit Facility                         |                                | Mortgages <sup>(1)</sup> |                                | Unsecured Debt <sup>(2)</sup> |                         |
|                   | Debt Obligation                         | Weighted Average Interest Rate | Debt Obligation          | Weighted Average Interest Rate | Debt Obligation               | Effective Interest Rate |
| 2020              | \$ —                                    | —                              | \$ 682                   | 5.23%                          | \$ —                          | —                       |
| 2021              | —                                       | —                              | 716                      | 5.23%                          | —                             | —                       |
| 2022              | 133,600                                 | 2.79%                          | 750                      | 5.23%                          | 323,426                       | 3.99%                   |
| 2023              | —                                       | —                              | 9,968                    | 5.23%                          | 349,049                       | 3.39%                   |
| 2024              | —                                       | —                              | —                        | —                              | 349,653                       | 3.92%                   |
| Thereafter        | —                                       | —                              | —                        | —                              | 1,838,540                     | 4.09% <sup>(3)</sup>    |
| <b>Total</b>      | <b>\$ 133,600</b>                       | <b>2.79%</b>                   | <b>\$ 12,116</b>         | <b>5.23%</b>                   | <b>\$ 2,860,668</b>           | <b>3.97%</b>            |
| Fair Value:       |   |                                |                          |                                |                               |                         |
| December 31, 2019 | \$ 133,600                              |                                | \$ 12,116                |                                | \$ 3,074,538                  |                         |
| December 31, 2018 | \$ —                                    |                                | \$ 12,768                |                                | \$ 2,813,583                  |                         |

<sup>(1)</sup> NNN's mortgages payable represent principal payments by year and include unamortized premiums and exclude debt costs.

<sup>(2)</sup> Includes NNN's notes payable, each exclude debt costs and are net of unamortized discounts. NNN uses market prices quoted from Bloomberg, a third party, which is a Level 1 input, to determine the fair value.

<sup>(3)</sup> Weighted average effective interest rate for periods after 2024.

## **Item 8. Financial Statements and Supplementary Data**

### **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of National Retail Properties, Inc.

#### **Opinion on Internal Control over Financial Reporting**

We have audited National Retail Properties, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, National Retail Properties, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income and comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedules listed in the Index at Item 15(a) and our report dated February 11, 2020 expressed an unqualified opinion thereon.

#### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

#### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Orlando, Florida  
February 11, 2020

## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of National Retail Properties, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of National Retail Properties, Inc. and Subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income and comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedules listed in the Index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 11, 2020 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### **Valuation of Real Estate Acquisitions**

*Description of the Matter*

As discussed in Note 1 of the consolidated financial statements, real estate asset acquisitions require allocation of consideration to the acquired tangible assets, consisting of land, building and tenant improvements and, if applicable, to identified intangible assets and liabilities, based on their respective fair values. For the year ended December 31, 2019, the Company completed \$668 million of real estate acquisitions accounted for as asset acquisitions.

Auditing management's measurement of fair values and allocation of consideration to the acquired tangible assets was complex and involved subjectivity. In particular, the fair value estimates are sensitive to significant assumptions, such as establishing a range of relevant market assumptions for land, building and rent, and estimating where within that range the acquired property falls. Establishing the market assumptions for land, building and rent include identifying the relevant properties in the established range most comparable to the acquired property. The position within the range is a judgmental assumption that relies upon ranking comparable properties' attributes from most similar to least similar.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's valuation of real estate acquisitions process. For example, we tested controls over the review and selection of inputs and assumptions used in the valuation estimates and the review of the final allocation of value among the tangible assets acquired.

To test the estimated fair values of the Company's acquired tangible assets, we performed audit procedures that included, among others, reading the purchase agreements, assessing management's valuation techniques and testing the completeness and accuracy of the underlying data used by the Company in its analysis. For certain acquisitions, we involved our real estate valuation specialists to evaluate management's concluded ranges of values by benchmarking against comparable properties. We also compared certain of management's assumptions to current and comparable industry information for land, building, building improvements and market rents.

### **Impairment of Held and Used Real Estate Assets**

*Description of the Matter*

At December 31, 2019 held and used real estate assets were \$7,290 million. As discussed in Notes 1 and 2 of the consolidated financial statements, the Company assesses held and used real estate assets for impairment when certain events or changes in circumstances indicate the carrying amount of the asset may not be recoverable through operations. When assessing for impairment, the Company performs a recoverability test by comparing the undiscounted future cash flows of the real estate asset to the net carrying value. If the undiscounted cash flows are less than the net carrying value, the Company will estimate the real estate assets' fair value. The estimated fair value is compared to the net carrying value to determine whether the asset is impaired.

Auditing management's evaluation of held and used real estate assets for impairment was complex and involved subjectivity due to the significant estimation required to determine the undiscounted future cash flows of held and used assets where impairment indicators were determined to be present. In particular, future cash flow estimates were sensitive to the assumptions made by management regarding future market rents, which are affected by expectations about future market and economic conditions.

*How We Addressed  
the Matter in Our  
Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's impairment of held and used real estate assets process. For example, we tested controls over management's review of the market rent assumption.

To test the Company's impairment assessment over held and used real estate assets, our audit procedures included, among others, assessing the methodologies used by management, testing the market rent assumption used to develop the estimates of future cash flows, and testing the completeness and accuracy of the underlying data used by the Company in its analysis. We evaluated the historical accuracy of the Company's estimates by performing a historical look back on market rent assumptions. We involved our real estate valuation specialists to assist in evaluating certain market rent assumptions used by management.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2006.

Orlando, Florida  
February 11, 2020

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(dollars in thousands, except per share data)

| <u>ASSETS</u>  | December 31,<br>2019 | December 31,<br>2018 |
|--|----------------------|----------------------|
| Real estate portfolio:   |                      |                      |
| Accounted for using the operating method, net of accumulated depreciation and amortization   | \$ 7,290,025         | \$ 6,845,446         |
| Accounted for using the direct financing method  | 4,204                | 8,069                |
| Real estate held for sale  | 7,010                | 21,917               |
| Cash and cash equivalents  | 1,112                | 114,267              |
| Receivables, net of allowance of \$506 and \$2,273, respectively   | 2,874                | 3,797                |
| Accrued rental income, net of allowance of \$1,842   | 28,897               | 25,387               |
| Debt costs, net of accumulated amortization of \$15,574 and \$14,118, respectively   | 2,783                | 4,081                |
| Other assets   | 97,962               | 80,474               |
| Total assets   | <u>\$ 7,434,867</u>  | <u>\$ 7,103,438</u>  |
| <u>LIABILITIES AND EQUITY</u>  |                      |                      |
| Liabilities:   |                      |                      |
| Line of credit payable   | \$ 133,600           | \$ —                 |
| Mortgages payable, including unamortized premium and net of unamortized debt costs   | 12,059               | 12,694               |
| Notes payable, net of unamortized discount and unamortized debt costs  | 2,842,698            | 2,838,701            |
| Accrued interest payable   | 18,250               | 19,519               |
| Other liabilities  | 96,578               | 77,919               |
| Total liabilities  | <u>3,103,185</u>     | <u>2,948,833</u>     |
| Commitments and contingencies (Note 18)  |                      |                      |
| Equity:  |                      |                      |
| Stockholders' equity:  |                      |                      |
| Preferred stock, \$0.01 par value. Authorized 15,000,000 shares  |                      |                      |
| 5.700% Series E, 115,000 shares issued and outstanding, at December 31, 2018, at stated liquidation value of \$2,500 per share         | —                    | 287,500              |
| 5.200% Series F, 138,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share                               | 345,000              | 345,000              |
| Common stock, \$0.01 par value. Authorized 375,000,000 shares; 171,694,209 and 161,503,585 shares issued and outstanding, respectively | 1,718                | 1,616                |
| Capital in excess of par value   | 4,495,314            | 3,950,055            |
| Accumulated deficit  | (499,229)            | (424,225)            |
| Accumulated other comprehensive income (loss)  | (11,128)             | (5,696)              |
| Total stockholders' equity of NNN  | <u>4,331,675</u>     | <u>4,154,250</u>     |
| Noncontrolling interests   | 7                    | 355                  |
| Total equity   | <u>4,331,682</u>     | <u>4,154,605</u>     |
| Total liabilities and equity   | <u>\$ 7,434,867</u>  | <u>\$ 7,103,438</u>  |

See accompanying notes to consolidated financial statements.



NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(dollars in thousands, except per share data)

|  | Year Ended December 31, |                   |                   |
|--|-------------------------|-------------------|-------------------|
|  | 2019                    | 2018              | 2017              |
| <b>Revenues:</b>   |                         |                   |                   |
| Rental income  | \$ 669,009              | \$ 621,399        | \$ 583,595        |
| Interest and other income from real estate transactions              | 1,478                   | 1,262             | 1,338             |
|  | <u>670,487</u>          | <u>622,661</u>    | <u>584,933</u>    |
| <b>Operating expenses:</b>   |                         |                   |                   |
| General and administrative   | 37,651                  | 34,248            | 33,805            |
| Real estate  | 27,656                  | 25,099            | 23,105            |
| Depreciation and amortization  | 188,871                 | 174,398           | 173,720           |
| Impairment losses – real estate and other charges, net of recoveries | 31,992                  | 28,211            | 8,955             |
| Retirement severance costs   | —                       | 1,013             | 7,845             |
|  | <u>286,170</u>          | <u>262,969</u>    | <u>247,430</u>    |
| Gain on disposition of real estate                                   | 32,463                  | 65,070            | 36,655            |
| Earnings from operations   | <u>416,780</u>          | <u>424,762</u>    | <u>374,158</u>    |
| <b>Other expenses (revenues):</b>                                    |                         |                   |                   |
| Interest and other income  | (3,112)                 | (1,810)           | (322)             |
| Interest expense   | 120,023                 | 115,847           | 109,109           |
| Leasing transaction costs  | 261                     | —                 | —                 |
| Loss on early extinguishment of debt                                 | —                       | 18,240            | —                 |
|  | <u>117,172</u>          | <u>132,277</u>    | <u>108,787</u>    |
| Net earnings   | 299,608                 | 292,485           | 265,371           |
| Earnings attributable to noncontrolling interests                    | (428)                   | (38)              | (398)             |
| Net earnings attributable to NNN                                     | <u>\$ 299,180</u>       | <u>\$ 292,447</u> | <u>\$ 264,973</u> |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME – CONTINUED  
(dollars in thousands, except per share data)

|   | Year Ended December 31, |                    |                    |
|---|-------------------------|--------------------|--------------------|
|   | 2019                    | 2018               | 2017               |
| Net earnings attributable to NNN  | \$ 299,180              | \$ 292,447         | \$ 264,973         |
| Series D preferred stock dividends  | —                       | —                  | (3,598)            |
| Series E preferred stock dividends  | (13,201)                | (16,387)           | (16,387)           |
| Series F preferred stock dividends  | (17,940)                | (17,940)           | (17,940)           |
| Excess of redemption value over carrying value of preferred shares redeemed | (9,856)                 | —                  | (9,855)            |
| Net earnings attributable to common stockholders                            | <u>\$ 258,183</u>       | <u>\$ 258,120</u>  | <u>\$ 217,193</u>  |
| Net earnings per share of common stock:                                     |                         |                    |                    |
| Basic   | <u>\$ 1.56</u>          | <u>\$ 1.65</u>     | <u>\$ 1.45</u>     |
| Diluted   | <u>\$ 1.56</u>          | <u>\$ 1.65</u>     | <u>\$ 1.45</u>     |
| Weighted average number of common shares outstanding:                       |                         |                    |                    |
| Basic   | <u>164,688,498</u>      | <u>155,744,601</u> | <u>149,111,188</u> |
| Diluted   | <u>165,083,679</u>      | <u>156,295,619</u> | <u>149,432,641</u> |
| Other comprehensive income:   |                         |                    |                    |
| Net earnings attributable to NNN  | \$ 299,180              | \$ 292,447         | \$ 264,973         |
| Amortization of interest rate hedges  | 1,307                   | 3,664              | 1,932              |
| Fair value of forward starting swaps  | (5,524)                 | 4,080              | (7,688)            |
| Valuation adjustments – available-for-sale securities                       | 116                     | 298                | 209                |
| Realized gain – available-for-sale securities                               | (1,331)                 | —                  | —                  |
| Comprehensive income attributable to NNN                                    | <u>\$ 293,748</u>       | <u>\$ 300,489</u>  | <u>\$ 259,426</u>  |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY  
Years Ended December 31, 2019, 2018 and 2017  
(dollars in thousands, except per share data)

|   | Series D<br>Preferred<br>Stock | Series E<br>Preferred<br>Stock | Series F<br>Preferred<br>Stock | Common<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings<br>(Loss) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|---|--------------------------------|--------------------------------|--------------------------------|-----------------|--------------------------------------|--------------------------------|--|----------------------------------|-----------------------------|-----------------|
| Balances at December 31, 2016   | \$ 287,500                     | \$ 287,500                     | \$ 345,000                     | \$ 1,473        | \$ 3,322,771                         | \$ (319,254)                   | \$ (8,191)   | \$ 3,916,799                     | \$ 129                      | \$ 3,916,928    |
| Net earnings  | —                              | —                              | —                              | —               | —                                    | 264,973                        | —  | 264,973                          | 398                         | 265,371         |
| Dividends declared and paid:  |                                |                                |                                |                 |                                      |                                |  |                                  |                             |                 |
| \$0.312847 per depositary share of<br>Series D preferred stock            | —                              | —                              | —                              | —               | —                                    | (3,598)                        | —  | (3,598)                          | —                           | (3,598)         |
| \$1.42500 per depositary share of<br>Series E preferred stock             | —                              | —                              | —                              | —               | —                                    | (16,387)                       | —  | (16,387)                         | —                           | (16,387)        |
| \$1.30000 per depositary share of<br>Series F preferred stock             | —                              | —                              | —                              | —               | —                                    | (17,940)                       | —  | (17,940)                         | —                           | (17,940)        |
| \$1.86 per share of common stock  | —                              | —                              | —                              | 2               | 8,825                                | (277,120)                      | —  | (268,293)                        | —                           | (268,293)       |
| Redemption of 11,500,000 depositary<br>shares of Series D preferred stock | (287,500)                      | —                              | —                              | —               | 9,855                                | (9,855)                        | —  | (287,500)                        | —                           | (287,500)       |
| Issuance of common stock:   |                                |                                |                                |                 |                                      |                                |  |                                  |                             |                 |
| 35,456 shares – director<br>compensation                                  | —                              | —                              | —                              | 1               | 1,175                                | —                              | —  | 1,176                            | —                           | 1,176           |
| 13,695 shares – stock purchase plan                                       | —                              | —                              | —                              | —               | 563                                  | —                              | —  | 563                              | —                           | 563             |
| 5,821,366 shares – ATM equity<br>program                                  | —                              | —                              | —                              | 58              | 247,546                              | —                              | —  | 247,604                          | —                           | 247,604         |
| 274,102 restricted shares – net of<br>forfeitures and repurchases         | —                              | —                              | —                              | 3               | (234)                                | —                              | —  | (231)                            | —                           | (231)           |
| Stock issuance costs  | —                              | —                              | —                              | —               | (3,782)                              | —                              | —  | (3,782)                          | —                           | (3,782)         |
| Amortization of deferred compensation                                     | —                              | —                              | —                              | —               | 12,630                               | —                              | —  | 12,630                           | —                           | 12,630          |
| Amortization of interest rate hedges                                      | —                              | —                              | —                              | —               | —                                    | —                              | 1,932  | 1,932                            | —                           | 1,932           |
| Fair value of forward starting swaps                                      | —                              | —                              | —                              | —               | —                                    | —                              | (7,688)  | (7,688)                          | —                           | (7,688)         |
| Valuation adjustments – available-for-<br>sale securities                 | —                              | —                              | —                              | —               | —                                    | —                              | 209  | 209                              | —                           | 209             |
| Distributions to noncontrolling interests                                 | —                              | —                              | —                              | —               | —                                    | —                              | —  | —                                | (84)                        | (84)            |
| Noncontrolling interests  | —                              | —                              | —                              | —               | 126                                  | —                              | —  | 126                              | (126)                       | —               |
| Balances at December 31, 2017   | \$ —                           | \$ 287,500                     | \$ 345,000                     | \$ 1,537        | \$ 3,599,475                         | \$ (379,181)                   | \$ (13,738)  | \$ 3,840,593                     | \$ 317                      | \$ 3,840,910    |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY – CONTINUED

Years Ended December 31, 2019, 2018 and 2017

(dollars in thousands, except per share data)

|   | Series D<br>Preferred<br>Stock | Series E<br>Preferred<br>Stock | Series F<br>Preferred<br>Stock | Common<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings<br>(Loss) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|---|--------------------------------|--------------------------------|--------------------------------|-----------------|--------------------------------------|--------------------------------|--|----------------------------------|-----------------------------|-----------------|
| Balances at December 31, 2017                                     | \$ —                           | \$ 287,500                     | \$ 345,000                     | \$ 1,537        | \$ 3,599,475                         | \$ (379,181)                   | \$ (13,738)  | \$ 3,840,593                     | \$ 317                      | \$ 3,840,910    |
| Net earnings  | —                              | —                              | —                              | —               | —                                    | 292,447                        | —  | 292,447                          | 38                          | 292,485         |
| Dividends declared and paid:                                      |                                |                                |                                |                 |                                      |                                |  |                                  |                             |                 |
| \$1.42500 per depositary share of<br>Series E preferred stock     | —                              | —                              | —                              | —               | —                                    | (16,387)                       | —  | (16,387)                         | —                           | (16,387)        |
| \$1.30000 per depositary share of<br>Series F preferred stock     | —                              | —                              | —                              | —               | —                                    | (17,940)                       | —  | (17,940)                         | —                           | (17,940)        |
| \$1.95 per share of common stock                                  | —                              | —                              | —                              | 3               | 12,960                               | (303,164)                      | —  | (290,201)                        | —                           | (290,201)       |
| Issuance of common stock:   |                                |                                |                                |                 |                                      |                                |  |                                  |                             |                 |
| 40,731 shares – director<br>compensation                          | —                              | —                              | —                              | —               | 1,375                                | —                              | —  | 1,375                            | —                           | 1,375           |
| 10,101 shares – stock purchase plan                               | —                              | —                              | —                              | —               | 426                                  | —                              | —  | 426                              | —                           | 426             |
| 7,378,163 shares – ATM equity<br>program                          | —                              | —                              | —                              | 74              | 331,944                              | —                              | —  | 332,018                          | —                           | 332,018         |
| 221,484 restricted shares – net of<br>forfeitures and repurchases | —                              | —                              | —                              | 2               | (91)                                 | —                              | —  | (89)                             | —                           | (89)            |
| Stock issuance costs  | —                              | —                              | —                              | —               | (3,947)                              | —                              | —  | (3,947)                          | —                           | (3,947)         |
| Amortization of deferred<br>compensation                          | —                              | —                              | —                              | —               | 7,913                                | —                              | —  | 7,913                            | —                           | 7,913           |
| Amortization of interest rate hedges                              | —                              | —                              | —                              | —               | —                                    | —                              | 3,664  | 3,664                            | —                           | 3,664           |
| Fair value of forward starting swaps                              | —                              | —                              | —                              | —               | —                                    | —                              | 4,080  | 4,080                            | —                           | 4,080           |
| Valuation adjustments – available-for-<br>sale securities         | —                              | —                              | —                              | —               | —                                    | —                              | 298  | 298                              | —                           | 298             |
| Balances at December 31, 2018                                     | \$ —                           | \$ 287,500                     | \$ 345,000                     | \$ 1,616        | \$ 3,950,055                         | \$ (424,225)                   | \$ (5,696)   | \$ 4,154,250                     | \$ 355                      | \$ 4,154,605    |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EQUITY – CONTINUED  
Years Ended December 31, 2019, 2018 and 2017  
(dollars in thousands, except per share data)

|   | Series D<br>Preferred<br>Stock | Series E<br>Preferred<br>Stock | Series F<br>Preferred<br>Stock | Common<br>Stock | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings<br>(Loss) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|---|--------------------------------|--------------------------------|--------------------------------|-----------------|--------------------------------------|--------------------------------|--|----------------------------------|-----------------------------|-----------------|
| Balances at December 31, 2018   | \$ —                           | \$ 287,500                     | \$ 345,000                     | \$ 1,616        | \$ 3,950,055                         | \$ (424,225)                   | \$ (5,696)   | \$ 4,154,250                     | \$ 355                      | \$ 4,154,605    |
| Net earnings  | —                              | —                              | —                              | —               | —                                    | 299,180                        | —  | 299,180                          | 428                         | 299,608         |
| Dividends declared and paid:  |                                |                                |                                |                 |                                      |                                |  |                                  |                             |                 |
| \$1.147917 per depository share of<br>Series E preferred stock            | —                              | —                              | —                              | —               | —                                    | (13,201)                       | —  | (13,201)                         | —                           | (13,201)        |
| \$1.30000 per depository share of<br>Series F preferred stock             | —                              | —                              | —                              | —               | —                                    | (17,940)                       | —  | (17,940)                         | —                           | (17,940)        |
| \$2.03 per share of common stock  | —                              | —                              | —                              | 4               | 19,069                               | (333,692)                      | —  | (314,619)                        | —                           | (314,619)       |
| Redemption of 11,500,000 depository<br>shares of Series E preferred stock | —                              | (287,500)                      | —                              | —               | 9,856                                | (9,856)                        | —  | (287,500)                        | —                           | (287,500)       |
| Issuance of common stock:   |                                |                                |                                |                 |                                      |                                |  |                                  |                             |                 |
| 28,287 shares – director<br>compensation                                  | —                              | —                              | —                              | —               | 1,294                                | —                              | —  | 1,294                            | —                           | 1,294           |
| 6,986 shares – stock purchase plan  | —                              | —                              | —                              | —               | 370                                  | —                              | —  | 370                              | —                           | 370             |
| 2,344,022 shares – ATM equity<br>program                                  | —                              | —                              | —                              | 24              | 127,313                              | —                              | —  | 127,337                          | —                           | 127,337         |
| 7,000,000 shares – equity offering  | —                              | —                              | —                              | 70              | 395,430                              | —                              | —  | 395,500                          | —                           | 395,500         |
| 359,650 restricted shares – net of<br>forfeitures                         | —                              | —                              | —                              | 4               | (4)                                  | —                              | —  | —                                | —                           | —               |
| Stock issuance costs  | —                              | —                              | —                              | —               | (17,521)                             | —                              | —  | (17,521)                         | —                           | (17,521)        |
| Amortization of deferred compensation                                     | —                              | —                              | —                              | —               | 9,452                                | —                              | —  | 9,452                            | —                           | 9,452           |
| Amortization of interest rate hedges                                      | —                              | —                              | —                              | —               | —                                    | —                              | 1,307  | 1,307                            | —                           | 1,307           |
| Fair value of forward starting swaps                                      | —                              | —                              | —                              | —               | —                                    | —                              | (5,524)  | (5,524)                          | —                           | (5,524)         |
| Valuation adjustments – available-for-<br>sale securities                 | —                              | —                              | —                              | —               | —                                    | —                              | 116  | 116                              | —                           | 116             |
| Realized gain – available-for-sale<br>securities                          | —                              | —                              | —                              | —               | —                                    | —                              | (1,331)  | (1,331)                          | —                           | (1,331)         |
| Other   | —                              | —                              | —                              | —               | —                                    | 505                            | —  | 505                              | —                           | 505             |
| Distributions to noncontrolling interests                                 | —                              | —                              | —                              | —               | —                                    | —                              | —  | —                                | (776)                       | (776)           |
| Balances at December 31, 2019   | \$ —                           | \$ —                           | \$ 345,000                     | \$ 1,718        | \$ 4,495,314                         | \$ (499,229)                   | \$ (11,128)  | \$ 4,331,675                     | \$ 7                        | \$ 4,331,682    |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(dollars in thousands)

|  | Year Ended December 31, |                  |                  |
|--|-------------------------|------------------|------------------|
|  | 2019                    | 2018             | 2017             |
| <b>Cash flows from operating activities:</b>   |                         |                  |                  |
| Net earnings   | \$ 299,608              | \$ 292,485       | \$ 265,371       |
| <b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>         |                         |                  |                  |
| Depreciation and amortization  | 188,871                 | 174,398          | 173,720          |
| Impairment losses – real estate and other charges, net of recoveries                               | 31,992                  | 28,211           | 4,953            |
| Loss on early extinguishment of debt   | —                       | 18,240           | —                |
| Amortization of notes payable discount   | 1,739                   | 3,263            | 1,788            |
| Amortization of debt costs   | 3,731                   | 4,611            | 3,502            |
| Amortization of mortgages payable premium  | (86)                    | (85)             | (85)             |
| Amortization of interest rate hedges   | 1,307                   | 3,664            | 1,932            |
| Settlement of forward starting swaps   | —                       | 4,080            | (7,688)          |
| Gain on disposition of real estate   | (32,463)                | (65,070)         | (36,655)         |
| Performance incentive plan expense   | 11,547                  | 10,417           | 14,223           |
| Performance incentive plan payment   | (775)                   | (432)            | (862)            |
| <b>Change in operating assets and liabilities, net of assets acquired and liabilities assumed:</b> |                         |                  |                  |
| Decrease in real estate leased to others using the direct financing method                         | 602                     | 874              | 884              |
| Decrease (increase) in receivables   | 923                     | (203)            | (175)            |
| Increase in accrued rental income  | (2,333)                 | (747)            | (1,752)          |
| Decrease (increase) in other assets  | (96)                    | 793              | 1,960            |
| Increase (decrease) in accrued interest payable  | (1,269)                 | (792)            | 646              |
| Decrease in other liabilities  | (1,379)                 | (1,516)          | (90)             |
| Other  | (192)                   | (282)            | (115)            |
| Net cash provided by operating activities  | <u>501,727</u>          | <u>471,909</u>   | <u>421,557</u>   |
| <b>Cash flows from investing activities:</b>   |                         |                  |                  |
| Proceeds from the disposition of real estate   | 123,997                 | 148,476          | 97,245           |
| <b>Additions to real estate:</b>   |                         |                  |                  |
| Accounted for using the operating method   | (747,521)               | (756,971)        | (721,893)        |
| Principal payments on mortgages and notes receivable   | 3,100                   | —                | 1,250            |
| Other  | 1,016                   | (876)            | (2,159)          |
| Net cash used in investing activities  | <u>(619,408)</u>        | <u>(609,371)</u> | <u>(625,557)</u> |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED  
(dollars in thousands)

|  | Year Ended December 31, |              |              |
|--|-------------------------|--------------|--------------|
|  | 2019                    | 2018         | 2017         |
| <b>Cash flows from financing activities:</b>                                   |                         |              |              |
| Proceeds from line of credit payable   | \$ 829,200              | \$ 1,599,500 | \$ 1,501,700 |
| Repayment of line of credit payable  | (695,600)               | (1,720,000)  | (1,381,200)  |
| Repayment of mortgages payable   | (567)                   | (538)        | (510)        |
| Proceeds from notes payable  | —                       | 692,913      | 398,372      |
| Repayment of notes payable   | —                       | (300,000)    | (250,000)    |
| Payment for early extinguishment of debt                                       | —                       | (18,240)     | —            |
| Payment of debt issuance costs   | (157)                   | (7,156)      | (7,837)      |
| Proceeds from issuance of common stock   | 542,280                 | 345,324      | 256,764      |
| Stock issuance costs   | (17,521)                | (3,947)      | (3,836)      |
| Redemption of Series D preferred stock   | —                       | —            | (287,500)    |
| Redemption of Series E preferred stock   | (287,500)               | —            | —            |
| Payment of Series D preferred stock dividends                                  | —                       | —            | (3,598)      |
| Payment of Series E preferred stock dividends                                  | (13,201)                | (16,387)     | (16,387)     |
| Payment of Series F preferred stock dividends                                  | (17,940)                | (17,940)     | (17,940)     |
| Payment of common stock dividends  | (333,692)               | (303,164)    | (277,120)    |
| Noncontrolling interest distributions  | (776)                   | —            | (84)         |
| Net cash provided by (used in) financing activities                            | 4,526                   | 250,365      | (89,176)     |
| Net increase (decrease) in cash, cash equivalents and restricted cash          | (113,155)               | 112,903      | (293,176)    |
| Cash, cash equivalents and restricted cash at beginning of year <sup>(1)</sup> | 114,267                 | 1,364        | 294,540      |
| Cash, cash equivalents and restricted cash at end of year <sup>(1)</sup>       | \$ 1,112                | \$ 114,267   | \$ 1,364     |
| <b>Supplemental disclosure of cash flow information:</b>                       |                         |              |              |
| Interest paid, net of amount capitalized                                       | \$ 115,700              | \$ 107,861   | \$ 103,761   |
| Taxes received   | \$ —                    | \$ —         | \$ (15)      |
| <b>Supplemental disclosure of noncash investing and financing activities:</b>  |                         |              |              |
| Increase (decrease) in other comprehensive income                              | \$ 5,432                | \$ (8,042)   | \$ 5,547     |
| Right-of-use assets recorded in connection with lease liabilities              | \$ 8,224                | \$ —         | \$ —         |
| Work in progress accrual balance   | \$ 21,579               | \$ 16,603    | \$ 58,002    |
| Mortgage receivable accepted in connection with real estate transactions       | \$ 3,100                | \$ —         | \$ —         |
| Change in lease classification (direct financing lease to operating lease)     | \$ 1,246                | \$ 565       | \$ 696       |
| Change in lease classification (operating lease to direct financing lease)     | \$ —                    | \$ 258       | \$ —         |

<sup>(1)</sup> Cash, cash equivalents and restricted cash is the aggregate of cash and cash equivalents and restricted cash and cash held in escrow from the Consolidated Balance Sheets. NNN did not have restricted cash or cash held in escrow as of December 31, 2019, 2018 and 2017.

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2019, 2018 and 2017

**Note 1 – Organization and Summary of Significant Accounting Policies:**

Organization and Nature of Business – National Retail Properties, Inc., a Maryland corporation, is a fully integrated real estate investment trust ("REIT") formed in 1984. The term "NNN" or the "Company" refers to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN may elect to treat certain subsidiaries as taxable REIT subsidiaries, ("TRS").

NNN's assets primarily include real estate assets. NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and are primarily held for investment ("Properties" or "Property Portfolio," or individually a "Property").

|   | December 31, 2019 |
|---|-------------------|
| <b>Property Portfolio:</b>                    |                   |
| Total properties                              | 3,118             |
| Gross leasable area (square feet)             | 32,460,000        |
| States  | 48                |
| Weighted average remaining lease term (years) | 11.2              |

NNN's operations are reported within one operating segment in the consolidated financial statements and all properties are considered part of the Properties or Property Portfolio. As such, property counts and calculations involving property counts reflect all NNN properties.

Principles of Consolidation – NNN's consolidated financial statements include the accounts of each of the respective majority owned and controlled affiliates, including transactions whereby NNN has been determined to be the primary beneficiary in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance included in *Consolidation*. All significant intercompany account balances and transactions have been eliminated.

NNN consolidates certain joint venture development entities based upon either NNN being the primary beneficiary of the respective variable interest entity or NNN having a controlling interest over the respective entity. NNN eliminates significant intercompany balances and transactions and records a noncontrolling interest for its other partners' ownership percentage.

Real Estate Portfolio – NNN records the acquisition of real estate at cost, including acquisition and closing costs. The cost of Properties developed or funded by NNN includes direct and indirect costs of construction, property taxes, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. For the years ended December 31, 2019, 2018 and 2017, NNN recorded \$1,099,000, \$2,675,000 and \$2,435,000, respectively, in capitalized interest during development.

*Purchase Accounting for Acquisition of Real Estate* – In accordance with the FASB guidance on business combinations, consideration for the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and tenant improvements and, if applicable, to identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and the value of in-place leases, as applicable, based on their respective fair values.

The fair value estimate is sensitive to significant assumptions, such as establishing a range of relevant market assumptions for land, building and rent and where the acquired property falls within that range. These market assumptions for land, building and rent use the most relevant comparable properties for an acquisition. The final range relies upon ranking comparable properties' attributes from most similar to least similar.

The fair value of the tangible assets of an acquired property is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land, building and tenant improvements based on the determination of their fair values.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded as other assets or liabilities based on the present value (using an interest rate which



reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases, and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease and the applicable option terms if it is probable that the tenant will exercise options. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term unless the Company believes that it is likely that the tenant will renew the lease for an option term whereby the Company amortizes the value attributable to the renewal over the renewal period.

The aggregate value of other acquired intangible assets, consisting of in-place leases, is measured by the excess of (i) the purchase price paid for a property after adjusting existing in-place leases to market rental rates over (ii) the estimated fair value of the property as-if-vacant, determined as set forth above. The value of in-place leases exclusive of the value of above-market and below-market in-place leases is amortized to expense over the remaining non-cancelable periods of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be written off in that period. The value of tenant relationships is reviewed on individual transactions to determine if future value was derived from the acquisition.

NNN's real estate is generally leased to tenants on a net lease basis, whereby the tenant is responsible for all operating expenses relating to the Property, including property taxes, insurance, maintenance, repairs and capital expenditures. The leases are accounted for using either the operating or the direct financing method. Such methods are described below:

*Operating method* – Properties with leases accounted for using the operating method are recorded at the cost of the real estate. Revenue is recognized as rentals are earned and expenses (including depreciation) are charged to operations as incurred. Buildings and improvements are depreciated on the straight-line method over their estimated useful lives. Leasehold interests are amortized on the straight-line method over the terms of their respective leases. When scheduled rentals vary during the lease term, income is recognized on a straight-line basis so as to produce a constant periodic rent over the term of the lease. Accrued rental income is the aggregate difference between the scheduled rents which vary during the lease term and the income recognized on a straight-line basis.

*Direct financing method* – Properties with leases accounted for using the direct financing method are recorded at their net investment (which at the inception of the lease generally represents the cost of the Property). Unearned income is deferred and amortized into income over the lease terms so as to produce a constant periodic rate of return on NNN's net investment in the leases.

NNN completed \$668,489,000 and \$591,691,000 of real estate acquisitions during the year ended December 31, 2019 and 2018, respectively. Additionally, NNN invested \$84,008,000 and \$123,881,000 of work in progress - improvements during the year ended December 31, 2019 and 2018, respectively.

Lease Accounting – Effective January 1, 2019, NNN adopted FASB Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)," ("ASC 842") using the modified retrospective approach in which the cumulative effect of applying the new standard was recognized at the date of initial application with a positive adjustment to NNN's opening balance of accumulated deficit. The modified retrospective approach provides a method for recording existing leases upon adoption which in comparative periods approximates the results of a full retrospective approach. NNN elected the package of practical expedients permitted under the transition guidance (which included: (i) an entity need not reassess whether any expired or existing contracts are or contain leases, (ii) an entity need not reassess the lease classification for any expired or existing leases, and (iii) an entity need not reassess initial direct costs for any existing leases), the land easement practical expedient to carry forward existing accounting treatment on existing land easements, and the lease and non-lease component combined practical expedient.

NNN estimates the collectability of its accounts receivable related to rents, expense reimbursements and other revenues. NNN analyzes accounts receivable and historical bad debt levels, tenant credit-worthiness and current economic trends when evaluating the probable collection. At the point NNN deems the collection of lease payments not probable, a bad debt is recognized for any outstanding receivable and any related accrued rent and, subsequently, any lease revenue is only recognized when cash receipts are received.

Adoption of the new standard resulted in the recording of right-of-use ("ROU") assets and operating lease liabilities of approximately \$7,735,000 and \$10,155,000 respectively, as of January 1, 2019. Additional disclosures are included in Note 3 – Right-Of-Use Assets and Operating Lease Liabilities. The consolidated financial statements for the year ended December 31, 2019, are presented under the new standard, while comparative periods presented are not adjusted and continue to be reported in accordance with NNN's historical accounting policy. ASC 842 did not materially impact NNN's financial position or results of operations and had no impact on cash flows.

Real Estate – Held For Sale – Real estate held for sale is not depreciated and is recorded at the lower of cost or fair value, less cost to sell.

Real Estate Dispositions – When real estate is disposed of, the related cost, accumulated depreciation or amortization and any accrued rental income for operating leases and the net investment for direct financing leases are removed from the accounts, and gains and losses from the dispositions are reflected in income. Gains from the disposition of real estate are generally recognized using the full accrual method in accordance with the FASB guidance included in *Real Estate Sales*, provided that various criteria relating to the terms of the sale and any subsequent involvement by NNN with the real estate sold are met.

Impairment – Real Estate – Based upon certain events or changes in circumstances, management periodically assesses its Properties for possible impairment whenever the carrying value of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions and the ability of NNN to re-lease or sell properties that are currently vacant or become vacant in a reasonable period of time. Management evaluates whether an impairment in carrying value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), and the residual value of the real estate, with the carrying value of the individual asset. The future undiscounted cash flows are primarily driven by estimated future market rents. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its estimated fair value.

Cash and Cash Equivalents – NNN considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of cash and money market accounts. Cash equivalents are stated at cost plus accrued interest, which approximates fair value.

Cash accounts maintained on behalf of NNN in demand deposits at commercial banks and money market funds may exceed federally insured levels or may be held in accounts without any federal insurance or any other insurance or guarantee. However, NNN has not experienced any losses in such accounts.

Restricted Cash and Cash Held in Escrow – Restricted cash and cash held in escrow include (i) cash proceeds from the sale of assets held by qualified intermediaries in anticipation of the acquisition of replacement properties in tax-free exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) cash that has been placed in escrow for the future funding of construction commitments, or (iii) cash that is not immediately available to NNN.

Valuation of Trade Receivables – NNN estimates the collectibility of its accounts receivable related to rents, expense reimbursements and other revenues. NNN analyzes accounts receivable and historical bad debt levels, tenant credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants in bankruptcy are analyzed and estimates are made in connection with the expected recovery of pre-petition and post-petition claims.

Debt Costs – Line of Credit Payable – Debt costs incurred in connection with NNN's \$900,000,000 line of credit have been deferred and are being amortized to interest expense over the term of the loan commitment using the straight-line method, which approximates the effective interest method. NNN has recorded debt costs associated with the line of credit as an asset, in *debt costs* on the Consolidated Balance Sheets.

Debt Costs – Mortgages Payable – Debt costs incurred in connection with NNN's mortgages payable have been deferred and are being amortized over the term of the respective loan commitment using the straight-line method, which approximates the effective interest method. These costs of \$147,000 at December 31, 2019 and 2018, are included in *mortgages payable* on the Consolidated Balance Sheets net of accumulated amortization of \$90,000 and \$73,000, respectively.

Debt Costs – Notes Payable – Debt costs incurred in connection with the issuance of NNN's notes payable have been deferred and are being amortized to interest expense over the term of the respective debt obligation using the effective interest method. These costs of \$26,932,000 at December 31, 2019 and 2018 are included in *notes payable* on the Consolidated Balance Sheets net of accumulated amortization of \$8,962,000 and \$6,705,000, respectively.

Revenue Recognition – Rental revenues for properties under construction commence upon completion of construction of the leased asset and delivery of the leased asset to the tenant. Rental revenues for non-development real estate assets are recognized when earned in accordance with the FASB guidance included in *Leases*, based on the terms of the lease of the leased asset. Lease termination fees are recognized when collected subsequent to the related lease that is cancelled and NNN no longer has continuing involvement with the former tenant with respect to that property.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606). The core principle of ASU 2014-09, is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in

an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Certain contracts are excluded from ASU 2014-09, including lease contracts within the scope of the FASB guidance included in Leases (Topic 842). NNN adopted ASU 2014-09 on January 1, 2018, and applied the cumulative catch-up transition method. Through the evaluation and implementation process, NNN determined the key revenue stream impacted by ASU 2014-09 is *gain on disposition of real estate* reported on the Consolidated Statements of Income and Comprehensive Income. Prior to the adoption of ASU 2014-09, NNN recognized revenue at the time of closing (i.e., transfer of asset). Following the adoption of ASU 2014-09, NNN evaluates any separate contracts or performance obligations to determine proper timing and/or amount of revenue recognition, as well as, transaction price allocation.

**Earnings Per Share** – Earnings per share have been computed pursuant to the FASB guidance included in *Earnings Per Share*. The guidance requires classification of the Company’s unvested restricted share units which contain rights to receive nonforfeitable dividends, as participating securities requiring the two-class method of computing earnings per share. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period. The following table is a reconciliation of the numerator and denominator used in the computation of basic and diluted earnings per common share using the two-class method for the years ended December 31 (dollars in thousands):

|   | 2019               | 2018               | 2017               |
|---|--------------------|--------------------|--------------------|
| <b>Basic and Diluted Earnings:</b>  |                    |                    |                    |
| Net earnings attributable to NNN  | \$ 299,180         | \$ 292,447         | \$ 264,973         |
| Less: Series D preferred stock dividends  | —                  | —                  | (3,598)            |
| Less: Series E preferred stock dividends  | (13,201)           | (16,387)           | (16,387)           |
| Less: Series F preferred stock dividends  | (17,940)           | (17,940)           | (17,940)           |
| Less: Excess of redemption value over carrying value of preferred shares redeemed | (9,856)            | —                  | (9,855)            |
| Net earnings available to common stockholders                                     | 258,183            | 258,120            | 217,193            |
| Less: Earnings allocated to unvested restricted shares                            | (601)              | (548)              | (531)              |
| Net earnings used in basic and diluted earnings per share                         | <u>\$ 257,582</u>  | <u>\$ 257,572</u>  | <u>\$ 216,662</u>  |
| <b>Basic and Diluted Weighted Average Shares Outstanding:</b>                     |                    |                    |                    |
| Weighted average number of shares outstanding                                     | 165,499,707        | 156,490,901        | 149,840,116        |
| Less: Unvested restricted shares  | (295,773)          | (280,633)          | (285,585)          |
| Less: Unvested contingent restricted shares                                       | (515,436)          | (465,667)          | (443,343)          |
| Weighted average number of shares outstanding used in basic earnings per share    | 164,688,498        | 155,744,601        | 149,111,188        |
| Other dilutive securities   | 395,181            | 551,018            | 321,453            |
| Weighted average number of shares outstanding used in diluted earnings per share  | <u>165,083,679</u> | <u>156,295,619</u> | <u>149,432,641</u> |

**Income Taxes** – NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Code, and related regulations. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2019, NNN believes it has qualified as a REIT. Notwithstanding NNN’s qualification for taxation as a REIT, NNN is subject to certain state income, franchise and excise taxes.

NNN may elect to treat certain subsidiaries as taxable REIT subsidiaries pursuant to the provisions of the REIT Modernization Act. A taxable REIT subsidiary is able to engage in activities resulting in income that previously would have been disqualified from being eligible REIT income under the federal income tax regulations. As a result, certain activities of NNN which occur within its TRS entities are subject to federal and state income taxes (See Note 11). All provisions for federal income taxes in the accompanying consolidated financial statements are attributable to NNN’s taxable REIT subsidiaries.

Income taxes are accounted for under the asset and liability method as required by the FASB guidance included in *Income Taxes*. Deferred tax assets and liabilities are recognized for the temporary differences based on estimated future tax

consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Fair Value Measurement – NNN’s estimates of fair value of financial and non-financial assets and liabilities are based on the framework established in the fair value accounting guidance. The framework specifies a hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. The guidance describes a fair value hierarchy based upon three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable. The following describes the three levels:

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities.
- Level 2 – Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques.

Accumulated Other Comprehensive Income (Loss) – The following table outlines the changes in accumulated other comprehensive income (loss) (dollars in thousands):

|  | Gain or Loss on<br>Cash Flow<br>Hedges <sup>(1)</sup> | Gains and<br>Losses on<br>Available-for-<br>Sale Securities | Total       |
|--|---|---|-------------|
| Beginning balance, December 31, 2017   | \$ (14,655)   | \$ 917  | \$ (13,738) |
| Other comprehensive income   | 4,080   | 298   | 4,378       |
| Reclassifications from accumulated other comprehensive income<br>to net earnings | 3,664 <sup>(2)</sup>                                  | —   | 3,664       |
| Net current period other comprehensive income                                    | 7,744   | 298   | 8,042       |
| Ending balance, December 31, 2018  | (6,911)   | 1,215   | (5,696)     |
| Other comprehensive income (loss)  | (5,524)   | 116   | (5,408)     |
| Reclassifications from accumulated other comprehensive income<br>to net earnings | 1,307 <sup>(2)</sup>                                  | (1,331)   | (24)        |
| Net current period other comprehensive income (loss)                             | (4,217)   | (1,215)   | (5,432)     |
| Ending balance, December 31, 2019  | \$ (11,128)   | \$ —  | \$ (11,128) |

<sup>(1)</sup> Additional disclosure is included in Note 12 – Derivatives.

<sup>(2)</sup> Reclassifications out of other comprehensive income (loss) are recorded in *interest expense* on the Consolidated Statements of Income and Comprehensive Income. There is no income tax expense (benefit) resulting from this reclassification.

New Accounting Pronouncements – In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," ("ASU 2016-13"), effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. NNN is currently evaluating to determine the potential impact, if any, the adoption of ASU 2016-13 will have on NNN's financial position or results of operations.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," ("ASU 2019-12"), effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The amendments simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by

clarifying and amending existing guidance. NNN is currently evaluating to determine the potential impact the adoption of ASU 2019-12 will have on NNN's financial position or results of operations.

Use of Estimates – Additional critical accounting policies of NNN include management's estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities are required to prepare the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies include management's estimates of the useful lives used in calculating depreciation expense relating to real estate assets purchase accounting for acquisition of real estate subject to a lease, and the recoverability of the carrying value of long-lived assets. Actual results could differ from those estimates.

Reclassification – Certain items in the prior year's consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2019 presentation.

NNN adopted certain practical expedients in ASC 842 which allows the presentation of all income earned pursuant to tenant leases to be included in *rental income* reported on the Consolidated Statements of Income and Comprehensive Income.

## **Note 2 – Real Estate:**

### *Real Estate – Portfolio*

Leases – The following outlines key information for NNN's leases at December 31, 2019:

|   |       |
|---|-------|
| Lease classification:                         |       |
| Operating                                     | 3,143 |
| Direct financing                              | 6     |
| Weighted average remaining lease term (years) | 11.2  |

The following is a summary of the general structure of the leases in the Property Portfolio, although the specific terms of each lease can vary significantly. Generally, the Property leases provide for initial terms of 10 to 20 years. The Properties are generally leased under net leases, pursuant to which the tenant typically bears responsibility for substantially all property costs and expenses associated with ongoing maintenance, repair, replacement and operation of the property, including utilities, property taxes and property and liability insurance. Certain Properties are subject to leases under which NNN retains responsibility for specific costs and expenses of the Property. NNN's leases provide for annual base rental payments (generally payable in monthly installments), and generally provide for limited increases in rent as a result of (i) increases in the Consumer Price Index ("CPI"), (ii) fixed increases, or, to a lesser extent, (iii) increases in the tenant's sales volume.

Generally, NNN's leases provide the tenant with one or more multi-year renewal options, subject to generally the same terms and conditions provided under the initial lease term, including rent increases. NNN's lease term is based on the non-cancellable base term unless economic incentives make it reasonably certain that an option period to extend the lease will be exercised, in which event NNN includes the options. Some of the leases also provide that in the event NNN wishes to sell the Property subject to that lease, NNN first must offer the lessee the right to purchase the Property on the same terms and conditions as any offer which NNN intends to accept for the sale of the Property.

Real Estate Portfolio – Accounted for Using the Operating Method – Real estate subject to operating leases consisted of the following at December 31 (dollars in thousands):

|  | 2019                | 2018                |
|--|---------------------|---------------------|
| Land and improvements <sup>(1)</sup>           | \$ 2,492,984        | \$ 2,369,014        |
| Buildings and improvements                     | 5,917,525           | 5,470,968           |
| Leasehold interests                            | 355                 | 3,630               |
|  | 8,410,864           | 7,843,612           |
| Less accumulated depreciation and amortization | (1,148,277)         | (1,006,183)         |
|  | 7,262,587           | 6,837,429           |
| Work in progress - improvements                | 27,438              | 8,017               |
|  | <u>\$ 7,290,025</u> | <u>\$ 6,845,446</u> |

<sup>(1)</sup> Includes \$16,930 and \$5,571 in land for Properties under construction as of December 31, 2019 and 2018, respectively.

NNN recognized the following revenues in rental income for the years ended December 31 (dollars in thousands):

|  | 2019              | 2018              | 2017              |
|--|-------------------|-------------------|-------------------|
| Rental income from operating leases            | \$ 650,112        | \$ 602,131        | \$ 565,405        |
| Earned income from direct financing leases     | 798               | 923               | 978               |
| Percentage rent                                | 1,310             | 1,561             | 1,700             |
| Real estate expense reimbursement from tenants | 16,789            | 16,784            | 15,512            |
|  | <u>\$ 669,009</u> | <u>\$ 621,399</u> | <u>\$ 583,595</u> |

Some leases provide for a free rent term or scheduled rent increases throughout the lease term. Such amounts are recognized on a straight-line basis over the terms of the leases. For the years ended December 31, 2019, 2018 and 2017, NNN recognized \$1,872,000, \$309,000 and \$1,411,000, respectively, of such income, net of reserves. At December 31, 2019 and 2018, the balance of accrued rental income was \$28,897,000 and \$25,387,000, respectively, net of allowance of \$1,842,000.

The following is a schedule of undiscounted cash flows to be received on noncancellable operating leases as of December 31, 2019 (dollars in thousands):

|            |                     |
|------------|---------------------|
| 2020       | \$ 664,571          |
| 2021       | 648,405             |
| 2022       | 618,646             |
| 2023       | 590,642             |
| 2024       | 569,865             |
| Thereafter | 4,458,973           |
|            | <u>\$ 7,551,102</u> |

Since lease renewal periods are exercisable at the option of the tenant, the above table only presents undiscounted cash flows due during the current lease terms. In addition, this table does not include amounts for potential variable rent increases that are based on the CPI or future contingent rents which may be received on the leases based on a percentage of the tenant's sales volume.

Real Estate Portfolio – Accounted for Using the Direct Financing Method – The following lists the components of net investment in direct financing leases at December 31 (dollars in thousands):

|   | 2019            | 2018            |
|---|-----------------|-----------------|
| Minimum lease payments to be received     | \$ 9,356        | \$ 10,899       |
| Estimated unguaranteed residual values    | 1,227           | 4,395           |
| Less unearned income                      | (6,379)         | (7,225)         |
| Net investment in direct financing leases | <u>\$ 4,204</u> | <u>\$ 8,069</u> |

The following is a schedule of undiscounted cash flows to be received on direct financing leases held for investment as of December 31, 2019 (dollars in thousands):

|            |                 |
|------------|-----------------|
| 2020       | \$ 900          |
| 2021       | 920             |
| 2022       | 897             |
| 2023       | 895             |
| 2024       | 896             |
| Thereafter | 4,848           |
|            | <u>\$ 9,356</u> |

Since lease renewal periods are exercisable at the option of the tenant, the above table only presents undiscounted cash flows due during the current lease terms. In addition, this table does not include amounts for potential variable rent increases that

are based on the CPI or future contingent rents which may be received on the leases based on a percentage of the tenant's sales volume.

*Real Estate – Intangibles*

In accordance with purchase accounting for the acquisition of real estate subject to a lease, NNN has recorded intangible assets and lease liabilities that consisted of the following at December 31 (dollars in thousands):

|   | 2019             | 2018             |
|---|------------------|------------------|
| <b>Intangible lease assets (included in <i>other assets</i>):</b>           |                  |                  |
| Above-market in-place leases  | \$ 15,754        | \$ 15,175        |
| Less: accumulated amortization  | (9,897)          | (9,239)          |
| Above-market in-place leases, net   | <u>\$ 5,857</u>  | <u>\$ 5,936</u>  |
| <b>In-place leases</b>  |                  |                  |
| In-place leases   | \$ 119,846       | \$ 104,871       |
| Less: accumulated amortization  | (64,918)         | (60,797)         |
| In-place leases, net  | <u>\$ 54,928</u> | <u>\$ 44,074</u> |
| <b>Intangible lease liabilities (included in <i>other liabilities</i>):</b> |                  |                  |
| Below-market in-place leases  | \$ 41,767        | \$ 41,554        |
| Less: accumulated amortization  | (26,135)         | (25,258)         |
| Below-market in-place leases, net   | <u>\$ 15,632</u> | <u>\$ 16,296</u> |

The amounts amortized as a net increase to rental income for capitalized above-market and below-market leases for the years ended December 31, 2019, 2018 and 2017 were \$768,000, \$2,622,000 and \$3,355,000, respectively. The value of in-place leases amortized to expense for the years ended December 31, 2019, 2018 and 2017 was \$7,900,000, \$9,209,000 and \$18,841,000, respectively.

The following is a schedule of the amortization of acquired above-market and below-market in-place lease intangibles and the amortization of the in-place lease intangibles as of December 31, 2019 (dollars in thousands):

|  | Above-Market<br>and Below-<br>Market In-Place<br>Lease<br>Intangibles <sup>(1)</sup> | In-Place Lease<br>Intangibles <sup>(2)</sup> |
|--|--|--|
| 2020   | \$ 695   | \$ 7,502                                     |
| 2021   | 590  | 6,800  |
| 2022   | 466  | 6,339  |
| 2023   | 383  | 5,833  |
| 2024   | 379  | 5,138  |
| Thereafter                                   | 7,262  | 23,316                                       |
|  | <u>\$ 9,775</u>  | <u>\$ 54,928</u>                             |
| Weighted average amortization period (years) | 18.0   | 10.3   |

<sup>(1)</sup> Recorded as a net increase to rental income.

<sup>(2)</sup> Amortized as an increase to amortization expense.

### Real Estate – Held For Sale

On a quarterly basis, the Company evaluates its Properties for held for sale classification based on specific criteria as outlined in ASC 360, *Property, Plant & Equipment*, including management’s intent to commit to a plan to sell the asset. NNN anticipates the disposition of Properties classified as held for sale to occur within 12 months. As of December 31, 2019, NNN had seven of its Properties categorized as held for sale. NNN’s real estate held for sale at December 31, 2018, included ten properties, three of which were sold in 2019. Real estate held for sale consisted of the following as of December 31 (dollars in thousands):

|  | 2019            | 2018             |
|--|-----------------|------------------|
| Land and improvements                          | \$ 4,996        | \$ 13,597        |
| Building and improvements                      | 6,511           | 32,658           |
|  | 11,507          | 46,255           |
| Less accumulated depreciation and amortization | (3,390)         | (10,088)         |
| Less impairment                                | (1,107)         | (14,250)         |
|  | <u>\$ 7,010</u> | <u>\$ 21,917</u> |

### Real Estate – Dispositions

The following table summarizes the Properties sold and the corresponding gain recognized on the disposition of Properties for the years ended December 31 (dollars in thousands):

|                                    | 2019                 |           | 2018                 |           | 2017                 |           |
|------------------------------------|----------------------|-----------|----------------------|-----------|----------------------|-----------|
|                                    | # of Sold Properties | Gain      | # of Sold Properties | Gain      | # of Sold Properties | Gain      |
| Gain on disposition of real estate | 59                   | \$ 32,463 | 61                   | \$ 65,070 | 48                   | \$ 36,655 |

### Real Estate – Commitments

NNN has committed to fund construction on 19 Properties. The improvements on such Properties are estimated to be completed within 12 months. These construction commitments, at December 31, 2019, are outlined in the table below (dollars in thousands):

|                                 |                  |
|---------------------------------|------------------|
| Total commitment <sup>(1)</sup> | \$ 75,927        |
| Less amount funded              | 44,368           |
| Remaining commitment            | <u>\$ 31,559</u> |

(1) Includes land, construction costs, tenant improvements, lease costs and capitalized interest.

### Real Estate – Impairments

Management periodically assesses its real estate for possible impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions and the ability of NNN to re-lease or sell properties that are vacant or become vacant in a reasonable period of time. Impairments are measured as the amount by which the current book value of the asset exceeds the estimated fair value of the asset. As a result of the Company’s review of long-lived assets, including identifiable intangible assets, NNN recognized real estate impairments, net of recoveries of \$31,992,000, \$28,211,000 and \$4,953,000 for the year ended December 31, 2019, 2018 and 2017, respectively.

The valuation of impaired assets is determined using widely accepted valuation techniques including discounted cash flow analysis, income capitalization, analysis of recent comparable sales transactions, actual sales negotiations and bona fide purchase offers received from third parties, which are Level 3 inputs. NNN may consider a single valuation technique or multiple valuation techniques, as appropriate, when estimating the fair value of its real estate.



### **Note 3 – Right-Of-Use Assets and Operating Lease Liabilities:**

NNN is a lessee for three ground lease arrangements and for its headquarters office lease. NNN recognized a ROU asset (recorded in *other assets* on the Consolidated Balance Sheets) and an operating lease liability (recorded in *other liabilities* on the Consolidated Balance Sheets) for the present value of the minimum lease payments. ROU assets represent NNN's right to use an underlying asset for the lease term and lease liabilities represent NNN's obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payments over the lease term. NNN's lease term is based on the non-cancellable base term unless economic incentives make it reasonably certain that an option period to extend the lease will be exercised, in which event NNN includes the options.

NNN estimates an incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of the lease payments. NNN gives consideration to the Company's debt issuances, as well as, publicly available data for secured instruments with similar characteristics when calculating its incremental borrowing rates. A 50 basis point increase or decrease in the estimate of the incremental borrowing rate at January 1, 2019 (the date of adoption of ASC 842) would not have a material impact on NNN's financial position. On an annual basis, NNN will evaluate its lessee portfolio and determine if its incremental borrowing rate should be reassessed.

NNN's lease agreements do not contain any residual value guarantees.

As of December 31, 2019, NNN has recorded the following (dollars in thousands):

|   | Ground<br>Leases | Headquarters<br>Office Lease |
|---|------------------|------------------------------|
| Operating lease – ROU assets <sup>(1)</sup>   | \$ 4,481         | \$ 2,991                     |
| Operating lease – lease liabilities           | (6,175)          | (3,629)                      |
| Weighted average remaining lease term (years) | 14.3             | 5.3                          |
| Weighted average discount rate                | 4.1%             | 3.5%                         |

<sup>(1)</sup> ROU assets are shown net of accrued lease payments of \$1,694 and \$638, respectively.

The following is a schedule of the undiscounted cash flows to be paid as of December 31, 2019 (dollars in thousands):

|            | Ground Leases   | Headquarters<br>Office Lease |
|------------|-----------------|------------------------------|
| 2020       | \$ 564          | \$ 773                       |
| 2021       | 573             | 788                          |
| 2022       | 582             | 804                          |
| 2023       | 582             | 821                          |
| 2024       | 601             | 837                          |
| Thereafter | 5,544           | 210                          |
|            | <u>\$ 8,446</u> | <u>\$ 4,233</u>              |

#### **Note 4 – Line of Credit Payable:**

In October 2017, NNN amended its credit agreement to increase the borrowing capacity under its unsecured revolving credit facility from \$650,000,000 to \$900,000,000 and amend certain other terms under the former revolving credit facility (as the context requires, the previous and new revolving credit facility, the "Credit Facility"). The Credit Facility had a weighted average outstanding balance of \$24,058,000 and a weighted average interest rate of 2.8% for the year ended December 31, 2019. The Credit Facility matures January 2022, unless the Company exercises its option to extend maturity to January 2023. As of December 31, 2019, the Credit Facility bears interest at LIBOR plus 87.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature to increase the facility size up to \$1,600,000,000. As of December 31, 2019, \$133,600,000 was outstanding and \$766,400,000 was available for future borrowings under the Credit Facility.

In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants which, among other things, require NNN to maintain certain (i) leverage ratios, (ii) debt service coverage, (iii) cash flow coverage, and (iv) investment and dividend limitations. At December 31, 2019, NNN was in compliance with those covenants.

#### **Note 5 – Mortgages Payable:**

The following table outlines the mortgages payable included in NNN's consolidated financial statements (dollars in thousands):

| Entered  | Initial Balance | Interest Rate | Maturity <sup>(2)</sup> | Carrying Value of Encumbered Asset(s) <sup>(3)</sup> | Outstanding Principal Balance at December 31, |           |
|--|-----------------|---------------|-------------------------|--|---|-----------|
|  |                 |               |                         |  | 2019  | 2018      |
| November 2014 <sup>(1)</sup>   | \$ 15,151       | 5.23%         | July 2023               | \$ 19,944  | \$ 12,116                                     | \$ 12,768 |
| Debt costs   |                 |               |                         |  | (147)   | (147)     |
| Accumulated amortization   |                 |               |                         |  | 90  | 73        |
| Debt costs, net of accumulated amortization  |                 |               |                         |  | (57)  | (74)      |
| Mortgages payable, including unamortized premium and net of unamortized debt costs |                 |               |                         |  | \$ 12,059                                     | \$ 12,694 |

<sup>(1)</sup> Date entered represents the date that NNN acquired real estate subject to a mortgage securing a loan. Initial balance and outstanding principal balance includes unamortized premium.

<sup>(2)</sup> Monthly payments include interest and principal; the balance is due at maturity.

<sup>(3)</sup> The loan is secured by a first mortgage lien on five of the Properties. The carrying values of the assets at December 31, 2019.

The following outlines of the scheduled principal payments, including premium amortization of NNN's mortgages payable as of December 31, 2019 (dollars in thousands):

|      |                  |
|------|------------------|
| 2020 | \$ 682           |
| 2021 | 716              |
| 2022 | 750              |
| 2023 | 9,968            |
|      | <u>\$ 12,116</u> |

## Note 6 – Notes Payable:

Each of NNN's outstanding series of unsecured notes is summarized in the table below (dollars in thousands):

| Notes               | Issue Date     | Principal  | Discount <sup>(1)</sup> | Net Price  | Stated Rate | Effective Rate <sup>(2)</sup> | Maturity Date               |
|---------------------|----------------|------------|-------------------------|------------|-------------|-------------------------------|-----------------------------|
| 2022                | August 2012    | \$ 325,000 | \$ 4,989                | \$ 320,011 | 3.800%      | 3.985%                        | October 2022 <sup>(4)</sup> |
| 2023 <sup>(3)</sup> | April 2013     | 350,000    | 2,594                   | 347,406    | 3.300%      | 3.388%                        | April 2023 <sup>(4)</sup>   |
| 2024 <sup>(3)</sup> | May 2014       | 350,000    | 707                     | 349,293    | 3.900%      | 3.924%                        | June 2024 <sup>(4)</sup>    |
| 2025 <sup>(3)</sup> | October 2015   | 400,000    | 964                     | 399,036    | 4.000%      | 4.029%                        | November 2025               |
| 2026 <sup>(3)</sup> | December 2016  | 350,000    | 3,860                   | 346,140    | 3.600%      | 3.733%                        | December 2026               |
| 2027 <sup>(3)</sup> | September 2017 | 400,000    | 1,628                   | 398,372    | 3.500%      | 3.548%                        | October 2027                |
| 2028 <sup>(3)</sup> | September 2018 | 400,000    | 2,848                   | 397,152    | 4.300%      | 4.388%                        | October 2028                |
| 2048                | September 2018 | 300,000    | 4,239                   | 295,761    | 4.800%      | 4.890%                        | October 2048                |

(1) The note discounts are amortized to interest expense over the respective term of each debt obligation using the effective interest method.

(2) Includes the effects of the discount at issuance.

(3) NNN entered into forward starting swaps which were hedging the risk of changes in forecasted interest payments on forecasted issuance of long-term debt. Upon the issuance of a series of unsecured notes, NNN terminated such derivatives, and the resulting fair value was deferred in other comprehensive income. The deferred liability (asset) is being amortized over the term of the respective notes using the effective interest method. Additional disclosure is included in Note 12 – Derivatives.

(4) The aggregate principal balance of the unsecured note maturities for the next five years is \$1,025,000.

Each series of the notes represents senior, unsecured obligations of NNN and is subordinated to all secured indebtedness of NNN. Each of the notes is redeemable at the option of NNN, in whole or in part, at a redemption price equal to the sum of (i) the principal amount of the notes being redeemed plus all accrued and unpaid interest thereon through the redemption date and (ii) the make-whole amount, if any, as defined in the applicable supplemental indenture relating to the notes.

In connection with the outstanding debt offerings, NNN incurred debt issuance costs totaling \$26,932,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been deferred and presented as a reduction to notes payable and are being amortized over the term of the respective notes using the effective interest method.

In October 2018, NNN redeemed the \$300,000,000 5.500% notes payable that were due in July 2021. The notes were redeemed at a price equal to 100% of the principal amount, plus (i) a make-whole amount of \$18,240,000, and (ii) all accrued and unpaid interest.

In accordance with the terms of the indenture, pursuant to which NNN's notes have been issued, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain (i) certain leverage ratios and (ii) certain interest coverage. At December 31, 2019, NNN was in compliance with those covenants.

## Note 7 – Preferred Stock:

NNN completed the following underwritten public offering of cumulative redeemable preferred stock that is still outstanding ("Preferred Stock Shares") (dollars in thousands, except per share data):

| Series   | Dividend Rate <sup>(1)</sup> | Issued       | Depository Shares Outstanding <sup>(2)</sup> | Gross Proceeds | Stock Issuance Costs <sup>(3)</sup> | Dividend Per Depository Share | Earliest Redemption Date |
|----------|------------------------------|--------------|--|----------------|-------------------------------------|-------------------------------|--------------------------|
| Series F | 5.200%                       | October 2016 | 13,800,000                                   | \$ 345,000     | \$ 10,897                           | \$ 1.300000                   | October 2021             |

(1) Holders are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends.

(2) Representing 1/100th of a preferred share. Series F issuance included 1,800,000 depository shares in connection with the underwriters' over-allotment.

(3) Consisting primarily of underwriting commissions and fees, rating agency fees, legal and accounting fees and printing expenses.

The Preferred Stock Shares underlying the depository shares rank senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Preferred Stock Shares have no maturity date and

will remain outstanding unless redeemed. In addition, upon a change of control, as defined in the articles supplementary fixing the rights and preferences of the Preferred Stock Shares, NNN may redeem the Preferred Stock Shares underlying the depositary shares at a redemption price of \$2,500.00 per share (or \$25.00 per depositary share), plus all accumulated and unpaid dividends, and in limited circumstances the holders of depositary shares may convert some or all of their Preferred Stock Shares into shares of NNN's common stock at conversion rates provided in the related articles supplementary. As of February 11, 2020, the Series F Preferred Stock Shares were not redeemable.

In October 2019, NNN redeemed all outstanding depositary shares (11,500,000) representing interests in its 5.700% Series E Preferred Stock. The Series E Preferred Stock was redeemed at \$25.00 per depositary share, plus all accrued and unpaid dividends through, but not including, the redemption date, for an aggregate redemption price of \$25.079167 per depositary share. The excess carrying amount of preferred stock redeemed over the cash paid to redeem the preferred stock was \$9,856,000 of issuance costs.

#### **Note 8 – Common Stock:**

In February 2018, NNN filed a shelf registration statement with the Securities and Exchange Commission ("Commission") which permits the issuance by NNN of an indeterminate amount of debt and equity securities.

In September 2019, NNN filed a prospectus supplement to the prospectus contained in its February 2018 shelf registration statement and issued 7,000,000 shares of common stock at a price of \$56.50 per share and received net proceeds of \$379,410,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$16,090,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses.

*Dividend Reinvestment and Stock Purchase Plan.* In February 2018, NNN filed a shelf registration statement with the Commission for its Dividend Reinvestment and Stock Purchase Plan ("DRIP") which permits the issuance by NNN of 10,000,000 shares of common stock. The following outlines the common stock issuances pursuant to the DRIP for the year ended December 31 (dollars in thousands):

|                        | 2019      | 2018      | 2017     |
|------------------------|-----------|-----------|----------|
| Shares of common stock | 362,918   | 311,048   | 229,696  |
| Net proceeds           | \$ 19,442 | \$ 13,264 | \$ 9,391 |

*At-The-Market Offerings.* NNN has established an at-the-market equity program ("ATM") which allows NNN to sell shares of common stock from time to time. The following table outlines NNN's active ATM programs for the three years ended December 31, 2019:

|   | 2018 ATM      | 2016 ATM      |
|---|---------------|---------------|
| Established date                            | February 2018 | March 2016    |
| Termination date                            | February 2021 | February 2018 |
| Total allowable shares                      | 12,000,000    | 12,000,000    |
| Total shares issued as of December 31, 2019 | 9,722,185     | 10,044,656    |

The following table outlines the common stock issuances pursuant to NNN's ATM equity programs for the years ended December 31 (dollars in thousands, except per share data):

|                                     | 2019       | 2018       | 2017       |
|-------------------------------------|------------|------------|------------|
| Shares of common stock              | 2,344,022  | 7,378,163  | 5,821,366  |
| Average price per share (net)       | \$ 53.71   | \$ 44.48   | \$ 41.88   |
| Net proceeds                        | \$ 125,905 | \$ 328,196 | \$ 243,822 |
| Stock issuance costs <sup>(1)</sup> | \$ 1,431   | \$ 3,821   | \$ 3,782   |

<sup>(1)</sup> Stock issuance costs consist primarily of underwriters' fees and commissions, and legal and accounting fees.

## Note 9 – Employee Benefit Plan:

Effective January 1, 1998, NNN adopted a defined contribution retirement plan (the “Retirement Plan”) covering substantially all of the employees of NNN. The Retirement Plan permits participants to defer a portion of their compensation, as defined in the Retirement Plan, subject to limits established by the Code. NNN generally matches 60 percent of the first eight percent of a participant’s contributions. Additionally, NNN may make discretionary contributions. NNN’s contributions to the Retirement Plan for the years ended December 31, 2019, 2018 and 2017 totaled \$541,000, \$516,000 and \$514,000, respectively.

## Note 10 – Dividends:

The following table outlines the dividends declared and paid for NNN's common stock for the years ended December 31 (in thousands, except per share data):

|           | 2019       | 2018       | 2017       |
|-----------|------------|------------|------------|
| Dividends | \$ 333,692 | \$ 303,164 | \$ 277,120 |
| Per share | 2.030      | 1.950      | 1.860      |

On January 15, 2020, NNN declared a dividend of \$0.515 per share, payable February 14, 2020, to its common stockholders of record as of January 31, 2020.

The following presents the characterization for tax purposes of common stock dividends per share paid to stockholders for the years ended December 31:

|                                | 2019                       | 2018                       | 2017               |
|--------------------------------|----------------------------|----------------------------|--------------------|
| Ordinary dividends             | \$ 1.762899 <sup>(1)</sup> | \$ 1.658604 <sup>(1)</sup> | \$ 1.559781        |
| Capital gain                   | —                          | 0.015534                   | 0.035041           |
| Unrecaptured Section 1250 Gain | —                          | 0.042818                   | 0.012194           |
| Nontaxable distributions       | 0.267101                   | 0.233044                   | 0.252984           |
|                                | <u>\$ 2.030000</u>         | <u>\$ 1.950000</u>         | <u>\$ 1.860000</u> |

<sup>(1)</sup> Eligible for the 20% qualified business income deduction under section 199A of the Code that was amended by the Tax Cuts and Jobs Act signed into law on December 22, 2017 ("TCJA").

The following presents the characterization for tax purposes of Series D, E and F Preferred Stock dividends per share and dividends declared and paid to stockholders for the year ended December 31 (dollars in thousands, except per share data):

|                                | Series F <sup>(1)</sup>   |                           |                   | Series E <sup>(2)</sup>    |                            |                    | Series D <sup>(3)</sup> |
|--------------------------------|---------------------------|---------------------------|-------------------|----------------------------|----------------------------|--------------------|-------------------------|
|                                | 2019                      | 2018                      | 2017              | 2019                       | 2018                       | 2017               | 2017                    |
| Dividends declared and paid    | \$ 17,940                 | \$ 17,940                 | \$ 17,940         | \$ 13,201                  | \$ 16,387                  | \$ 16,387          | \$ 3,598                |
| Ordinary dividends             | \$1.300000 <sup>(4)</sup> | \$1.255820 <sup>(4)</sup> | \$1.261789        | \$ 1.147917 <sup>(4)</sup> | \$ 1.376571 <sup>(4)</sup> | \$ 1.383115        | \$ 0.303652             |
| Capital gain                   | —                         | 0.011761                  | 0.028345          | —                          | 0.012892                   | 0.031071           | 0.006821                |
| Unrecaptured Section 1250 Gain | —                         | 0.032419                  | 0.009866          | —                          | 0.035537                   | 0.010814           | 0.002374                |
| Dividend paid per share        | <u>\$1.300000</u>         | <u>\$1.300000</u>         | <u>\$1.300000</u> | <u>\$ 1.147917</u>         | <u>\$ 1.425000</u>         | <u>\$ 1.425000</u> | <u>\$ 0.312847</u>      |

<sup>(1)</sup> The Series F Preferred Stock was issued in October 2016 and has no maturity date and will remain outstanding unless redeemed by NNN. The earliest redemption date for the Series F Preferred Stock is October 2021.

<sup>(2)</sup> The Series E Preferred Stock was redeemed in October 2019. The dividends paid in 2019 include accumulated and unpaid dividends through, but not including, the redemption date.

<sup>(3)</sup> The Series D Preferred Stock was redeemed in February 2017. The dividends paid in 2017 include accumulated and unpaid dividends through, but not including, the redemption date.

<sup>(4)</sup> Eligible for the 20% qualified business income deduction under section 199A of the Code that was amended by the TCJA.

## Note 11 – Income Taxes:

For income tax purposes, NNN may elect to treat certain subsidiaries as taxable REIT subsidiaries in which certain real estate activities may be conducted.

NNN currently has no TRS entities. The following information relates to former TRS entities.

The significant components of the net deferred income tax asset consist of the following at December 31 (dollars in thousands):

|                                 | 2019     | 2018     |
|---------------------------------|----------|----------|
| Deferred tax assets:            |          |          |
| Net operating loss carryforward | \$ 3,899 | \$ 3,899 |
| Valuation allowance             | (3,899)  | (3,858)  |
| Total deferred tax assets       | —        | 41       |
| Deferred tax liabilities:       |          |          |
| Built-in gain                   | —        | (41)     |
| Total deferred tax liabilities  | —        | (41)     |
| Net deferred tax asset          | \$ —     | \$ —     |

In assessing the ability to realize a deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The net operating loss carryforwards were generated by NNN's former taxable REIT subsidiaries. The net operating loss carryforwards begin to expire in 2028. Management believes it is unlikely that NNN will realize all of the benefits of these deductible differences that existed as of December 31, 2019 and 2018.

The increase in the valuation allowance for the year ended December 31, 2019, was \$41,000. There was no change in the valuation allowance for the year ended December 31, 2018.

For the years ended December 31, 2019, 2018 and 2017, there was no net income tax expense or benefit to NNN's former TRS entities. The total income tax benefit (expense) differs from the amount computed by applying the statutory federal tax rate to net earnings before taxes as follows for the years ended December 31 (dollars in thousands):

|   | 2019 | 2018 | 2017 <sup>(1)</sup> |
|---|------|------|---------------------|
| Loss carryforwards increase (decrease)  | \$ — | \$ — | \$ (2,019)          |
| Built-in gain tax liability             | 41   | —    | 134                 |
| Valuation allowance (increase) decrease | (41) | —    | 1,885               |
| Total tax expense                       | \$ — | \$ — | \$ —                |

<sup>(1)</sup> The changes for the year ended December 31, 2017, includes an amount attributable to the federal tax rate change within the TCJA. The net income statement effect of the federal rate change is zero.

FASB prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

NNN, in accordance with FASB guidance included in *Income Taxes*, has analyzed its various federal and state filing positions. NNN believes that its income tax filing positions and deductions are well documented and supported. Additionally, NNN believes that its accruals for tax liabilities are adequate. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to the FASB guidance. In addition, NNN did not record a cumulative effect adjustment related to the adoption of the FASB guidance.

NNN has had no unrecognized tax benefits during any of the years presented. Further, no interest or penalties have been included since no reserves were recorded and no significant increases or decreases are expected to occur within the next 12 months. When applicable, such interest and penalties will be recorded in non-operating expenses. The periods that remain open under federal statute are 2016 through 2019. NNN also files in many states with varying open years under statute.

## Note 12 – Derivatives:

In accordance with the guidance on derivatives and hedging, NNN records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

NNN's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, NNN primarily uses treasury locks, forward starting swaps and interest rate swaps as part of its cash flow hedging strategy. Treasury locks and forward starting swaps are used to hedge forecasted debt issuances. Treasury locks designated as cash flow hedges lock in the yield/price of a treasury security. Forward starting swaps also lock the associated swap spread. Interest rate swaps designated as cash flow hedges are used to hedge the variable cash flows associated with floating rate debt and involve the receipt or payment of variable rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount.

For derivatives designated as cash flow hedges, the change in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings.

NNN discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is re-designated as a hedging instrument or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued, NNN recognizes any changes in its fair value in earnings and continues to carry the derivative on the balance sheet or may choose to settle the derivative at that time with a cash payment or receipt. NNN records a cash settlement of forward starting swaps in the statement of cash flows as an operating activity.

The following table outlines NNN's terminated derivatives which were hedging the risk of changes in forecasted interest payments on forecasted issuance of long-term debt (dollars in thousands):

| Notes Payable | Terminated     | Description                  | Aggregate Notional Amount | Liability (Asset) Fair Value When Terminated | Fair Value Deferred In Other Comprehensive Income <sup>(1)</sup> |
|---------------|----------------|------------------------------|---------------------------|--|--|
| 2023          | April 2013     | Four forward starting swaps  | \$ 240,000                | \$ 3,156                                     | \$ 3,141   |
| 2024          | May 2014       | Three forward starting swaps | 225,000                   | 6,312  | 6,312  |
| 2025          | October 2015   | Four forward starting swaps  | 300,000                   | 13,369                                       | 13,369   |
| 2026          | December 2016  | Two forward starting swaps   | 180,000                   | (13,352)                                     | (13,345)   |
| 2027          | September 2017 | Two forward starting swaps   | 250,000                   | 7,690  | 7,688  |
| 2028          | September 2018 | Two forward starting swaps   | 250,000                   | (4,080)                                      | (4,080)  |

<sup>(1)</sup> The amount reported in accumulated other comprehensive income will be reclassified to interest expense as interest payments are made on the related notes payable.

As of December 31, 2019, \$5,604,000 remains in other comprehensive income related to NNN's previously terminated interest rate hedges. During the years ended December 31, 2019, 2018 and 2017, NNN reclassified \$1,307,000, \$3,664,000 and \$1,932,000, respectively, out of other comprehensive income as an increase to interest expense. Over the next 12 months, NNN estimates that an additional \$1,365,000 will be reclassified as an increase in interest expense. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on NNN's long-term debt.

During the year ended December 31, 2019, NNN entered into three forward starting swaps with a total notional amount of \$200,000,000 to hedge the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt. The outstanding forward swaps were designated as cash flow hedges, and as of December 31, 2019, had a fair value of \$5,524,000 included in *other liabilities* and *accumulated other comprehensive income (loss)* on the Consolidated Balance Sheets. The fair value of the forward starting swaps were based on a Level 2 valuation. These derivative financial instruments were still outstanding as of December 31, 2019 and have a mandatory cash settlement date of April 15, 2020.

NNN does not use derivatives for trading or speculative purposes or currently have any derivatives that are not designated as hedges.

### **Note 13 – Performance Incentive Plan:**

In May 2017, NNN filed a registration statement on Form S-8 with the Commission which permits the issuance of up to 1,800,000 shares of common stock pursuant to NNN’s 2017 Performance Incentive Plan (the “2017 Plan”). The 2017 Plan replaced NNN’s previous 2007 Performance Incentive Plan (the “2007 Plan”). The 2017 Plan allows NNN to award or grant to key employees, directors and persons performing consulting or advisory services for NNN or its affiliates, stock options, stock awards, stock appreciation rights, Phantom Stock Awards, Performance Awards and Leveraged Stock Purchase Awards, each as defined in the 2017 Plan.

There were no stock options outstanding or exercisable at December 31, 2019.

Pursuant to the 2017 Plan, NNN has granted and issued shares of restricted stock to certain officers and key associates of NNN. The following summarizes the restricted stock activity for the year ended December 31, 2019:

|  | Number<br>of<br>Shares | Weighted<br>Average<br>Share Price |
|--|------------------------|------------------------------------|
| Non-vested restricted shares, January 1                  | 781,564                | \$ 39.97                           |
| Restricted shares granted                                | 364,769                | 53.91                              |
| Restricted shares vested                                 | (237,863)              | 43.03                              |
| Restricted shares forfeited                              | (5,119)                | 44.70                              |
| Non-vested restricted shares, December 31 <sup>(1)</sup> | <u>903,351</u>         | <u>44.77</u>                       |

<sup>(1)</sup> Includes grants made in 2017 pursuant to the 2007 Plan to NNN's retired CEO. The performance criteria will be complete January 1, 2020.

Compensation expense for the restricted stock which is not contingent upon NNN’s performance goals is determined based upon the fair value at the date of grant and is recognized as the greater of the amount amortized over a straight-lined basis or the amount vested over the vesting periods. Vesting periods for officers and key associates of NNN range from three to five years and generally vest annually. NNN recognizes compensation expense on a straight-line basis for awards with only service conditions.

During the year ended December 31, 2019, NNN granted 144,345 performance-based shares subject to its total stockholder return after a three-year period relative to its peers. The fair value of these shares was determined at the grant date (for a fair value share price of \$27.61). In addition, in 2019, NNN granted 48,116 performance-based shares subject to a three-year Core Funds From Operations growth metric. The performance-based shares were granted to certain executive officers and had a weighted average grant price of \$53.70 per share. Once the respective performance criteria are met and the actual number of shares earned is determined, the shares vest immediately. Compensation expense is recognized over the requisite service period for both grants.



The following summarizes other grants made during the year ended December 31, 2019, pursuant to the 2017 Plan.

|   | Number<br>of<br>Shares | Weighted<br>Average<br>Share Price |
|---|------------------------|------------------------------------|
| Other share grants under the 2017 Plan:                       |                        |                                    |
| Directors' fees   | 13,448                 | \$ 53.62                           |
| Deferred directors' fees                                      | 14,679                 | 53.34                              |
|   | 28,127                 | 53.47                              |
| Shares available under the 2017 Plan for grant, end of period | 1,092,770              |                                    |

The total compensation expense for share-based payments for the years ended December 31, 2019, 2018 and 2017 totaled \$10,737,000, \$9,282,000 and \$12,971,000, respectively. At December 31, 2019, NNN had \$16,877,000 of unrecognized compensation cost related to non-vested share-based compensation arrangements under the 2017 Plan. This cost is expected to be recognized over a weighted average period of 2.3 years.

**Note 14 – Fair Value of Financial Instruments:**

NNN believes the carrying value of its Credit Facility approximates fair value based upon its nature, terms and variable interest rate. NNN believes that the carrying value of its mortgages payable at December 31, 2019 and 2018, approximate fair value based upon current market prices of comparable instruments (Level 3). At December 31, 2019 and 2018, the fair value of NNN's notes payable net of unamortized discount and excluding debt costs, was \$3,074,538,000 and \$2,813,583,000, respectively, based upon quoted market prices, which is a Level 1 valuation since NNN's notes payable are publicly traded.

**Note 15 – Quarterly Financial Data (unaudited):**

The following table summarizes NNN's quarterly financial data (dollars in thousands, except per share data):

| 2019                                    | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|---|------------------|-------------------|------------------|-------------------|
| Revenues as originally reported         | \$ 165,636       | \$ 165,279        | \$ 169,108       | \$ 173,576        |
| Net earnings                            | 80,033           | 79,091            | 66,698           | 73,786            |
| Net earnings attributable to NNN        | 80,023           | 78,678            | 66,693           | 73,786            |
| Net earnings per share <sup>(1)</sup> : |                  |                   |                  |                   |
| Basic                                   | \$ 0.44          | \$ 0.43           | \$ 0.35          | \$ 0.34           |
| Diluted                                 | 0.44             | 0.43              | 0.35             | 0.34              |
| <hr/>                                   |                  |                   |                  |                   |
| 2018                                    |                  |                   |                  |                   |
| Revenues as originally reported         | \$ 152,861       | \$ 155,555        | \$ 155,526       | \$ 160,529        |
| Net earnings                            | 103,289          | 70,583            | 82,042           | 36,572            |
| Net earnings attributable to NNN        | 103,280          | 70,573            | 82,032           | 36,562            |
| Net earnings per share <sup>(1)</sup> : |                  |                   |                  |                   |
| Basic                                   | \$ 0.62          | \$ 0.40           | \$ 0.47          | \$ 0.17           |
| Diluted                                 | 0.62             | 0.40              | 0.47             | 0.17              |

<sup>(1)</sup> Calculated independently for each period and consequently, the sum of the quarters may differ from the annual amount.

**Note 16 – Segment Information:**

For the years ended December 31, 2019, 2018 and 2017, NNN's operations are reported within one operating segment in the consolidated financial statements and all properties are part of the Properties or Property Portfolio.

**Note 17 – Major Tenants:**

As of December 31, 2019, NNN had no tenants that accounted for ten percent or more of its rental income.

**Note 18 – Commitments and Contingencies:**

A summary of NNN's commitments are included in Note 2 – Real Estate.

In the ordinary course of its business, NNN is a party to various other legal actions which management believes are routine in nature and incidental to the operation of the business of NNN. Management does not believe that any of these proceedings are material to NNN's consolidated financial statements.

**Note 19 – Subsequent Events:**

NNN reviewed all subsequent events and transactions that have occurred after December 31, 2019, the date of the consolidated balance sheet. There were no reportable subsequent events or transactions.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. Controls and Procedures

#### Process for Assessment and Evaluation of Disclosure Controls and Procedures and Internal Control over Financing Reporting.

NNN carried out an assessment as of December 31, 2019, of the effectiveness of the design and operation of its disclosure controls and procedures and its internal control over financial reporting. This assessment was done under the supervision and with the participation of management, including NNN's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. Rules adopted by the Commission require NNN to present the conclusions of the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer about the effectiveness of NNN's disclosure controls and procedures and the conclusions of NNN's management about the effectiveness of NNN's internal control over financial reporting as of the end of the period covered by this annual report.

*CEO and CFO Certifications.* Included as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K are forms of "Certification" of NNN's Chief Executive Officer and Chief Financial Officer. The forms of Certification are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002. This section of the Annual Report on Form 10-K that stockholders are currently reading is the information concerning the assessment referred to in the Section 302 certifications and this information should be read in conjunction with the Section 302 certifications for a more complete understanding of the topics presented.

*Disclosure Controls and Procedures and Internal Control over Financial Reporting.* Disclosure controls and procedures are designed with the objective of providing reasonable assurance that information required to be disclosed in NNN's reports filed or submitted under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures are also designed with the objective of providing reasonable assurance that such information is accumulated and communicated to NNN's management, including the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal control over financial reporting is a process designed by, or under the supervision of, NNN's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, and affected by NNN's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP") and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of NNN's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that NNN's receipts and expenditures are being made in accordance with authorizations of management or the Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of NNN's assets that could have a material adverse effect on NNN's financial statements.

*Scope of the Assessments.* The assessment by NNN's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer of NNN's disclosure controls and procedures and the assessment by NNN's management, including NNN's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, of NNN's internal control over financial reporting included a review of procedures and discussions with NNN's management and others at NNN. In the course of the assessments, NNN sought to identify data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken.

NNN's internal control over financial reporting is also assessed on an ongoing basis by personnel in NNN's Accounting department and by NNN's internal auditors in connection with their internal audit activities. The overall goals of these various assessment activities are to monitor NNN's disclosure controls and procedures and NNN's internal control over financial reporting and to make modifications as necessary. NNN's intent in this regard is that the disclosure controls and procedures and the internal control over financial reporting will be maintained and updated (including with improvements and corrections) as conditions warrant. Management also sought to deal with other control matters in the assessment, and in

each case if a problem was identified, management considered what revision, improvement and/or correction was necessary to be made in accordance with NNN's on-going procedures. The assessments of NNN's disclosure controls and procedures and NNN's internal control over financial reporting is done on a quarterly basis so that the conclusions concerning effectiveness of those controls can be reported in NNN's Quarterly Reports on Form 10-Q and Annual Report on Form 10-K.

#### Assessment of Effectiveness of Disclosure Controls and Procedures.

Based upon the assessments, NNN's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer have concluded that, as of December 31, 2019, NNN's disclosure controls and procedures were effective.

#### Management's Report on Internal Control over Financial Reporting.

Management, including NNN's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, are responsible for establishing and maintaining adequate internal control over financial reporting for NNN. Management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – 2013 Integrated Framework to assess the effectiveness of NNN's internal control over financial reporting. Based upon the assessments, NNN's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2019, NNN's internal control over financial reporting was effective.

#### Attestation Report of the Registered Public Accounting Firm.

Ernst & Young LLP, NNN's independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and in connection therewith has issued an attestation report on NNN's effectiveness of internal control over financial reporting as of December 31, 2019, which appears in this Annual Report on Form 10-K.

#### Changes in Internal Control over Financial Reporting.

During the three months ended December 31, 2019, there were no changes in NNN's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, NNN's internal control over financial reporting.

#### Limitations on the Effectiveness of Controls.

Management, including NNN's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, do not expect that NNN's disclosure controls and procedures or NNN's internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within NNN have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

#### **Item 9B. Other Information**

None.

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

Reference is made to the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14 (a); information responsive to this Item is included in the Registrant's proxy statement including the information, without limitation, contained in the sections thereof captioned "Proposal I: Election of Directors – Nominees," "Proposal I: Election of Directors – Executive Officers," "Proposal I: Election of Directors – Code of Business Conduct and Insider Trading Policy" and "Security Ownership", and such information in such sections is incorporated herein by reference.

### **Item 11. Executive Compensation**

Reference is made to the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14 (a); information responsive to this Item is included in the Registrant's proxy statement including the information, without limitation, contained in the sections thereof captioned "Proposal I: Election of Directors – Director Compensation," "Executive Compensation" and "Compensation Committee Report", and such information is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Reference is made to the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14 (a); information responsive to this Item is included in the Registrant's proxy statement including the information, without limitation, contained in the sections thereof captioned "Executive Compensation – Equity Compensation Plan Information" and "Security Ownership", and such information is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

Reference is made to the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14 (a); information responsive to this Item is included in the Registrant's proxy statement including the information, without limitation, contained in the section thereof captioned "Certain Relationships and Related Transactions" and such information is incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services**

Reference is made to the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14 (a); information responsive to this Item is included in the Registrant's proxy statement including the information, without limitation, contained in the section thereof captioned "Audit Committee Report" and "Proposal III: Ratification of Ernst & Young LLP as the Independent Registered Public Accounting Firm", and such information is incorporated herein by reference.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report

(1) Financial Statements

|  |           |
|--|-----------|
| <u>Reports of Independent Registered Public Accounting Firm</u>  | <u>38</u> |
| <u>Consolidated Balance Sheets as of December 31, 2019 and 2018</u>  | <u>42</u> |
| <u>Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2019, 2018 and 2017</u> | <u>43</u> |
| <u>Consolidated Statements of Equity for the years ended December 31, 2019, 2018 and 2017</u>                          | <u>45</u> |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017</u>                      | <u>48</u> |
| <u>Notes to Consolidated Financial Statements</u>  | <u>50</u> |

(2) Financial Statement Schedules

Schedule III – Real Estate and Accumulated Depreciation and Amortization and Notes as of December 31, 2019

Schedule IV – Mortgage Loans on Real Estate and Notes as of December 31, 2019

All other schedules are omitted because they are not applicable or because the required information is shown in the financial statements or the notes thereto.

(3) Exhibits

The following exhibits are filed as a part of this report.

3. Articles of Incorporation and Bylaws

- 3.1 First Amended and Restated Articles of Incorporation of the Registrant, as amended (filed as Exhibit 3.1 to the Registrant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012, and incorporated herein by reference).
- 3.2 Articles Supplementary Establishing and Fixing the Rights and Preferences of 5.70% Series E Cumulative Preferred Stock, par value \$0.01 per share, dated May 29, 2013 (filed as Exhibit 3.2 to the Registrant’s Registration Statement on Form 8-A dated May 30, 2013, incorporated herein by reference).
- 3.3 Articles Supplementary Establishing and Fixing the Rights and Preferences of 5.20% Series F Cumulative Preferred Stock, par value \$0.01 per share, dated October 7, 2016 (filed as Exhibit 3.2 to the Registrant’s Registration Statement on Form 8-A dated October 11, 2016, incorporated herein by reference).
- 3.4 Third Amended and Restated Bylaws of the Registrant, dated May 1, 2006, as amended (filed as Exhibit 3.4 to the Registrant’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, and incorporated herein by reference).
- 3.5 Second Amendment to the Third Amended and Restated Bylaws of the Registrant, dated December 13, 2007 (filed as Exhibit 3.5 to the Registrant’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, and incorporated herein by reference).
- 3.6 Third Amendment to the Third Amended and Restated Bylaws of the Registrant, dated February 13, 2014 (filed as Exhibit 3.6 to the Registrant’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, and incorporated herein by reference).

#### 4. Instruments Defining the Rights of Security Holders, Including Indentures

- 4.1 Specimen Certificate of Common Stock, par value \$0.01 per share, of the Registrant (filed as Exhibit 3.4 to the Registrant's Registration Statement No. 1-11290 on Form 8-B filed with the Securities and Exchange Commission and incorporated herein by reference).
- 4.2 Indenture, dated as of March 25, 1998, between the Registrant and First Union National Bank, as trustee (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-132095) filed with the Securities and Exchange Commission on February 28, 2006, and incorporated herein by reference).
- 4.3 Form of Eleventh Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.800% Notes due 2022 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 14, 2012 and incorporated herein by reference).
- 4.4 Form of 3.800% Notes due 2022 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 14, 2012 and incorporated herein by reference).
- 4.5 Form of Twelfth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.300% Notes due 2023 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated April 9, 2013, filed with the Securities and Exchange Commission on April 15, 2013 and incorporated herein by reference).
- 4.6 Form of 3.300% Notes due 2022 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K dated April 9, 2013, filed with the Securities and Exchange Commission on April 15, 2013 and incorporated herein by reference).
- 4.7 Specimen certificate representing the 5.70% Series E Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.3 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on May 30, 2013 and incorporated herein by reference).
- 4.8 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on May 30, 2013 and incorporated herein by reference).
- 4.9 Form of Thirteenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.900% Notes due 2024 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on May 14, 2014, and incorporated herein by reference).
- 4.10 Form of 3.900% Notes due 2024 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on May 14, 2014, and incorporated herein by reference).
- 4.11 Form of Fourteenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 4.000% Notes due 2025 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on October 26, 2015, and incorporated herein by reference).
- 4.12 Form of 4.000% Notes due 2025 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on October 26, 2015, and incorporated herein by reference).
- 4.13 Specimen certificate representing the 5.20% Series F Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.3 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 11, 2016 and incorporated herein by reference).
- 4.14 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on October 11, 2016 and incorporated herein by reference).

- 4.15 Form of Fifteenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.60% Notes due 2026 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on December 12, 2016, and incorporated herein by reference).
- 4.16 Form of 3.60% Notes due 2026 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on December 12, 2016, and incorporated herein by reference).
- 4.17 Form of Sixteenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.50% Notes due 2027 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on September 19, 2017, and incorporated herein by reference).
- 4.18 Form of 3.50% Notes due 2027 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on September 19, 2017, and incorporated herein by reference).
- 4.19 Form of Seventeenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 4.300% Notes due 2028 and 4.800% Notes due 2048 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on September 27, 2018, and incorporated herein by reference).
- 4.20 Form of 4.300% Notes due 2028 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on September 27, 2018, and incorporated herein by reference).
- 4.21 Form of 4.800% Notes due 2048 (filed as Exhibit 4.3 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on September 27, 2018, and incorporated herein by reference).
- 4.22 Description of Registrant's Securities (filed herewith).

#### 10. Material Contracts

- 10.1\* 2007 Performance Incentive Plan (filed as Annex A to the Registrant's 2007 Annual Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 3, 2007, and incorporated herein by reference).
- 10.2\* Form of Restricted Stock Agreement between NNN and the Participant of NNN (filed as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2005, and incorporated herein by reference).
- 10.3\* Employment Agreement dated as of December 1, 2008, between the Registrant and Craig Macnab (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.4\* Employment Agreement dated as of December 1, 2008, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.5\* Employment Agreement dated as of December 1, 2008, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.6\* Employment Agreement dated as of December 1, 2008, between the Registrant and Paul E. Bayer (filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.7\* Employment Agreement dated as of December 1, 2008, between the Registrant and Christopher P. Tessitore (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).



- 10.8\* Form of Indemnification Agreement (as entered into between the Registrant and each of its directors and executive officers) (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 12, 2009, and incorporated herein by reference).
- 10.9\* Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Craig Macnab (filed as Exhibit 10.10 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.10\* Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.11\* Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.12 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.12\* Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Paul E. Bayer (filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.13\* Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Christopher P. Tessitore (filed as Exhibit 10.14 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.14 Amended and Restated Credit Agreement, dated as of May 25, 2011, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 1, 2011, and incorporated herein by reference).
- 10.15\* Form of Restricted Award Agreement - Performance between NNN and the Participant of NNN (filed as Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 10.16\* Form of Restricted Award Agreement - Service between NNN and the Participant of NNN (filed as Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 10.17\* Form of Restricted Award Agreement - Special Grant between NNN and the Participant of NNN (filed as Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 10.18 First Amendment to Amended and Restated Credit Agreement, dated as of October 31, 2012, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2012, and incorporated herein by reference).
- 10.19\* Employment Agreement dated as of January 2, 2014, between the Registrant and Stephen A. Horn, Jr. (filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, and incorporated herein by reference).
- 10.20 Second Amendment to Amended and Restated Credit Agreement, dated as of October 27, 2014, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 28, 2014, and incorporated herein by reference).
- 10.21\* Form of Restricted Award Agreement - Performance between NNN and the Participant of NNN (filed as exhibit 10.21 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 2, 2016, and incorporated herein by reference).

- 10.22\* Form of Restricted Award Agreement - Service - Non-Executives between NNN and the Participant of NNN (filed as exhibit 10.22 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 2, 2016, and incorporated herein by reference).
- 10.23\* Form of Restricted Award Agreement - Service between NNN and the Participant of NNN (filed as exhibit 10.23 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 2, 2016, and incorporated herein by reference).
- 10.24\* Retirement and Transition Agreement, dated as of September 29, 2016, between the registrant and Craig Macnab (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 30, 2016, and incorporated herein by reference).
- 10.25\* Amended and Restated Employment Agreement, dated as of September 29, 2016, between the registrant and Julian Whitehurst (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 30, 2016, and incorporated herein by reference).
- 10.26\* 2017 Performance Incentive Plan (filed as Annex A to the Registrant's 2017 Annual Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 29, 2017, and incorporated herein by reference).
- 10.27 Third Amendment to Amended and Restated Credit Agreement, dated as of October 25, 2017, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 26, 2017, and incorporated herein by reference).
- 10.28\* Amended and Restated Deferred Fee Plan for Directors, dated as of August 16, 2018 (filed as exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 1, 2018, and incorporated herein by reference).
- 21. Subsidiaries of the Registrant (filed herewith).
- 23. Consent of Independent Registered Public Accounting Firm
  - 23.1 Ernst & Young LLP dated February 11, 2020 (filed herewith).
- 24. Power of Attorney (included on signature page).
- 31. Section 302 Certifications\*\*
  - 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
  - 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32. Section 906 Certifications\*\*
  - 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
  - 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 99. Additional Exhibits
  - 99.1 Certification of Chief Executive Officer pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual (filed herewith).

101. Interactive Data File

101.1 The following materials from National Retail Properties, Inc. Annual Report on Form 10-K for the period ended December 31, 2019, are formatted in Extensible Business Reporting Language: (i) consolidated balance sheets, (ii) consolidated statements of comprehensive income, (iii) consolidated statements of stockholders' equity (iv) consolidated statements of cash flows, and (v) notes to consolidated financial statements.

104. Cover Page Interactive Data File

104.1 Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

\* Management contract or compensatory plan or arrangement.

\*\* In accordance with Item 601(b)(32) of Regulation S-K, this Exhibit is not deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section. Such certifications will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

**Item 16. Form 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 11th day of February 2020.

NATIONAL RETAIL PROPERTIES, INC.

By: /s/ Julian E. Whitehurst

Julian E. Whitehurst

Chief Executive Officer, President and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

## POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints each of Julian E. Whitehurst, Kevin B. Habicht and Michelle L. Miller as his or her attorney-in-fact and agent, with full power of substitution and resubstitution for him or her in any and all capacities, to sign any or all amendments to this report and to file same, with exhibits thereto and other documents in connection therewith, granting unto such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary in connection with such matters and hereby ratifying and confirming all that such attorney-in-fact and agent or his or her substitutes may do or cause to be done by virtue hereof.

| <u>Signature</u>  | <u>Title</u>  | <u>Date</u>       |
|---|---|-------------------|
| <u>/s/ Julian E. Whitehurst</u><br>Julian E. Whitehurst | Chief Executive Officer, President and Director   | February 11, 2020 |
| <u>/s/ Don DeFosset</u><br>Don DeFosset                 | Chairman of the Board   | February 11, 2020 |
| <u>/s/ Pamela K. Beall</u><br>Pamela K. Beall           | Director  | February 11, 2020 |
| <u>/s/ Steven D. Cosler</u><br>Steven D. Cosler         | Director  | February 11, 2020 |
| <u>/s/ David M. Fick</u><br>David M. Fick               | Director  | February 11, 2020 |
| <u>/s/ Edward J. Fritsch</u><br>Edward J. Fritsch       | Director  | February 11, 2020 |
| <u>/s/ Betsy D. Holden</u><br>Betsy D. Holden           | Director  | February 11, 2020 |
| <u>/s/ Sam L. Susser</u><br>Sam L. Susser               | Director  | February 11, 2020 |
| <u>/s/ Kevin B. Habicht</u><br>Kevin B. Habicht         | Director, Chief Financial Officer (Principal Financial Officer),<br>Executive Vice President, Assistant Secretary and Treasurer | February 11, 2020 |
| <u>/s/ Michelle L. Miller</u><br>Michelle L. Miller     | Chief Accounting Officer (Principal Accounting Officer) and<br>Executive Vice President   | February 11, 2020 |

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# OUR OFFICERS AND DIRECTORS

## Executive Officers

### **JULIAN E. (JAY) WHITEHURST**

President & Chief Executive Officer

### **KEVIN B. HABICHT**

Executive Vice President  
& Chief Financial Officer

### **PAUL E. BAYER**

Executive Vice President  
& Chief Investment Officer

### **CHRISTOPHER P. TESSITORE**

Executive Vice President  
& General Counsel

### **STEPHEN A. HORN, JR.**

Executive Vice President  
& Chief Acquisition Officer

### **MICHELLE L. MILLER**

Executive Vice President  
& Chief Accounting Officer

## Directors

### **PAMELA K. M. BEALL** <sup>1,2</sup>

Executive Vice President  
& Chief Financial Officer  
MPLX GP LLC

### **STEVEN D. COSLER** <sup>1,3</sup>

Operating Partner  
Water Street Healthcare Partners

### **DON DEFOSSET**

Chairman

### **DAVID M. FICK** <sup>1,3</sup>

Professional Faculty Member  
Johns Hopkins University  
Carey Business School; and,  
President  
Nandua Oyster Company

### **EDWARD J. FRITSCH** <sup>1,2</sup>

Retired President  
& Chief Executive Officer  
Highwoods Properties, Inc.

### **BETSY D. HOLDEN** <sup>1,3</sup>

Senior Advisor  
McKinsey & Company  
Retired Co-CEO  
Kraft Foods, Inc.

### **SAM L. SUSSER** <sup>2,3</sup>

President  
Susser Investment Company

### **JULIAN E. (JAY) WHITEHURST**

President & Chief Executive Officer  
National Retail Properties, Inc.

### **KEVIN B. HABICHT**

Executive Vice President  
& Chief Financial Officer  
National Retail Properties, Inc.

<sup>1</sup> Member, Audit Committee

<sup>2</sup> Member, Governance and Nominating Committee

<sup>3</sup> Member, Compensation Committee

# SHAREHOLDER INFORMATION

## General Information

AST Financial  
Operations Center  
6201 15th Avenue  
Brooklyn, NY 11219  
www.astfinancial.com  
(866) 627-2644

## Shareholder Toll-free Line

(866) 627-2644  
Worldwide: (718) 921-8346  
Fax: (718) 236-2641

## For Dividend Reinvestment

AST Financial  
P.O. Box 922  
Wall Street Station  
New York, NY 10269

## Independent Registered Public Accounting Firm

Ernst & Young LLP

## Corporate Office

National Retail Properties, Inc.  
450 S. Orange Avenue, Suite 900  
Orlando, FL 32801  
(800) NNN-REIT  
(407) 265-7348  
www.nnnreit.com

## Form 10-K

A copy of the Company's Form 10-K, as filed with the Securities and Exchange Commission (SEC) for fiscal 2019, which includes as Exhibits the Chief Executive Officer and Chief Financial Officer certifications required to be filed with the SEC pursuant to Section 302 of the Sarbanes-Oxley Act, has been filed with the SEC and may also be obtained by stockholders without charge upon written request to the Company's Secretary at the above address, or by visiting www.nnnreit.com. During fiscal 2019, the Company filed with the New York Stock Exchange (NYSE) the Certification of its Chief Executive Officer confirming that the Chief Executive Officer was not aware of any violations by the Company of the NYSE's corporate governance listing standards.



**NATIONAL RETAIL  
PROPERTIES®**  
NYSE:NNN

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