

STAG®
INDUSTRIAL

INVESTOR DAY – JUNE 2015

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INVESTMENT THESIS

Benjamin S. Butcher
Founder/Chief Executive Officer & President

- Probabilistic assessment of RE risk and a focus on cash flow were influential in developing the STAG thesis
- Single tenant net lease mortgage transactions were largely confined to the CTL arena
- The 'binary risk' associated with transactions that did not meet CTL standards appeared to cause inefficient pricing
- Portfolios of non-CTL asset mortgages were viewed favorably by rating agencies



An Opportunity Worth Further Investigation – an Identified Market Inefficiency

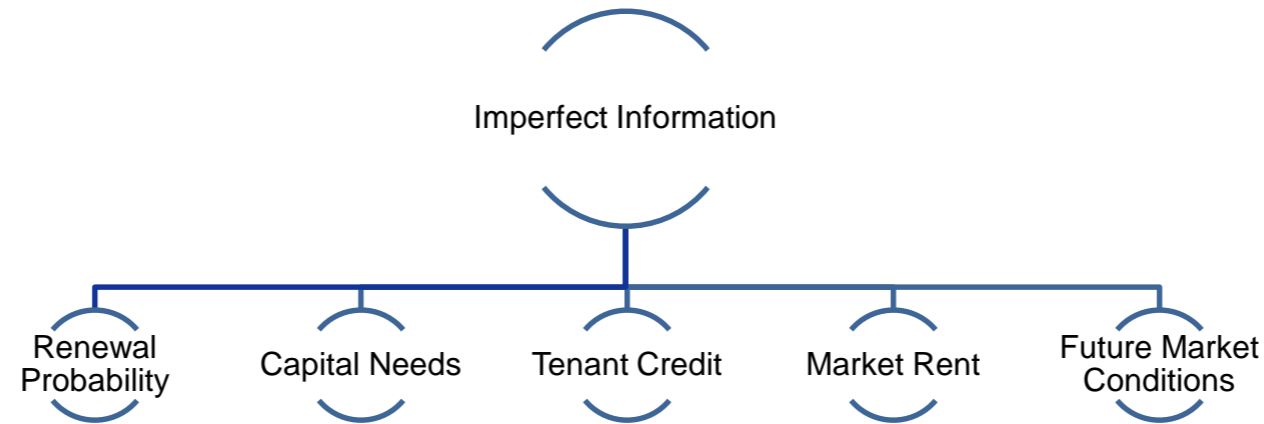
■ **Attractive Characteristics of the US Industrial Market**

- ➔ Large - \$750 billion to a trillion dollar market (approximately half single tenant) but with “bite-sized” assets
- ➔ Non-homogenous assets – relatively low correlation among individual transactions
- ➔ Fragmented ownership – many small, independent owners
- ➔ Predictable cash flow – high tenant retention and low capex

■ **Persisting Opportunity**

- ➔ The investor reaction to binary risk was likely to persist – it was real risk when looking at a single asset!
- ➔ Ample and consistent supply of available transactions – small owner’s decisions to sell are not highly correlated
- ➔ Limited investor demand for a significant portion of these assets - rampant use of rigid decision rules by competitors

The Identified Opportunity was Large and Likely to Persist



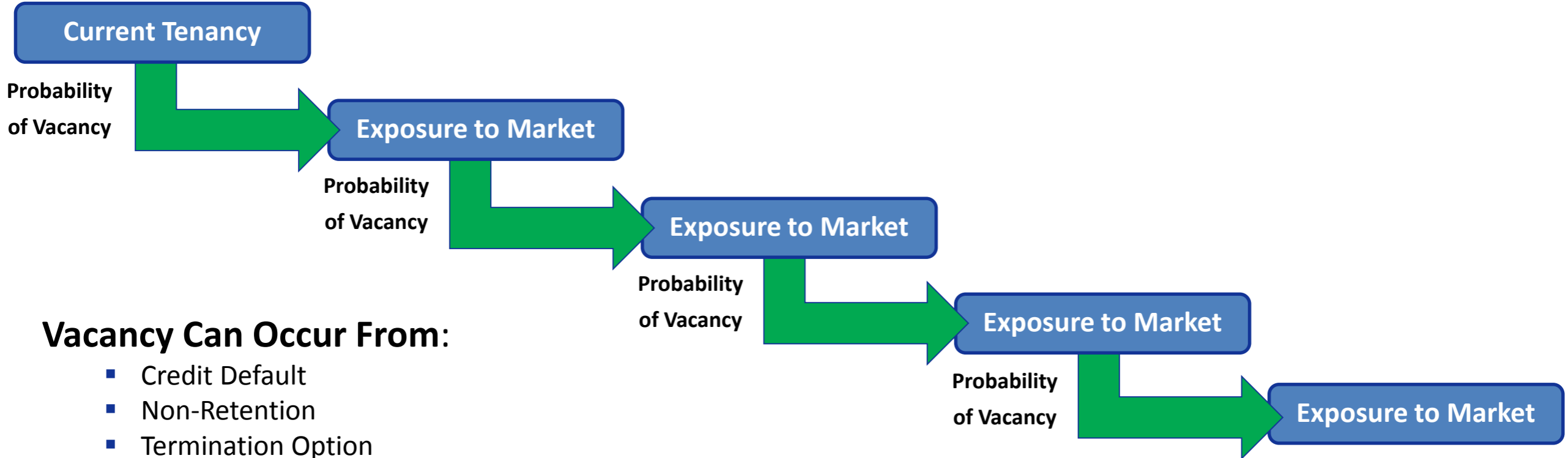
- Virtually all the factors that will influence future cash flow derived from owning a RE asset are subject to analysis
- These factors must be analyzed together – they are interdependent
- The world is not ‘black and white’, it is shades of grey. No room for rigid decision rules!

The STAG Model – Probabilistic Assessment

- Our approach to estimating future cash flow has been streamlined and systemized into our proprietary risk assessment model
- This allows us to look at potential investments on a homogenous basis (risk neutral cash flows)

The Art of RE Underwriting = The Probability and Impact of Exposure to the Market

EVERY MONTH PREDICTED VACANCY CREATES EXPOSURE TO MARKET



Vacancy Can Occur From:

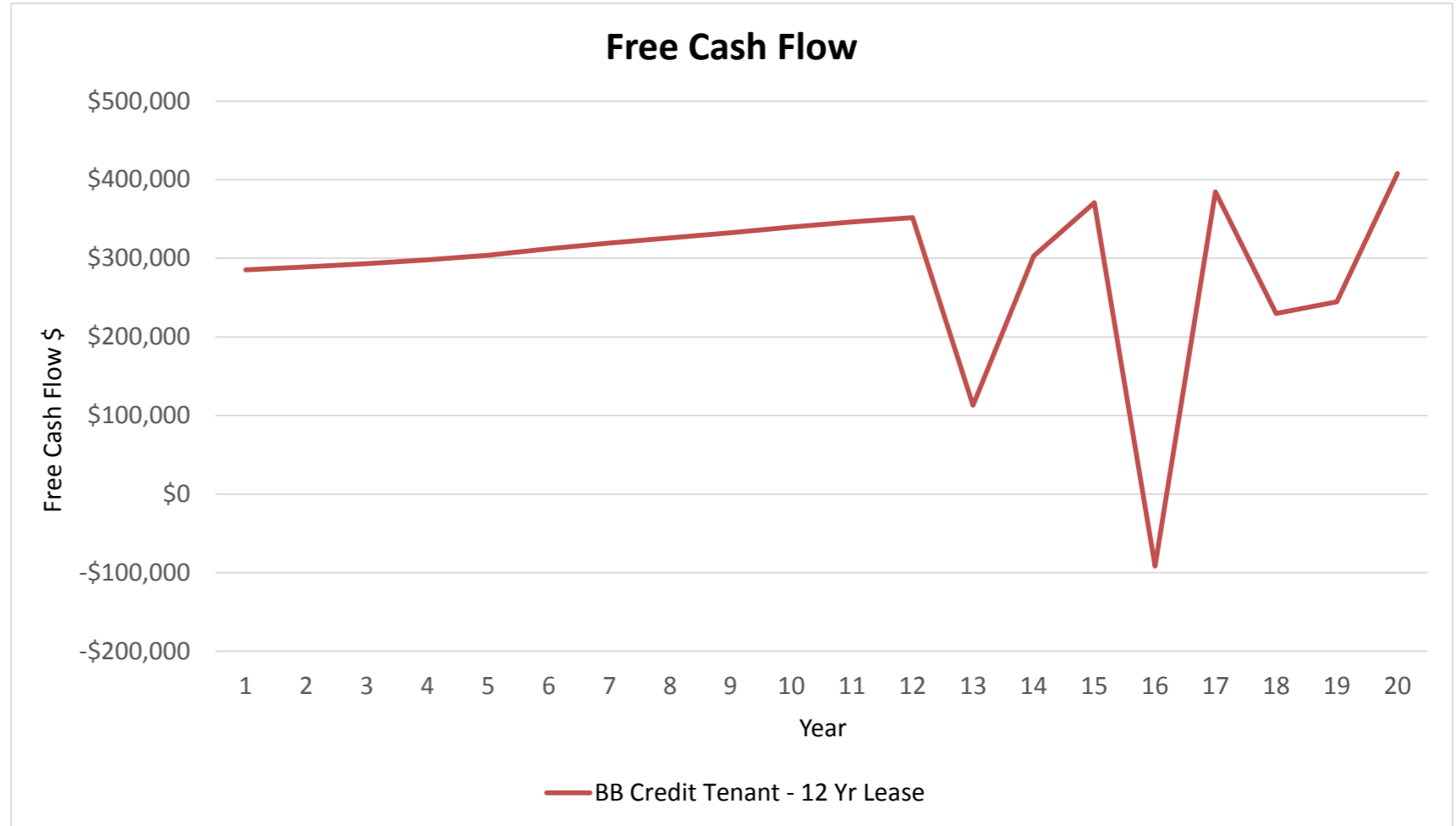
- Credit Default
- Non-Retention
- Termination Option
- Etc.

Underwritten Market Parameters are Introduced Monthly

TERM AS THE “HOLY GRAIL”

	BB 12yr
Purchase Price	\$5,000,000
Rent	\$3.00
Market Rent	\$3.00
Contractual Yearly Rent Increases	2%
Cap Rate	6.0%
SF	100,000

- Building assumed to be well located, modern structure subject to projected market dynamics
- Roof replaced in Year 15
- BB Credit Tenant

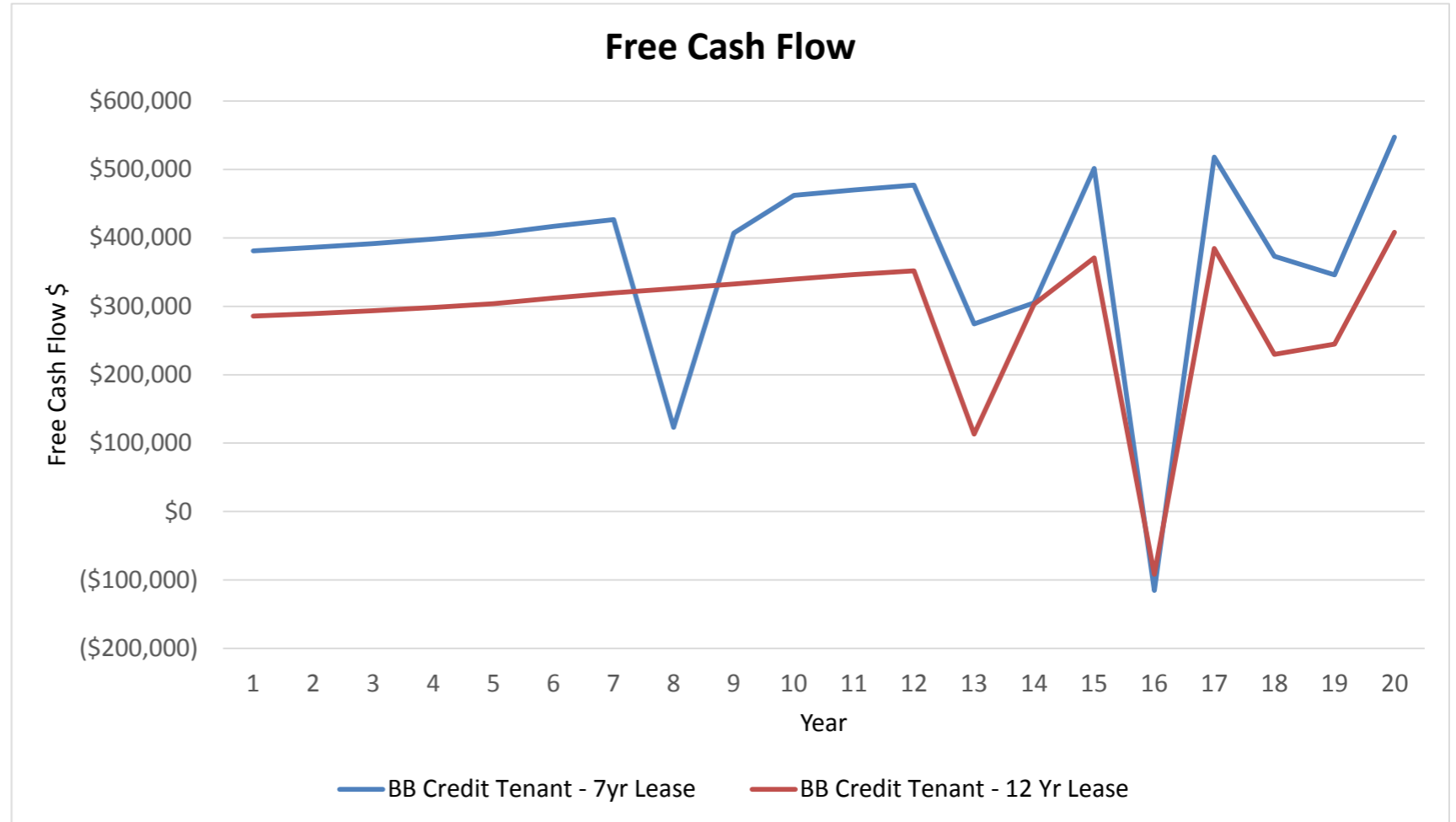


Many “Net Lease” Investors Only Have a Bid for Lease Terms of 12+ Years

MISPRICED ASSETS?

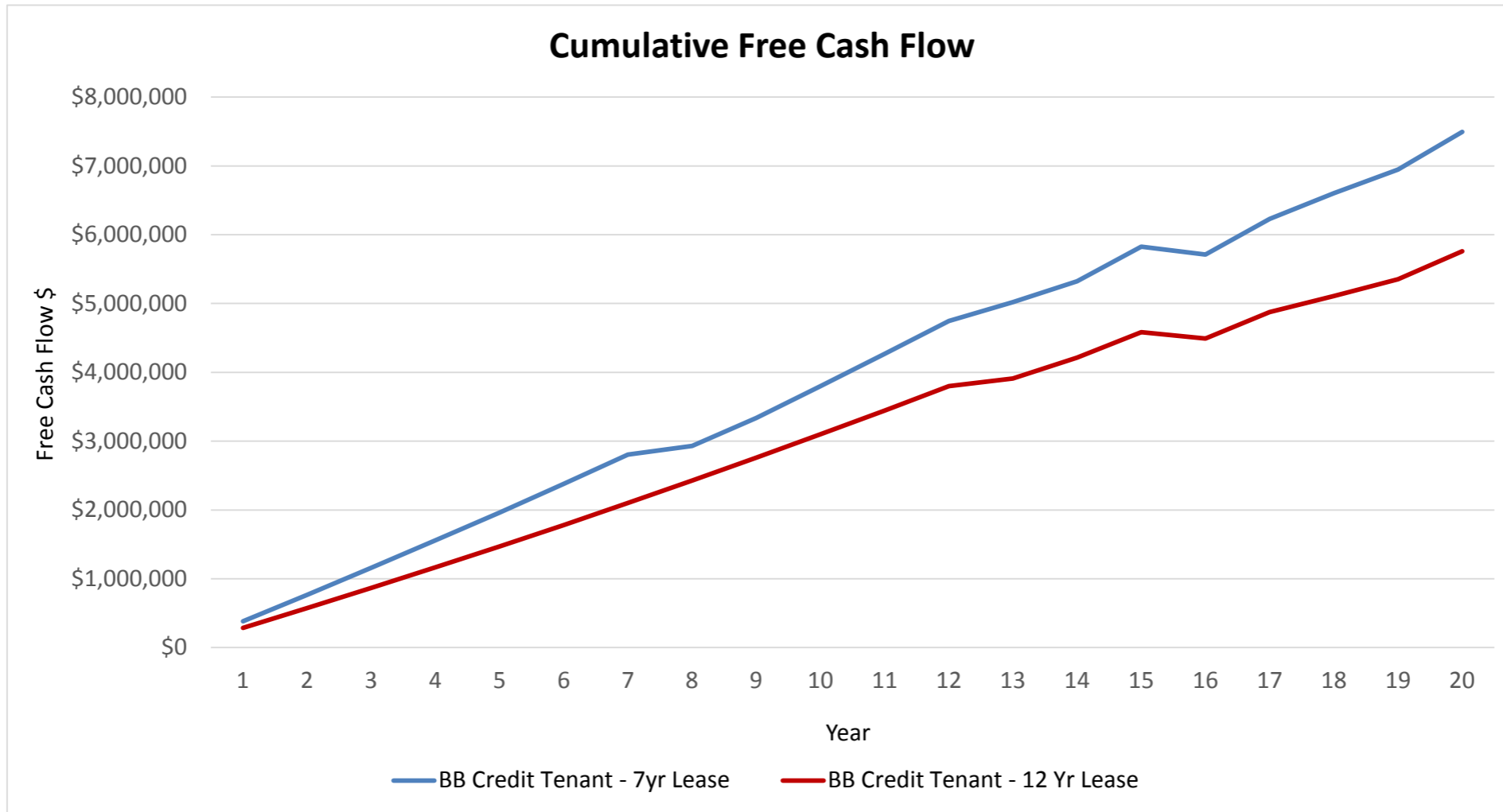
	BB 7yr	BB 12yr
Purchase Price	\$5,000,000	\$5,000,000
Rent	\$3.00	\$3.00
Market Rent	\$3.00	\$3.00
Contractual Yearly Rent Increases	2%	2%
Cap Rate	8.0%	6.0%
SF	133,200	100,000

- Buildings assumed to be the same on all parameters except term, square footage, and initial cap rate
- Roof replaced in Year 15
- BB Credit Tenant



Asset With 7-Year Lease Outperforms in Most Years

CUMULATIVE CASH FLOWS



Rigid Decision Rules Do Not Optimize Returns!

- Individual binary risk assets have high potential volatility in cash flow
- Like a multi-tenant industrial park, a portfolio of single tenant industrial assets reduces that risk
- Single asset risk/volatility assessed “Monte Carlo” simulation
- Portfolio diversification maintained to significantly reduce portfolio risk/volatility

By Maintaining Low Correlation in Our Portfolio, We Ensure that the Acquired Relative Value is Realized

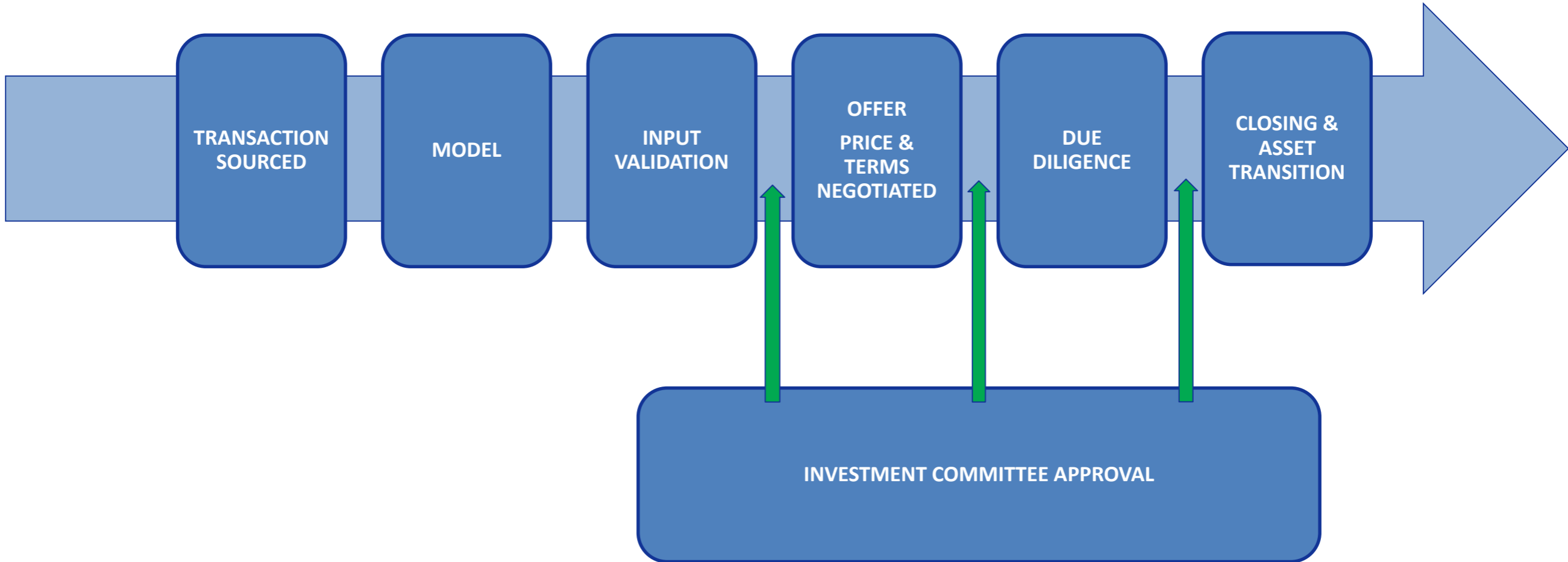
- **Started in 2003 – A model idea scratched on the back of an envelope**
- **Focus continues to be on probabilistic risk assessment and the generation of cash flow**
- **The STAG team is expert in:**
 - ➔ Sourcing transactions
 - ➔ Closing transactions
 - ➔ Determining model inputs
 - ➔ Operating our portfolio
- **Our efficient process allows us to cast a “wide net” across the potential investment universe**
- **Our iterative triage of transactions provides the proper/optimal allocation of resources**
- **Sophisticated, proprietary risk assessment model allows us to be agnostic on parameters such as market, building, and tenant**

Our Proprietary Risk Assessment Model is a Superior Tool for Identifying Relative Value

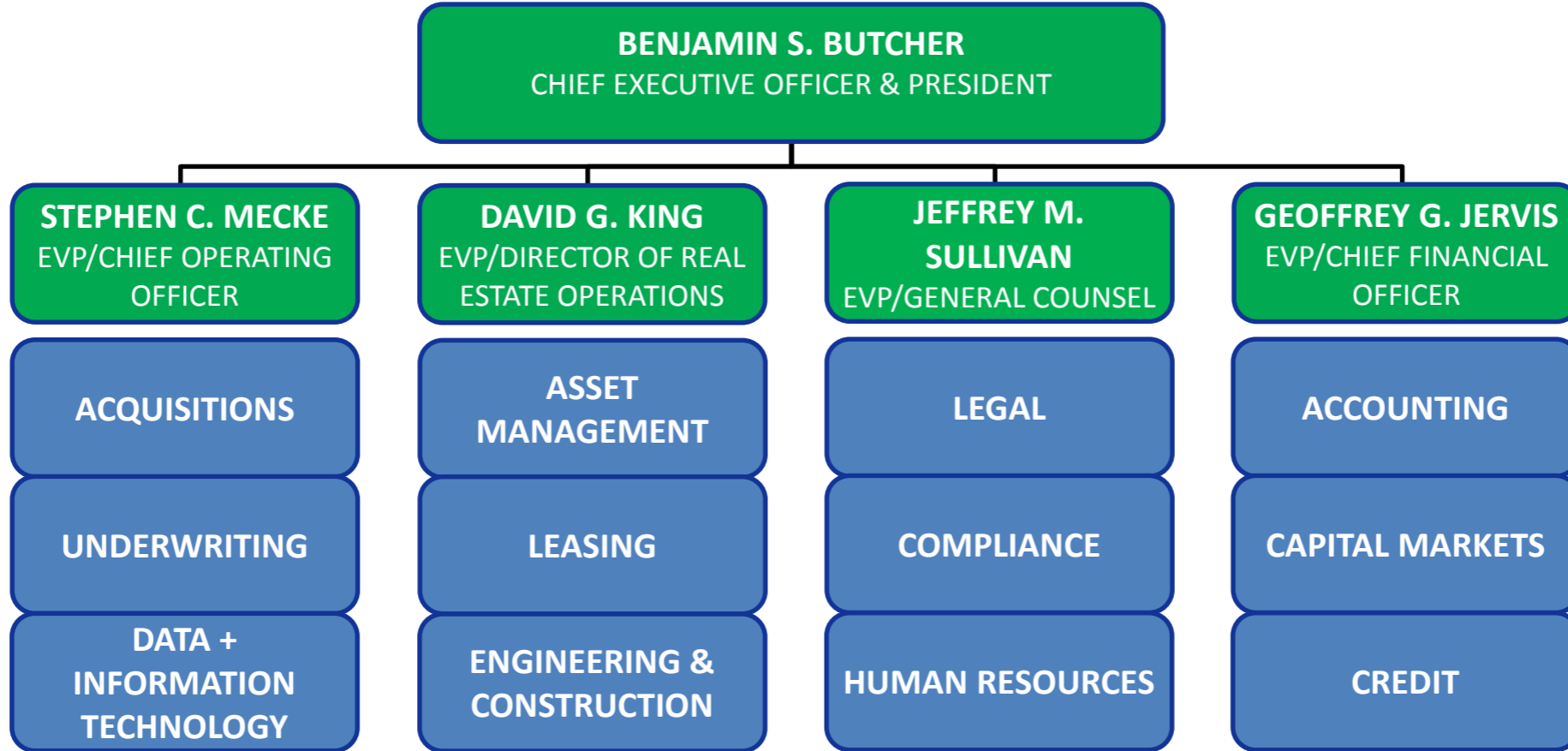
ORIGINATION PLATFORM

Stephen C. Mecke
EVP/Chief Operating Officer

DEAL PROCESS FLOW CHART

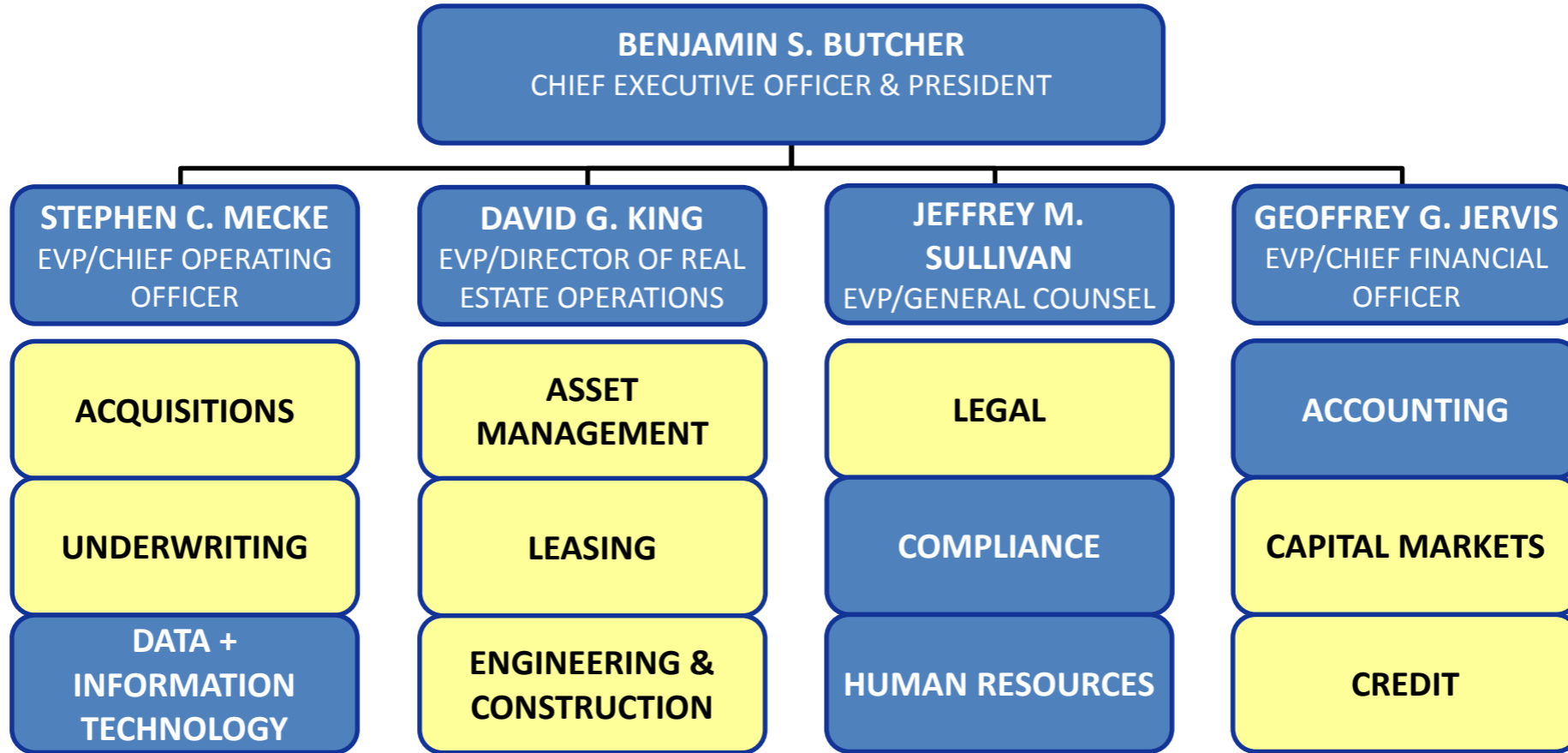


INVESTMENT COMMITTEE

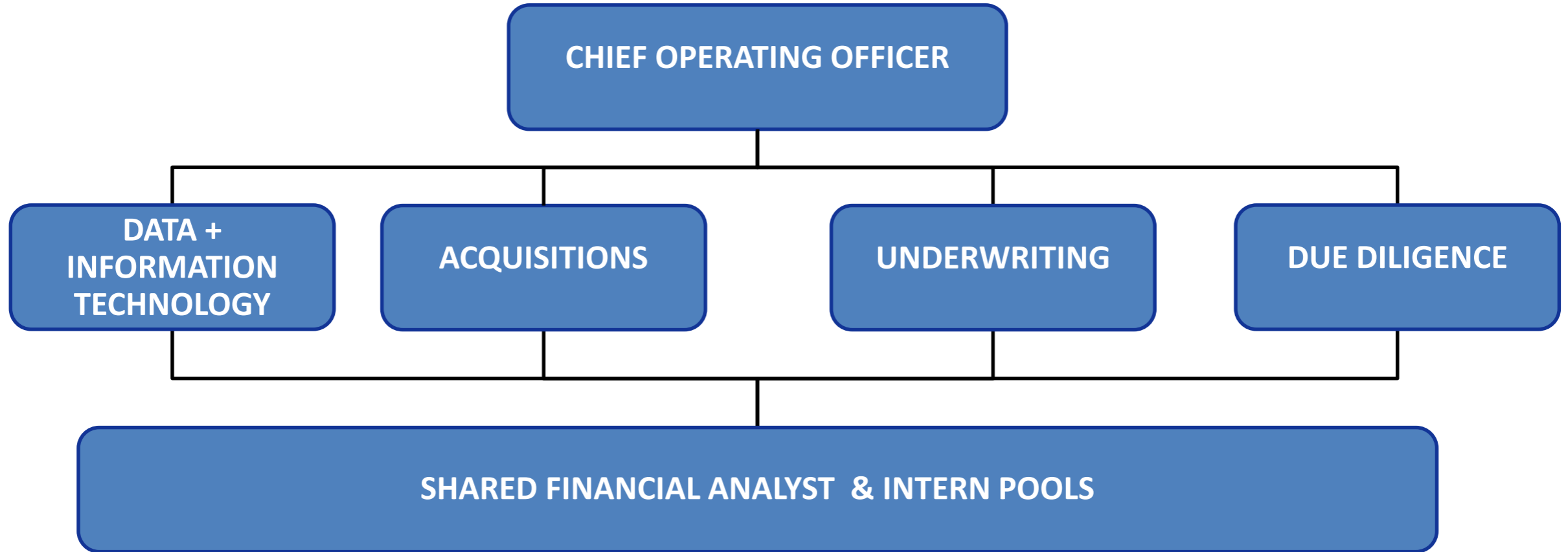


Investment Committee With Over 100 Years Of Combined Experience

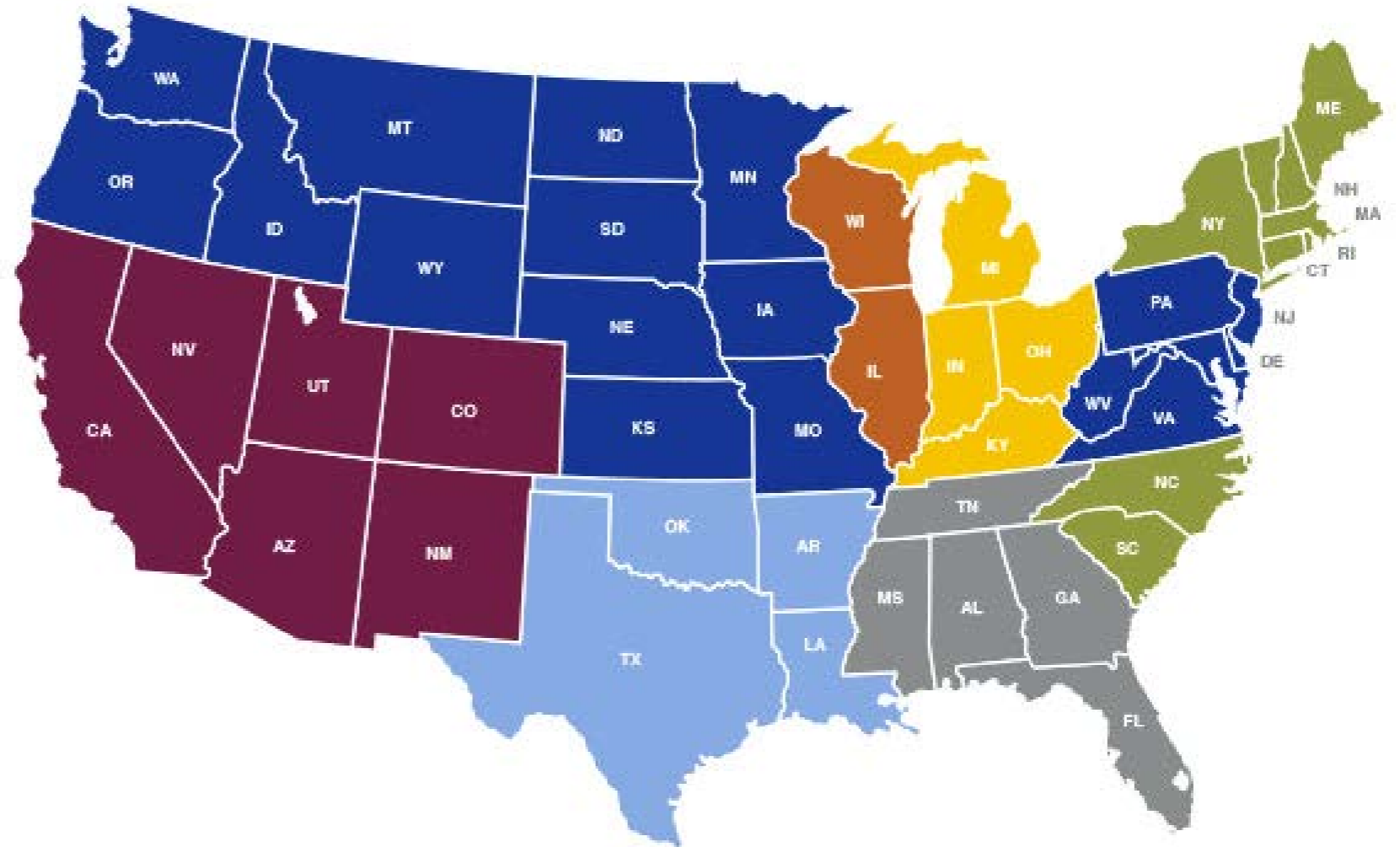
UNDERWRITING ASSUMPTION VALIDATION



Healthy Tension by Design



Acquisitions Team	Years with STAG
■ Mike Chase	12 Years
■ Brad Sweeney	11 Years
■ Ryan Delaney	11 Years
■ Jeff Harper	4 Years
■ Scott Miller	2 Years
■ Jean Murphy	1 Year
■ Brian Morris	1 Year



DEAL SOURCES

REAL ESTATE BROKERS

- Database of over 9,000 industrial brokers
- 12 year history building relationships
- Pocket Listings – Goal of being the first & last call

PROPERTY OWNERS

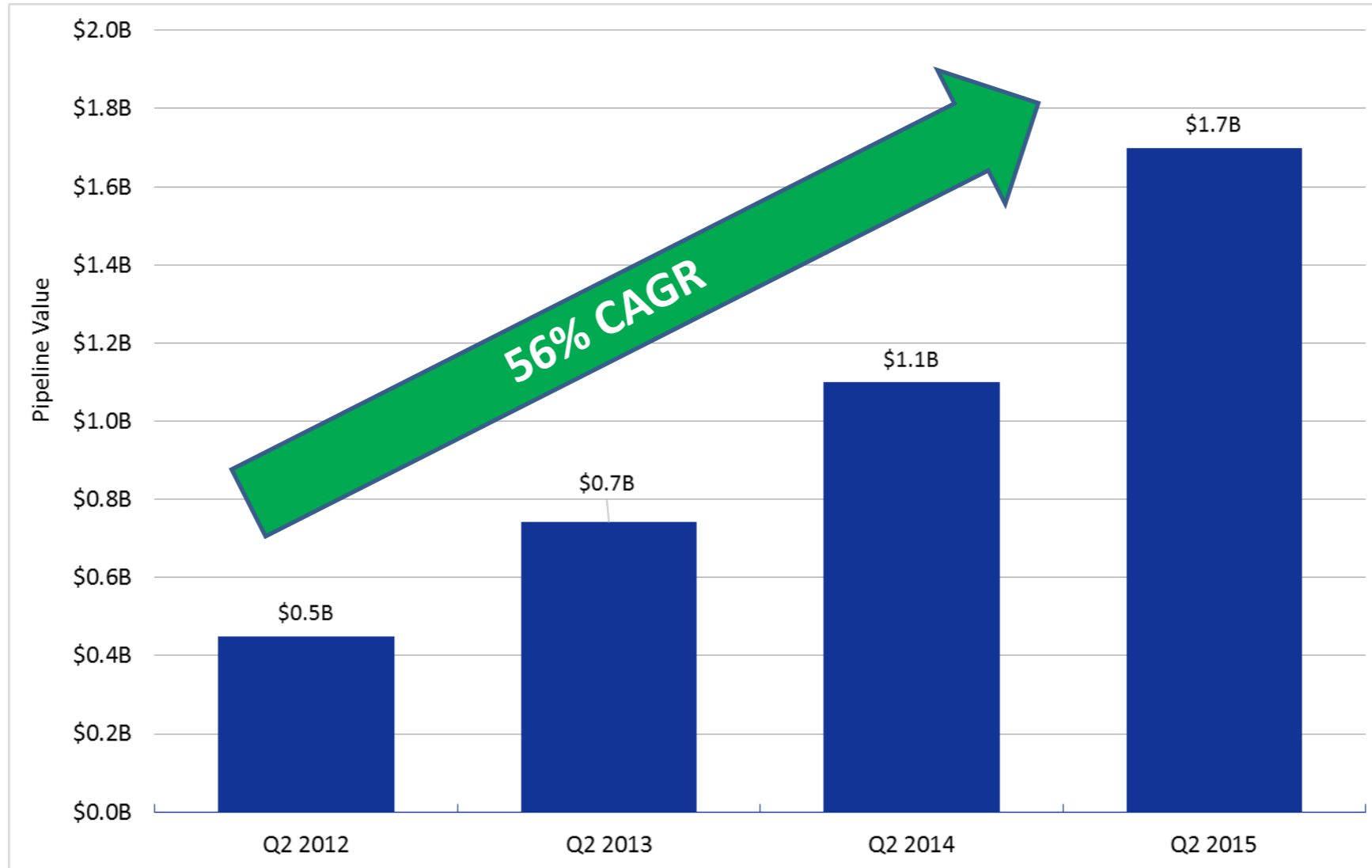
- Since inception, STAG has closed over 325 transactions with a wide variety of owners (private & institutional) across the country
- Multiple repeat business and referral transactions
- UPREIT technology attracting direct contact by owners

FINANCIAL INTERMEDIARIES

- Continuous conversations with investment bankers & business intermediaries regarding potential portfolio and M&A opportunities
- Direct contact with private equity groups in an effort to identify portfolio companies that may benefit from a sale leaseback
- Targeting family wealth advisors with clients who own real estate and may benefit from an UPREIT transaction

Established Institutional Reputation

GROWTH OF THE PIPELINE



SELECTIVITY

DISCIPLINE

1,000+
CONSIDERED

350
UNDERWRITTEN

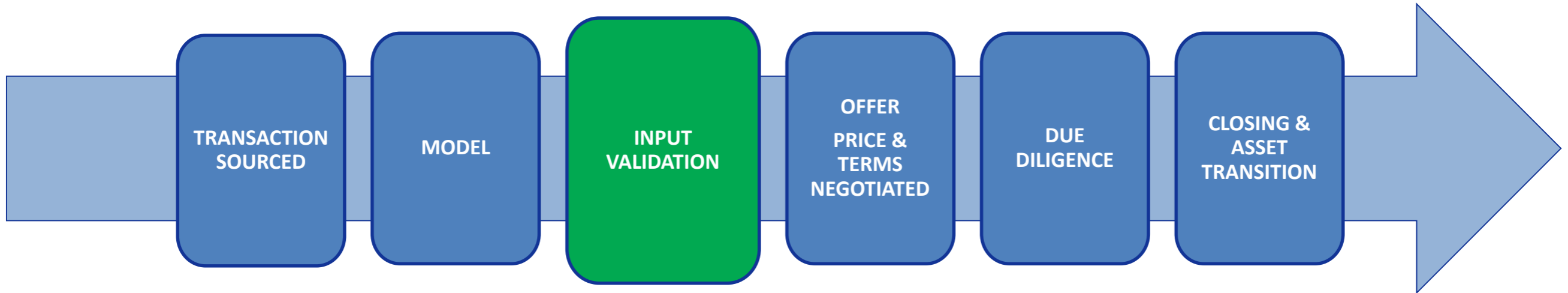
200 OFFERS
MADE

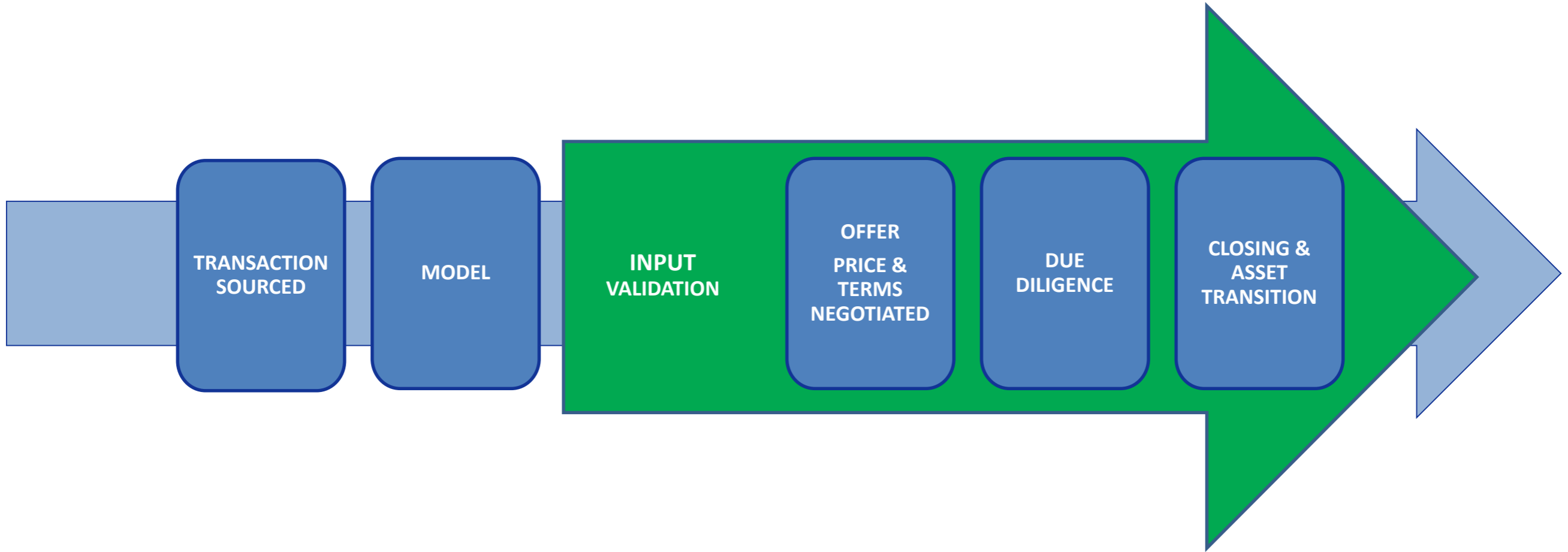
43 CLOSED

Acquired \$429 Million of Properties in 2014

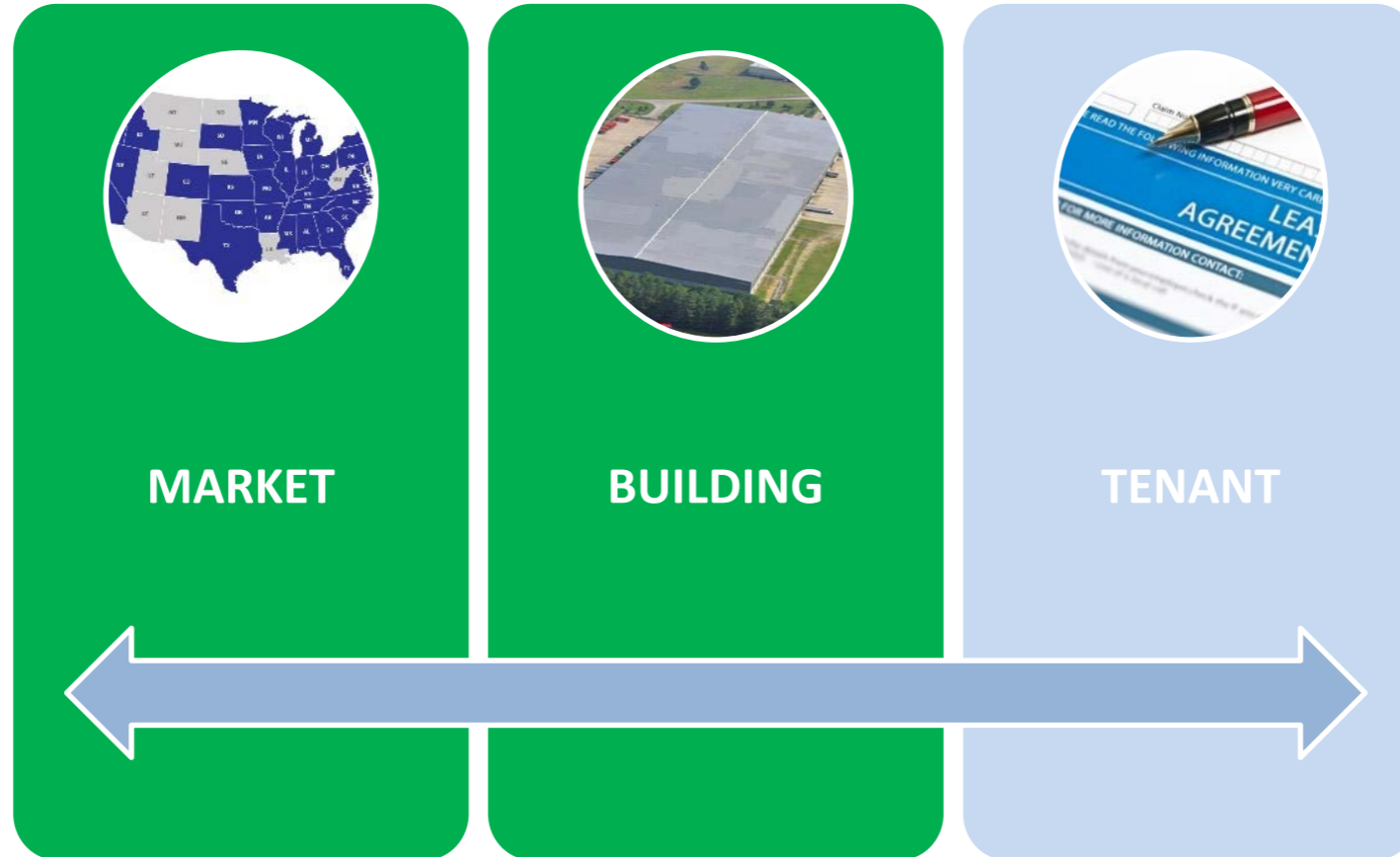
UNDERWRITING – MARKETS & BUILDINGS

David G. King
EVP/Director of Real Estate Operations

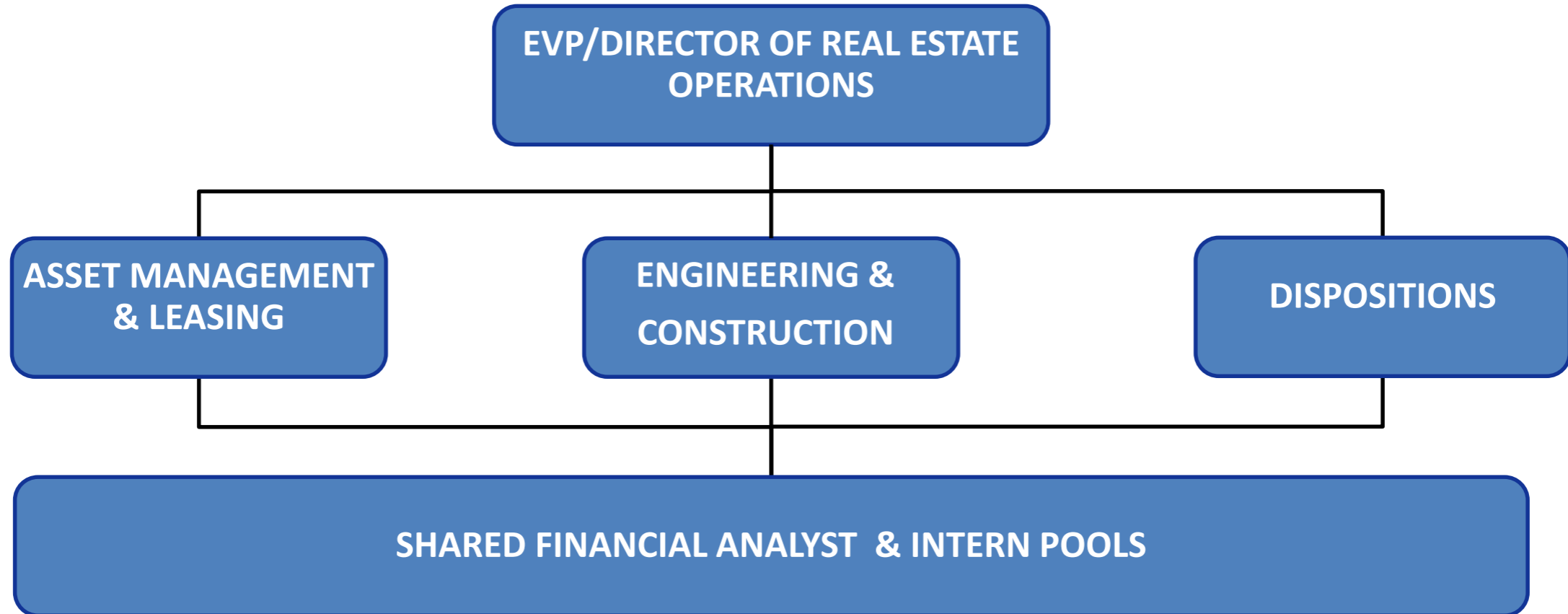




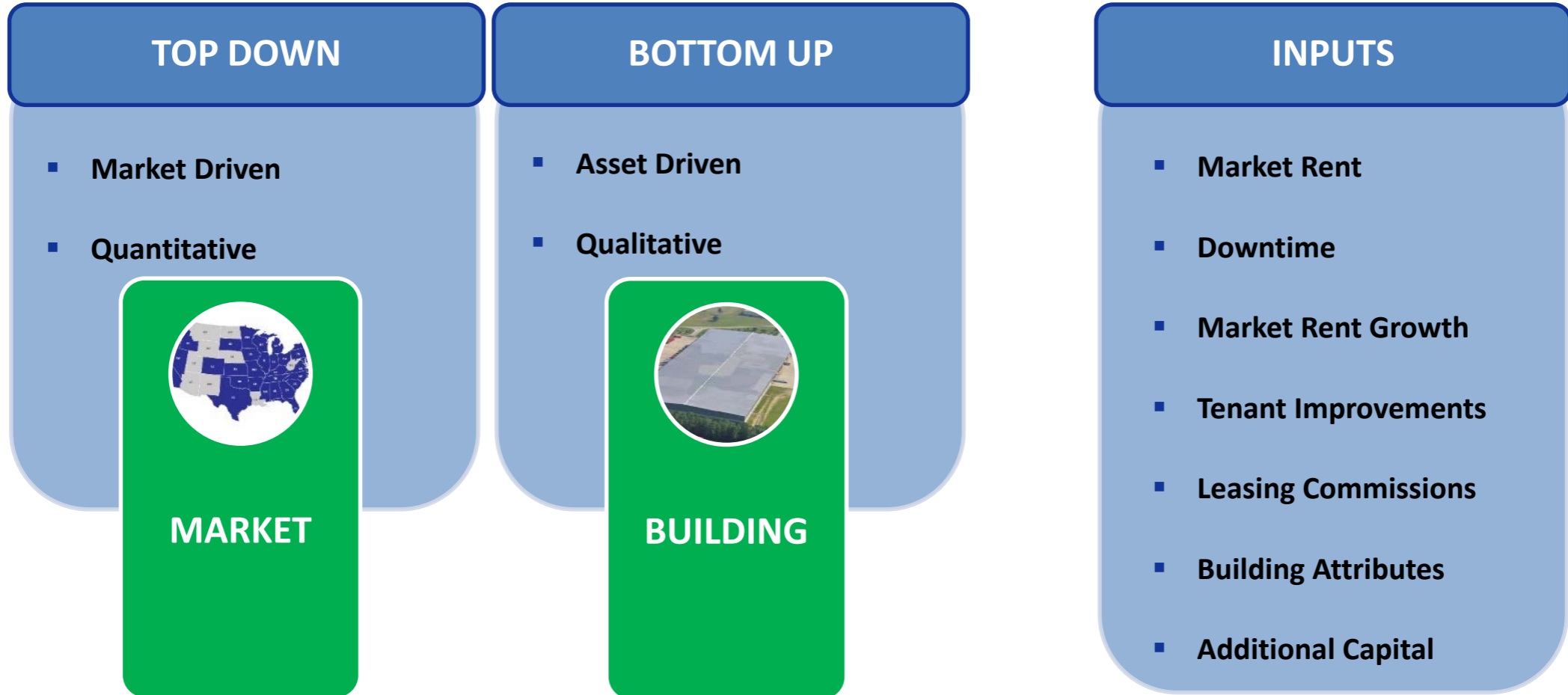
THREE PILLARS OF UNDERWRITING



Healthy Tension Creates a System of Checks & Balances

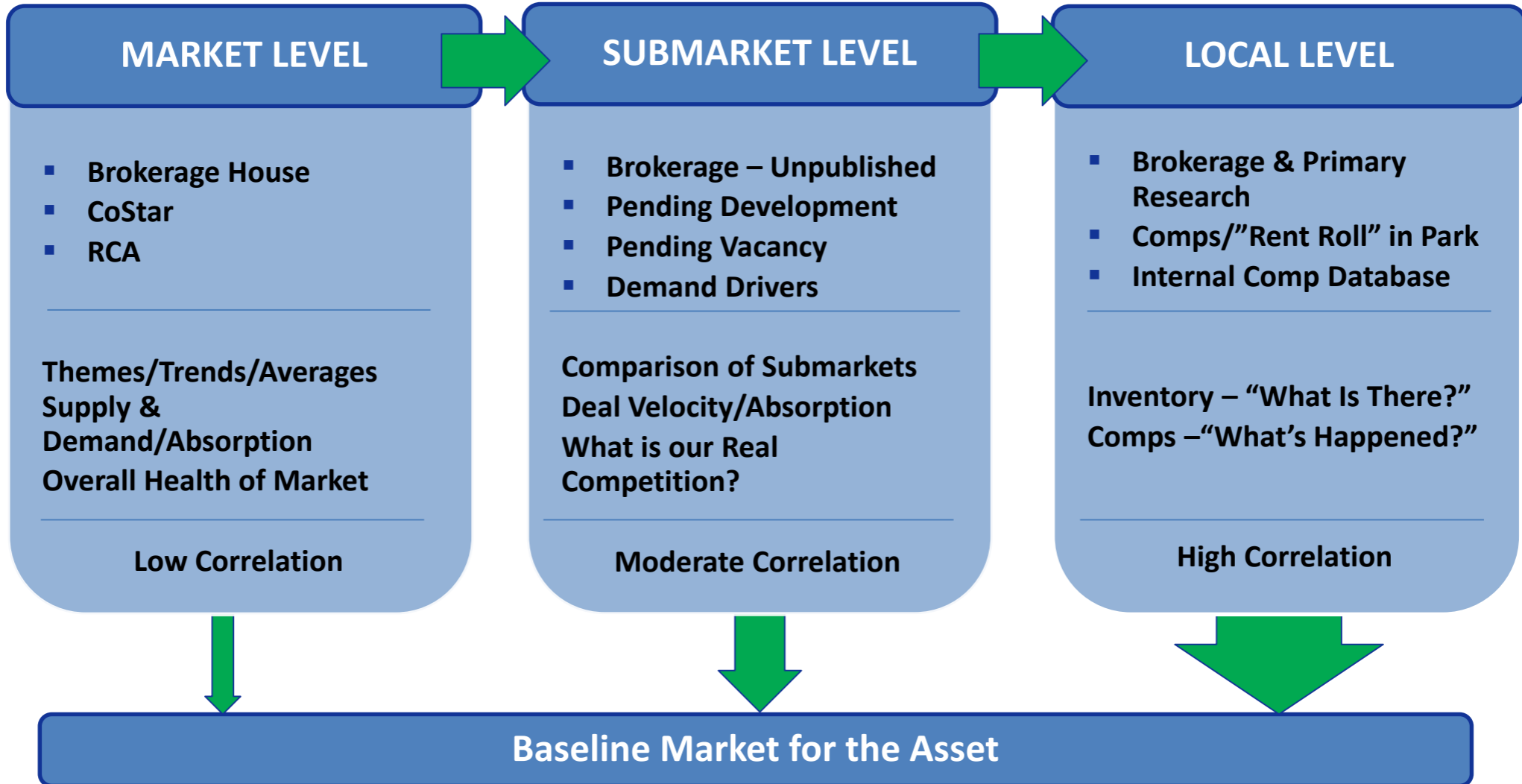


UNDERWRITING – TWO APPROACHES BY TWO TEAMS

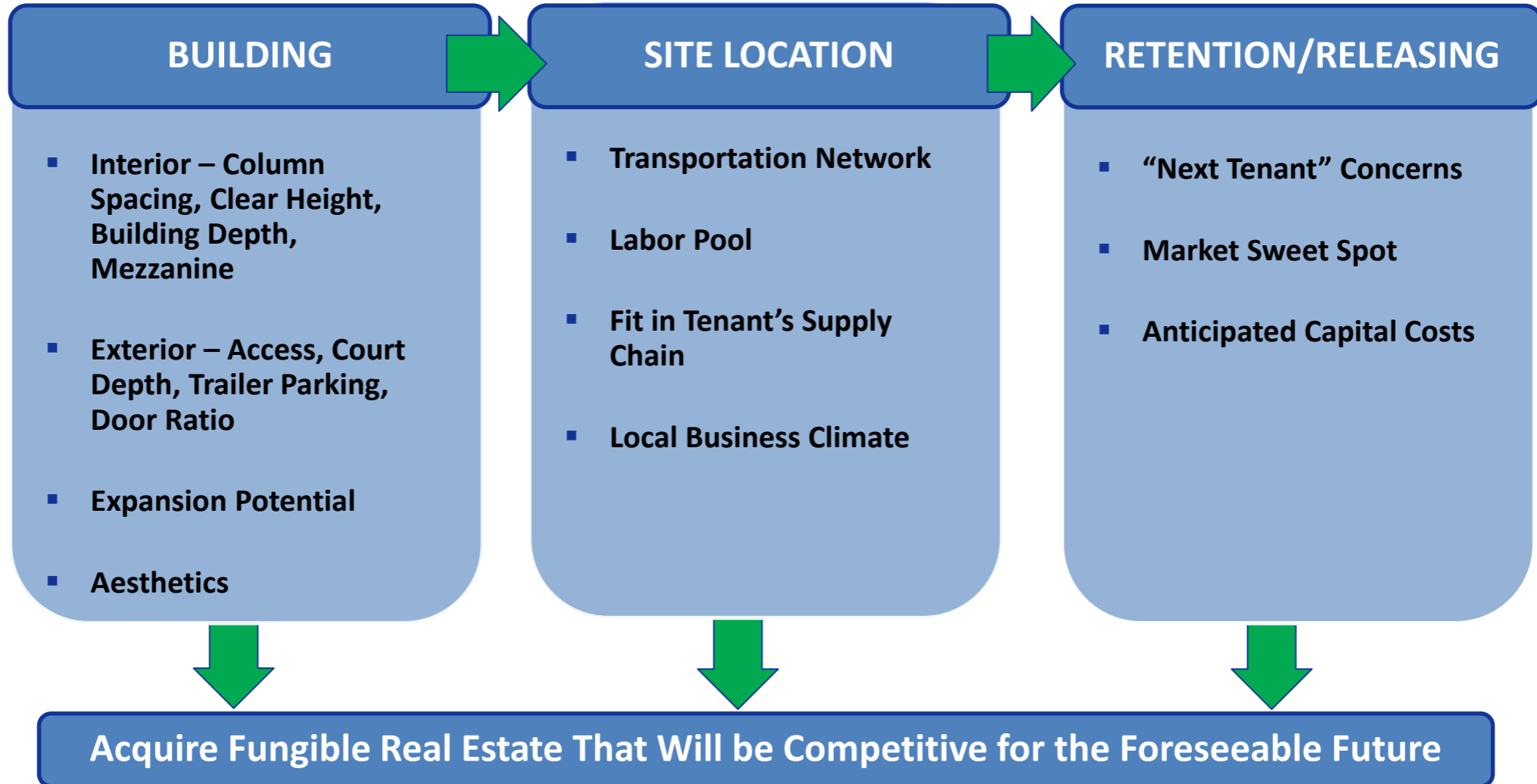


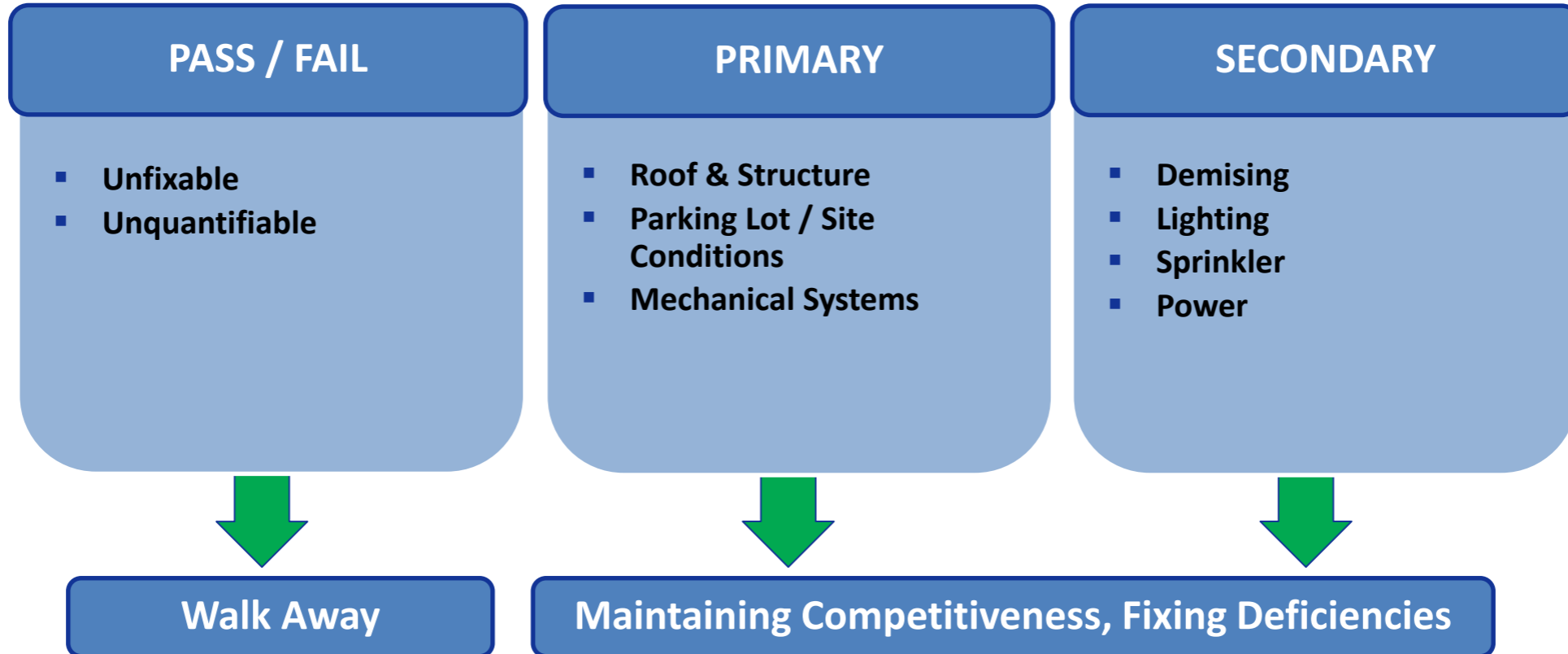
Two Independent Teams Vetting Data to Arrive at Optimal Model Inputs

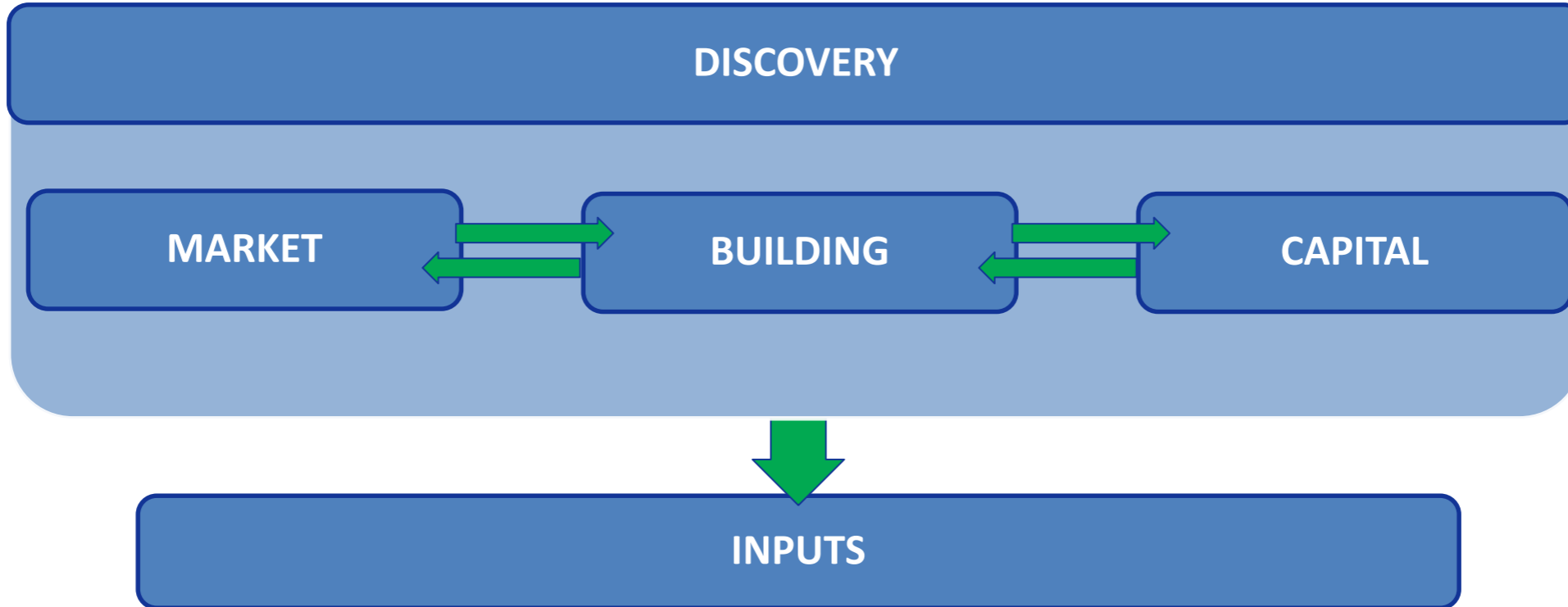
MARKET – TOP DOWN APPROACH



BUILDING – BOTTOM UP APPROACH





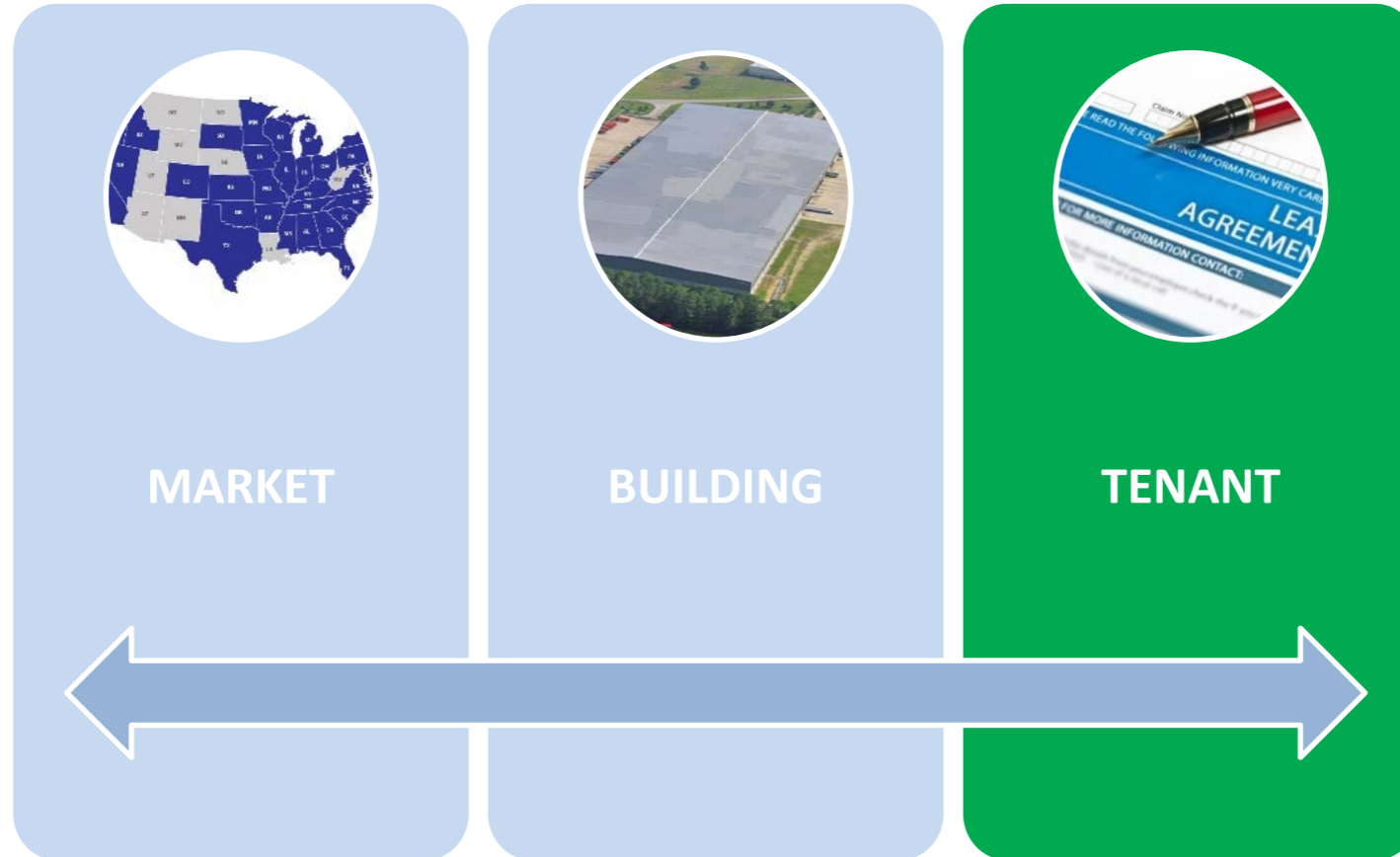


Iterative Process is Continually Refined – Creates Constant Feedback Loop

UNDERWRITING – TENANTS

Kurt N. Flionis
Vice President, Credit

THREE PILLARS OF UNDERWRITING



Healthy Tension Creates a System of Checks & Balances

LEADERSHIP:

CO-HEADS CREDIT	STAG EXPERIENCE
KURT N. FLIONIS, CFA	9 YEARS
RYAN E. MURPHY, CFA	5 YEARS

- Combined credit underwriting experience of over 17 years
- 1,800+ companies underwritten

CREDIT GOAL:

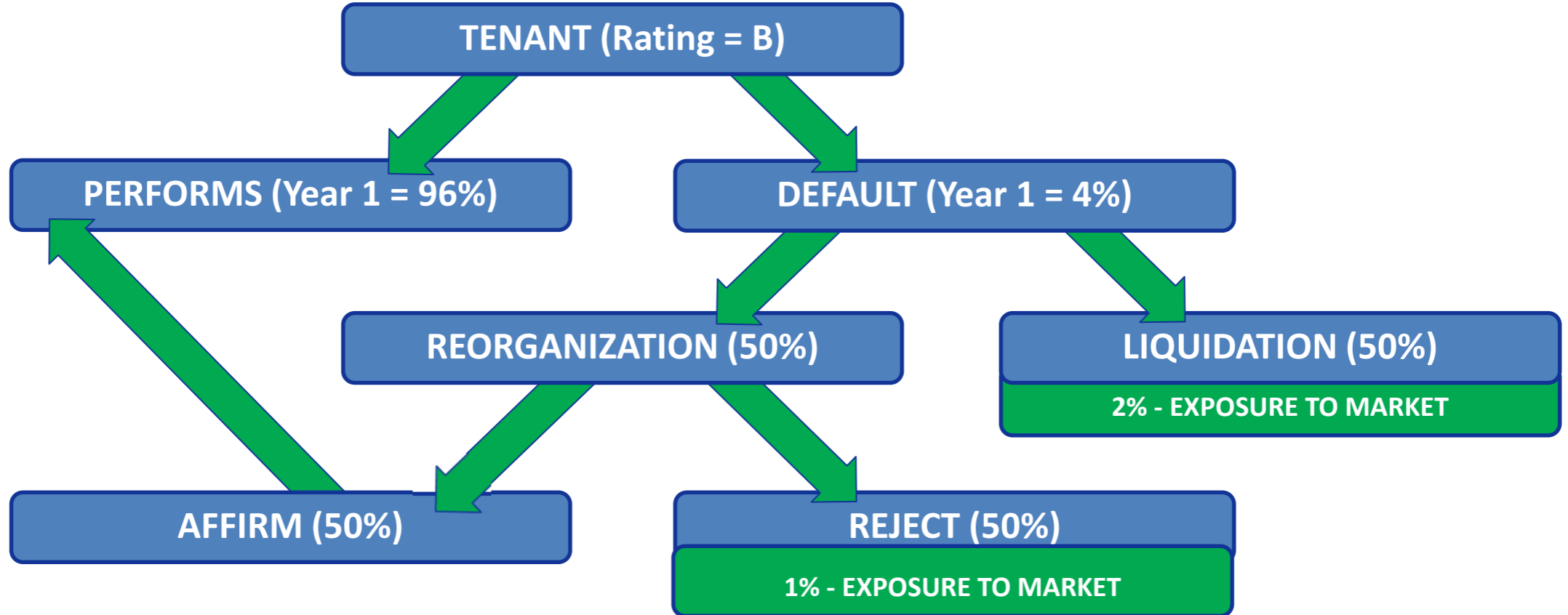
- Best possible assessment of the creditworthiness of prospective and existing tenants in order to help make intelligent investment, leasing, and capital decisions. This is achieved by continuously improving our knowledge on credit risk through the collection of third party and internal data, research, analysis, and experience and effectively communicating across the organization

“Only when the tide goes out do you learn who has been swimming naked.”

- Warren Buffett

DIFFERENTIATED APPROACH TO CREDIT

- In-depth management calls and discussions with third party references
- Every single tenant is assigned a credit rating and every rating is evaluated at least on a quarterly basis
- Internal database with over 1,800 historical credit underwritings
- Proprietary Risk Assessment Model credit inputs
 - ➔ THE INPUTS: Internal Credit Rating (Probability of Default), Prob. of Reorganization vs. Liquidation, and Prob. of Affirm vs. Reject



TENANT RISK ASSESSMENT FACTORS

TENANT, GUARANTOR, AND NON-GUARANTOR PARENT

RATING FACTORS

- Market position/scale
- Industry/Competition
- Concentrations
- Management/Ownership
- Operating Risks
- Financials
 - ➔ Margins
 - ➔ Cash Flow
 - ➔ Leverage, Coverage, Liquidity
- Covenants
- Payment History

REORG / LIQUIDATION

- Asset Size
- Revenue Size
- Industry
- Ownership
- Competitive Position

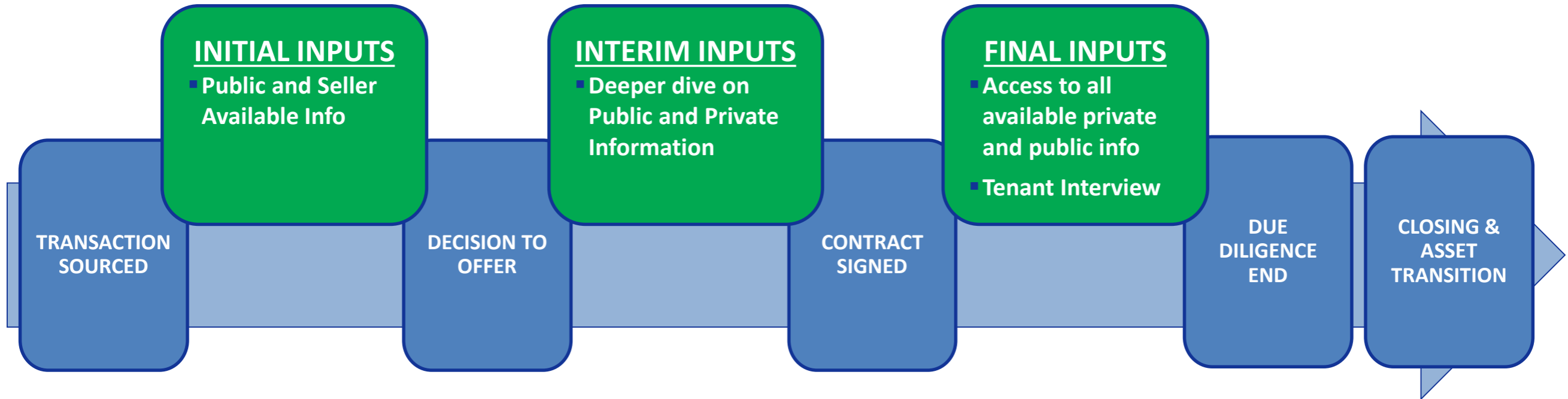
AFFIRM / REJECT

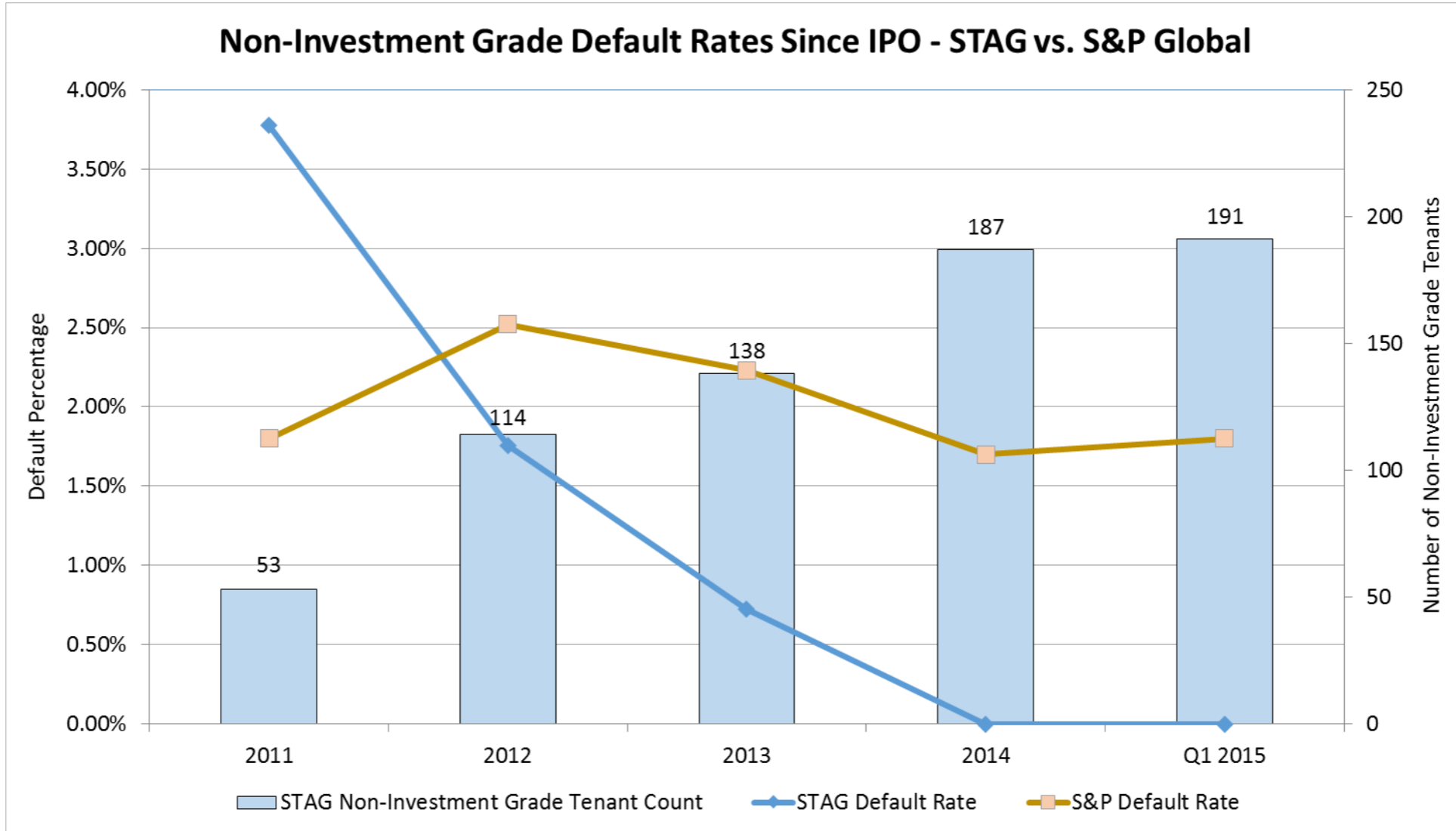
- Primary/Secondary Facility
 - ➔ Credit Research
 - ➔ Property Site Tour
 - ➔ Real Estate Interview

CONFIDENCE FACTORS

- Access to information both in quantity and quality
- Financial Statements
- Management Calls (Q&A)
- Organizational Entity Chart
- Third Party References
 - ➔ Rating Agencies
 - ➔ Lenders
 - ➔ Equity Research

PROPRIETARY DATA & EXPERIENCE





Credit Loss of Less than 0.3% Since IPO

- **Differentiated Approach to Credit**

- ➔ Highly vetted, probabilistic inputs
- ➔ In-depth management calls and discussions with third-party references
- ➔ Extensive database of historical credit underwritings

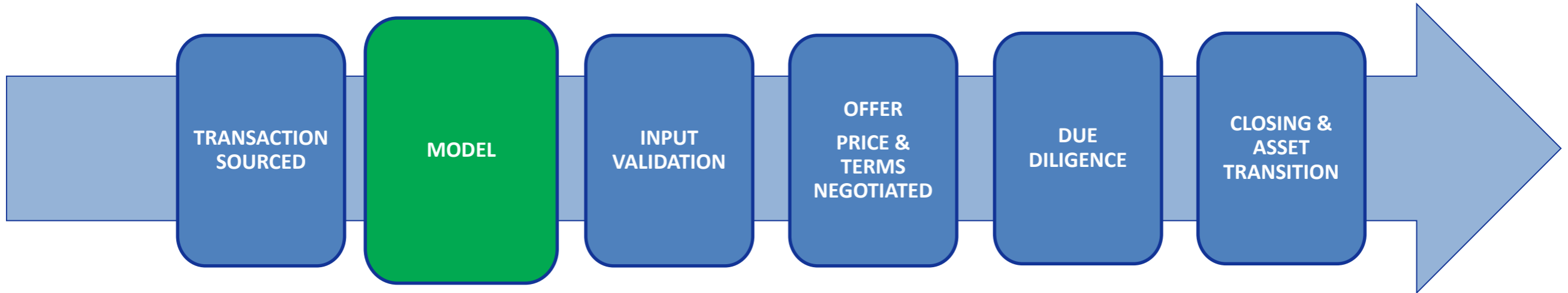
- **Process vs. Outcome**

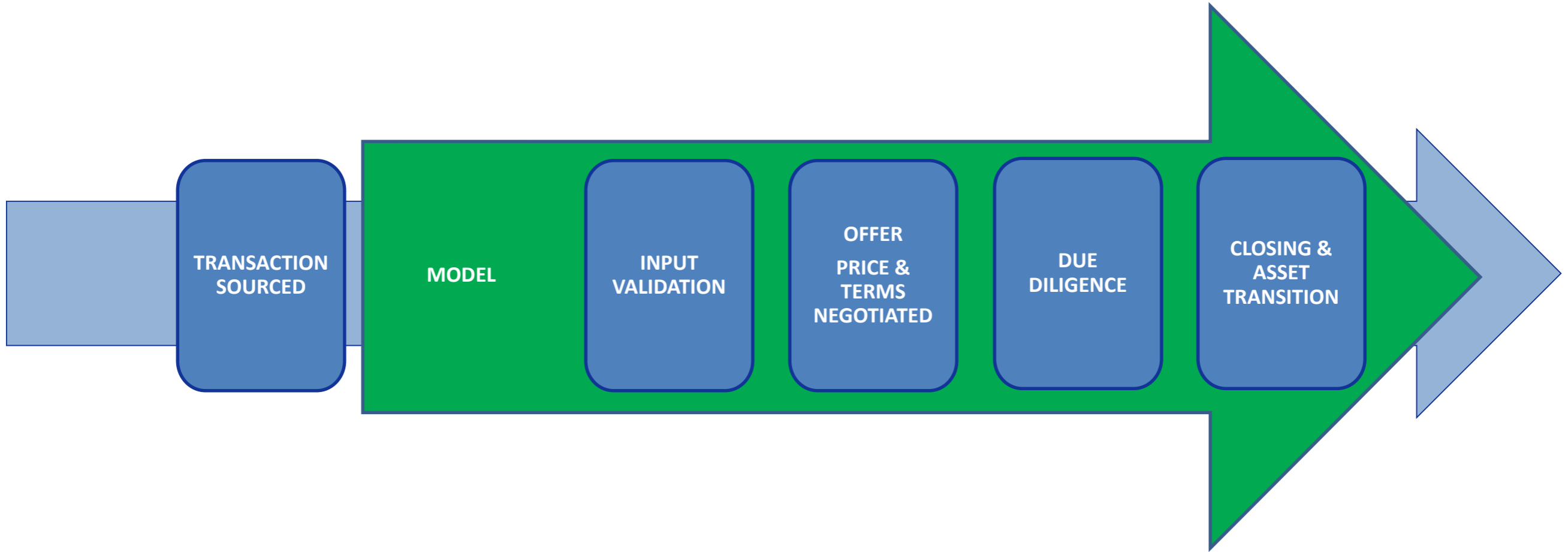
- ➔ Long-Term vs. Short-term

RISK ASSESSMENT MODEL

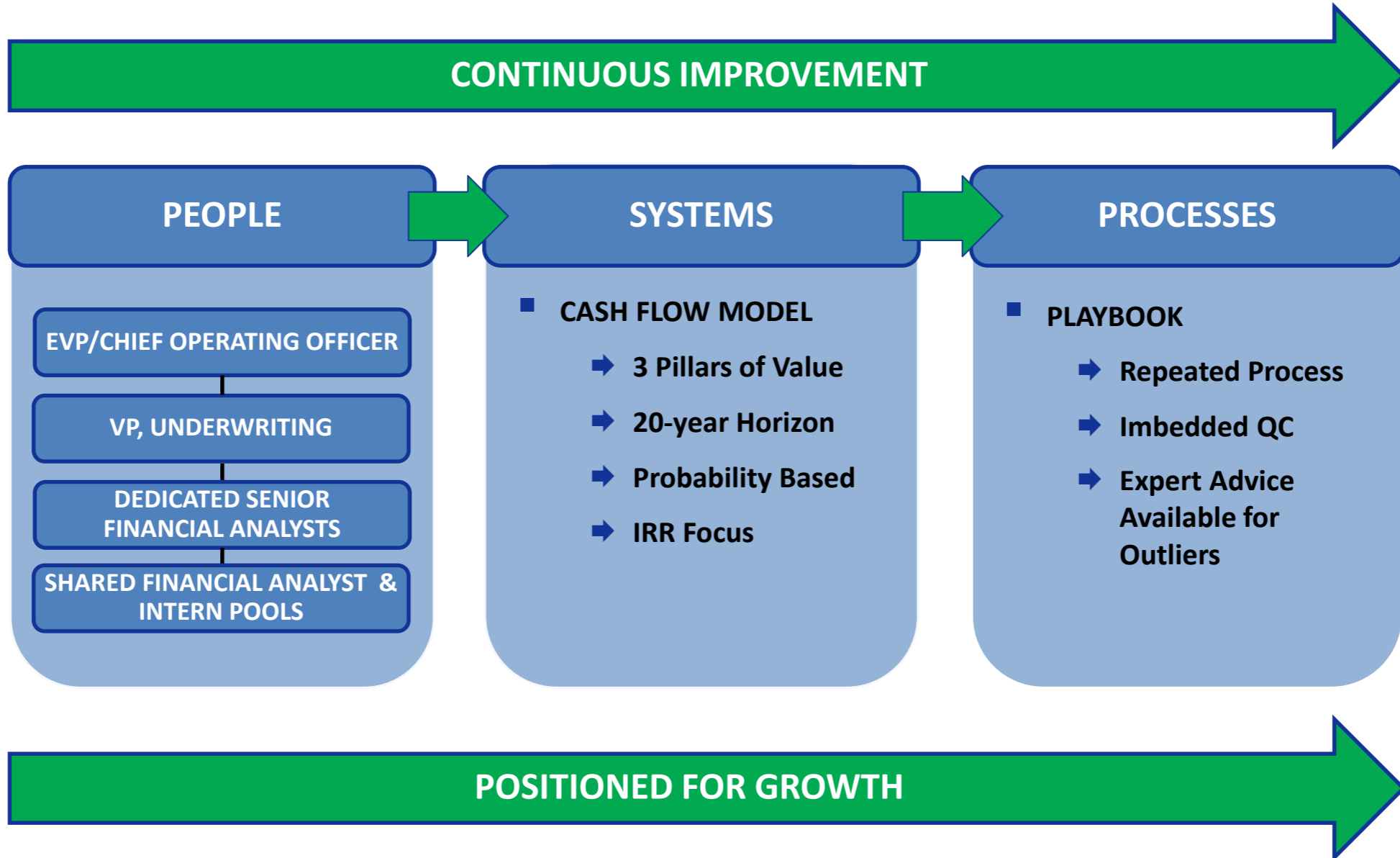
Rowan McFeely
Vice President, Underwriting

RISK ASSESSMENT MODEL



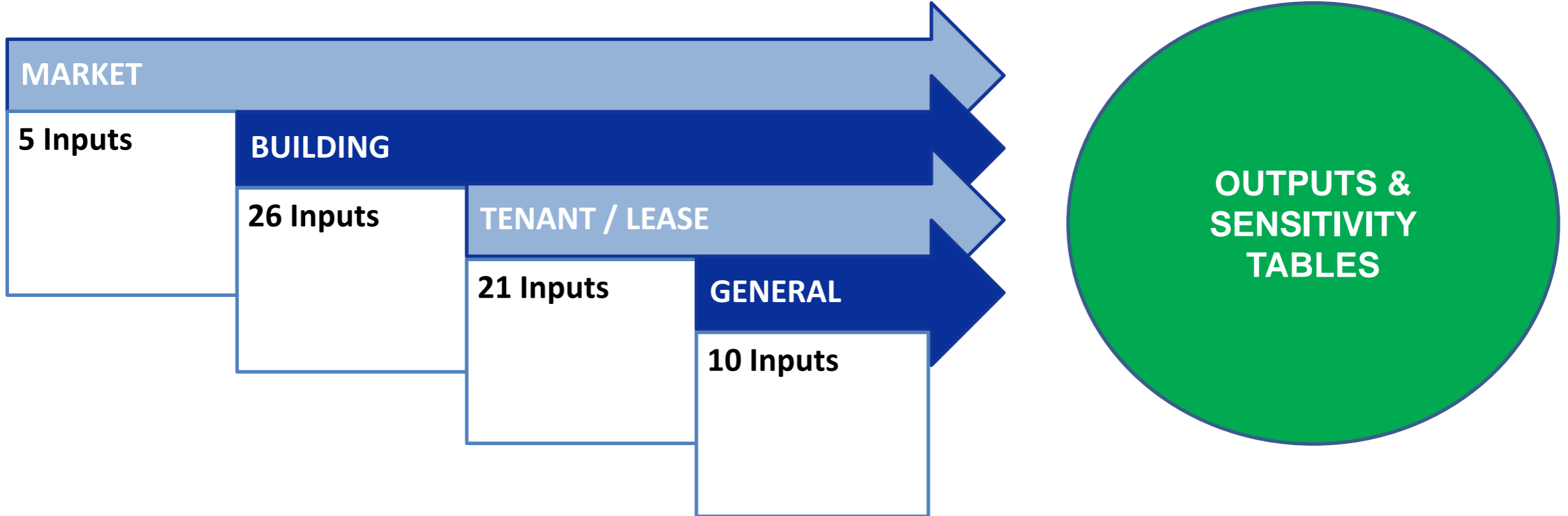


UNDERWRITING GROUP STRUCTURE



THE THREE PILLARS OF UNDERWRITING





SAMPLE INDUSTRIAL CASH FLOW MODEL

THE MODEL IS USED TO ASSESS THE LONG-TERM CASH FLOW POTENTIAL OF AN ASSET

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	
Gross Potential Revenue	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X
Collection Loss/Vacancy	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
<u>Vacant Operating Expenses</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>
Net Operating Income	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X
Leasing Costs	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
<u>Capital Investment</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>
Unlevered Free Cash Flow	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X	\$X

PROBABILISTIC ASSESSMENT OF RISK – IMPERATIVE IN AN UNCERTAIN WORLD

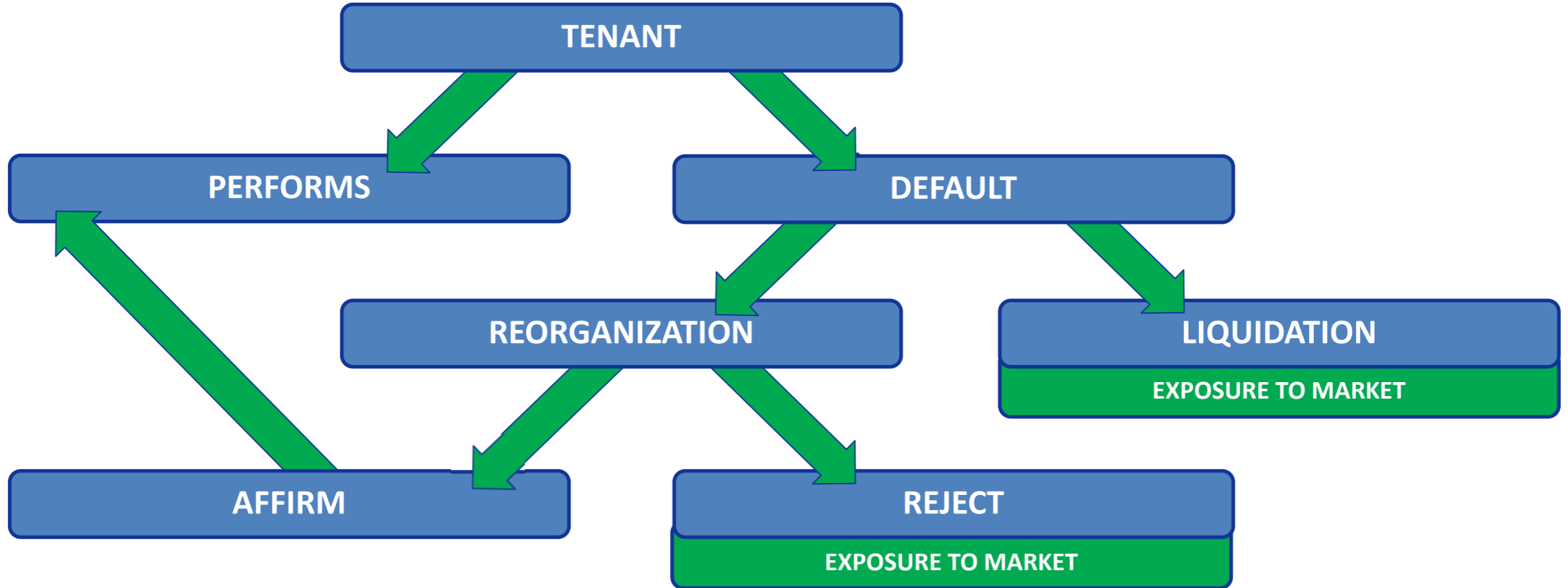
$$E(r) = \sum_{s=1}^s p(s)r(s)$$

$E(r)$ = *expected return*

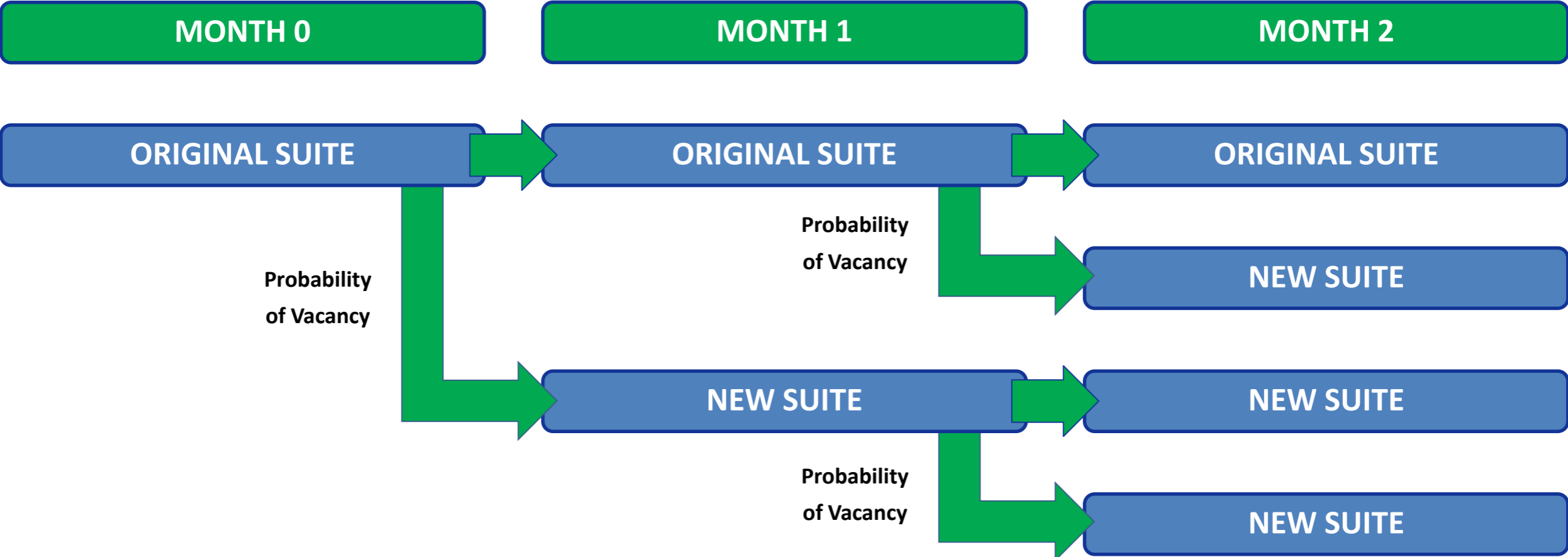
$p(s)$ = *probability of scenario*

$r(s)$ = *return of scenario*

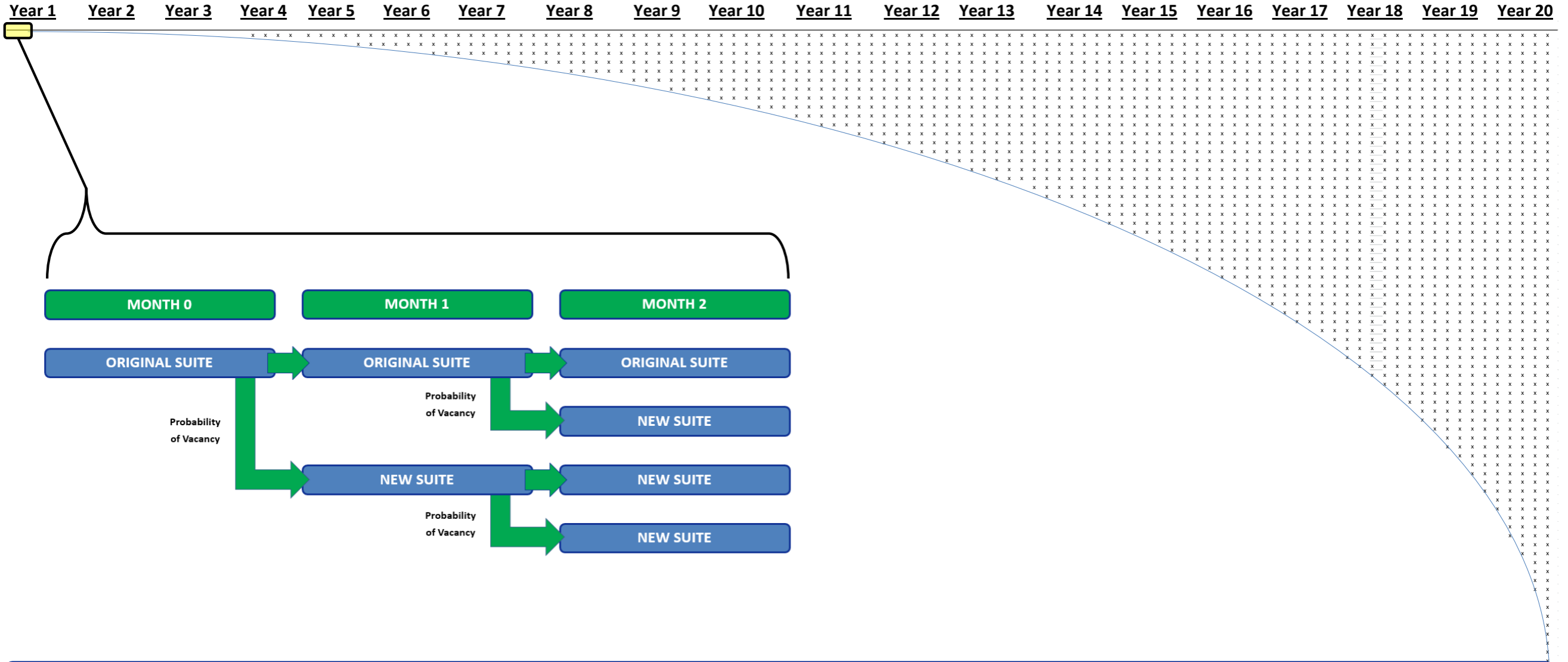
“PROBABILISTIC” CREDIT APPROACH



THE “SUITE” EFFECT OF CREDIT DEFAULT PROBABILITY



STANDARD TRANSACTION – EXPONENTIAL “SUITE” EFFECT

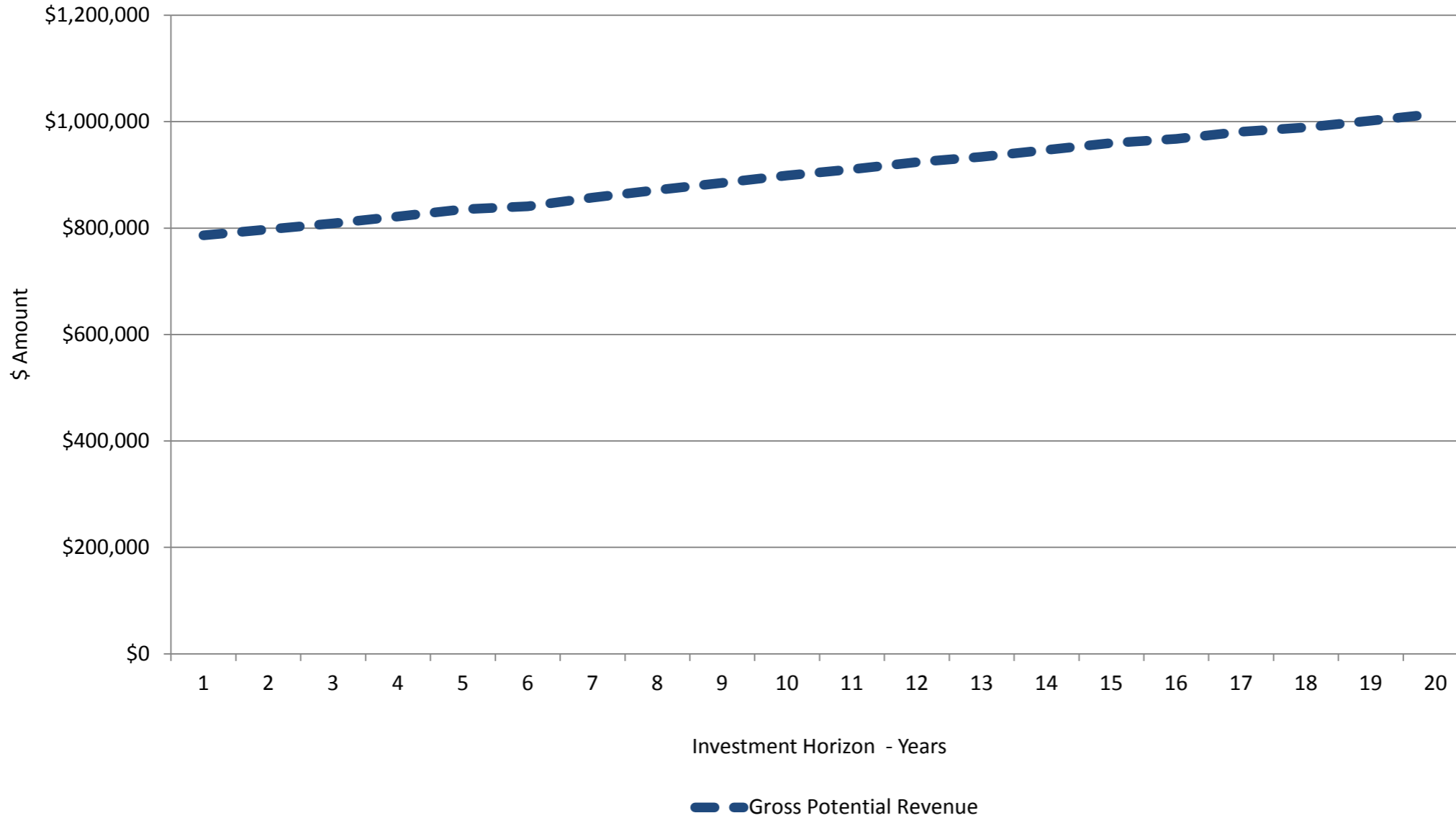


Individual Suites' Cash Flows Aggregated to Produce Property-Level Cash Flows

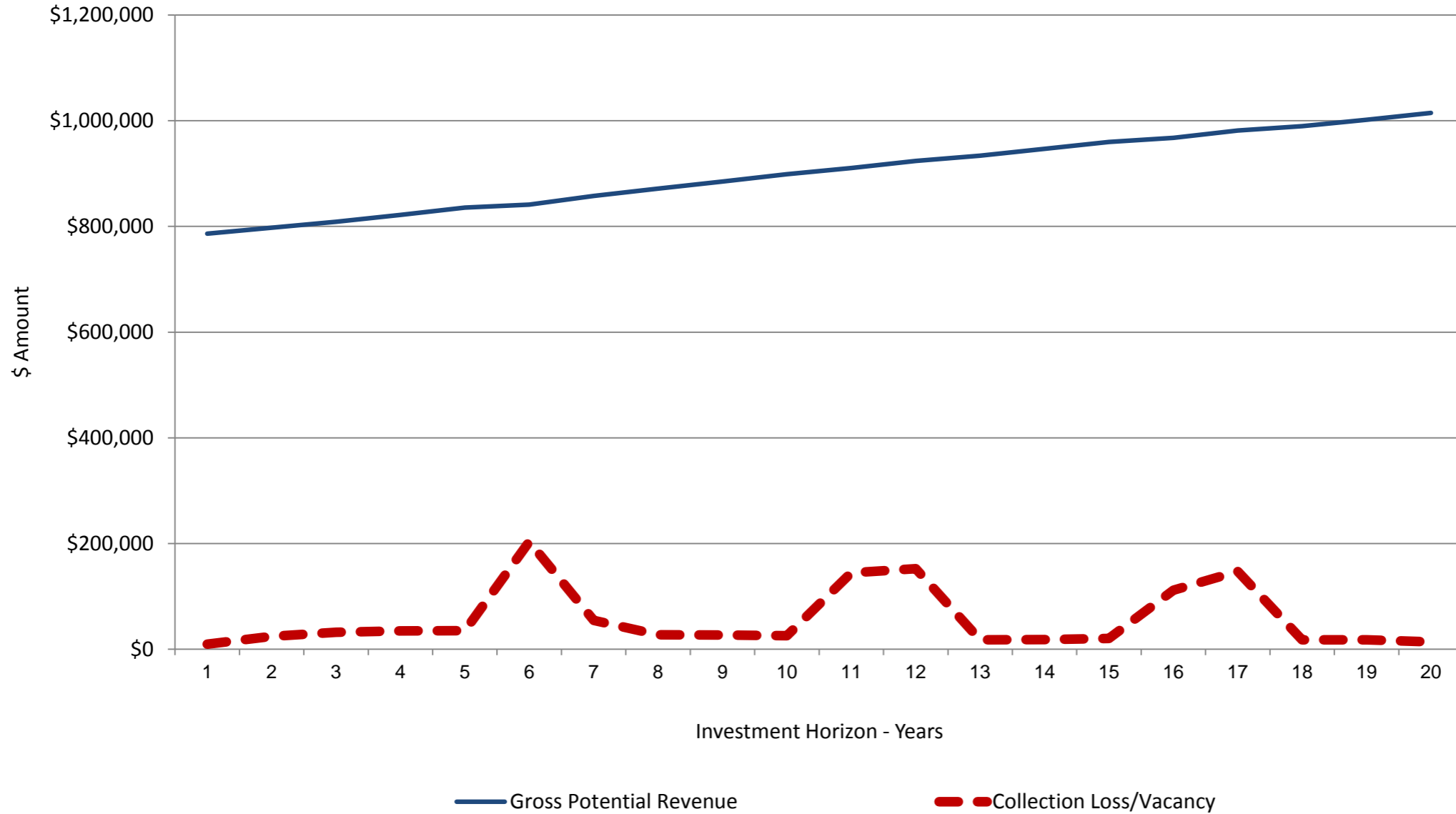
SAMPLE INDUSTRIAL CASH FLOW MODEL

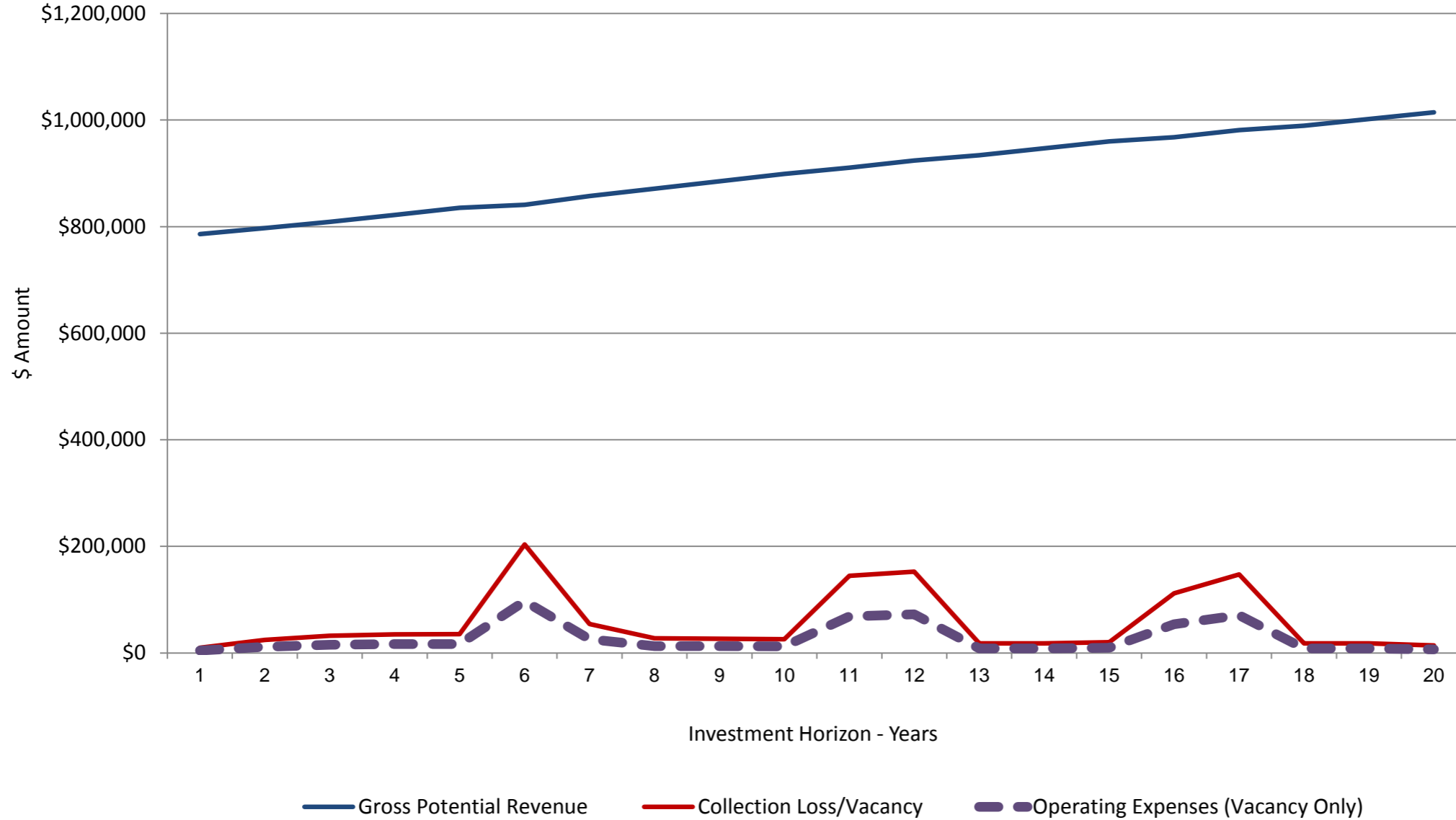
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Gross Potential Revenue	\$ 786,182	\$ 797,431	\$ 809,012	\$ 821,846	\$ 835,465	\$ 841,058	\$ 857,479	\$ 871,407	\$ 885,117	\$ 898,799	\$ 910,487	\$ 923,884	\$ 933,990	\$ 946,861	\$ 959,763	\$ 967,572	\$ 981,239	\$ 989,463	\$ 1,001,872	\$ 1,014,632
Collection Loss/Vacancy	(9,659)	(24,495)	(32,295)	(34,915)	(35,245)	(203,461)	(54,568)	(27,385)	(26,892)	(25,872)	(144,882)	(152,711)	(17,868)	(18,281)	(20,437)	(111,908)	(147,425)	(17,897)	(17,960)	(14,059)
Vacant Operating Expenses	(4,629)	(11,687)	(15,380)	(16,594)	(16,706)	(97,264)	(25,990)	(13,026)	(12,782)	(12,281)	(68,851)	(72,540)	(8,517)	(8,723)	(9,765)	(53,808)	(70,928)	(8,664)	(8,707)	(6,825)
Net Operating Income	\$ 771,894	\$ 761,248	\$ 761,336	\$ 770,337	\$ 783,514	\$ 540,333	\$ 776,920	\$ 830,996	\$ 845,443	\$ 860,647	\$ 696,754	\$ 698,633	\$ 907,604	\$ 919,857	\$ 929,561	\$ 801,855	\$ 762,885	\$ 962,902	\$ 975,204	\$ 993,748
Leasing Costs	(2,552)	(12,620)	(18,581)	(19,973)	(19,658)	(245,525)	(26,679)	(11,020)	(9,850)	(9,461)	(107,585)	(167,327)	(9,340)	(9,117)	(9,500)	(82,643)	(149,406)	(9,428)	(8,665)	(10,217)
Capital Investment	(73,521)	(23,570)	(23,629)	(23,694)	(23,759)	(23,864)	(23,939)	(24,013)	(808,713)	(24,159)	(24,275)	(24,349)	(24,426)	(24,505)	(24,585)	(24,716)	(24,798)	(24,881)	(24,963)	(25,046)
Unlevered Free Cash Flow	\$ 695,821	\$ 725,059	\$ 719,126	\$ 726,671	\$ 740,097	\$ 270,945	\$ 726,302	\$ 795,963	\$ 26,880	\$ 827,026	\$ 564,894	\$ 506,956	\$ 873,838	\$ 886,235	\$ 895,475	\$ 694,496	\$ 588,681	\$ 928,593	\$ 941,576	\$ 958,485

BREAKDOWN OF FREE CASH FLOW – GROSS POTENTIAL REVENUE

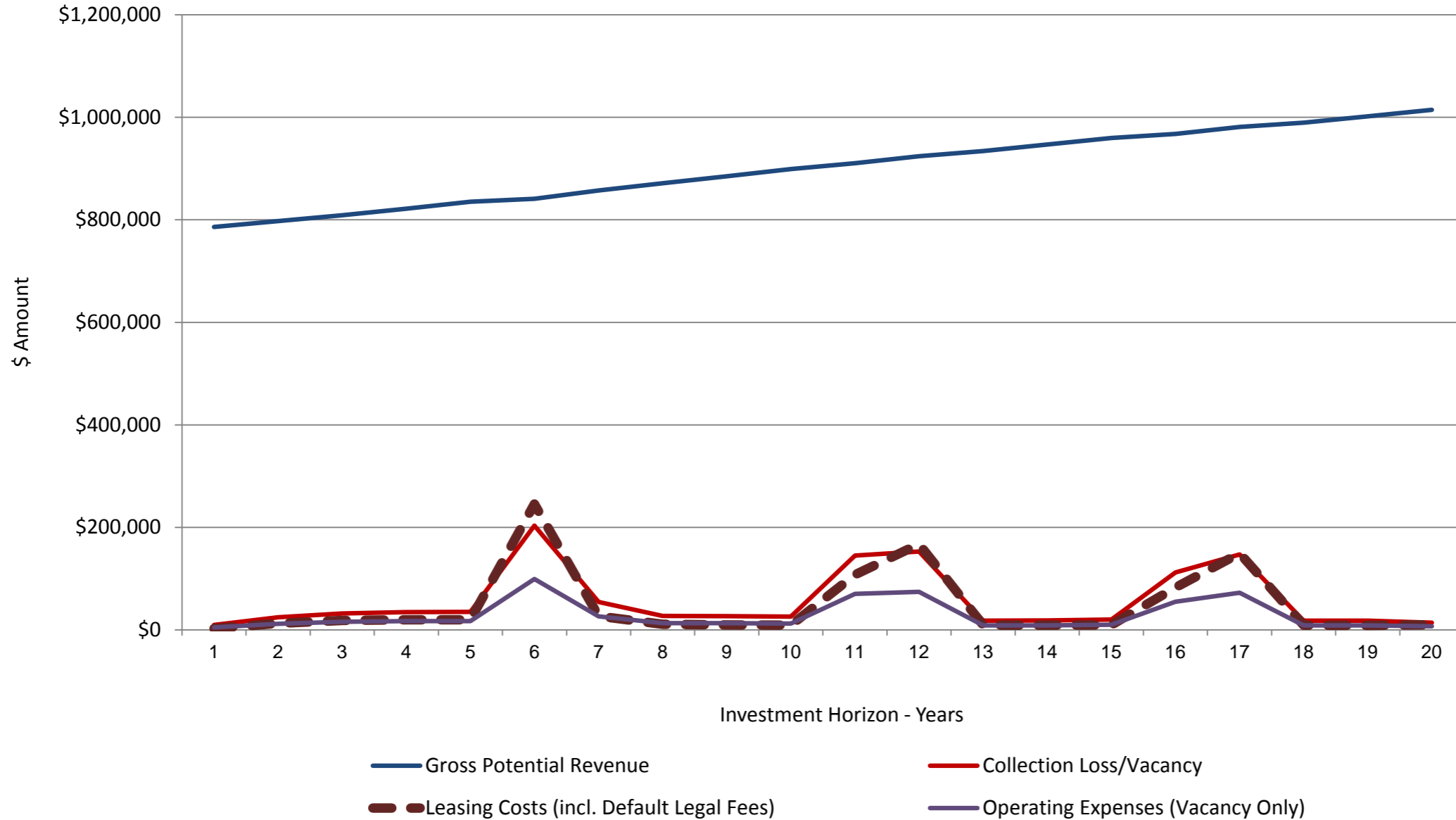


BREAKDOWN OF FREE CASH FLOW – COLLECTION LOSS/VACANCY

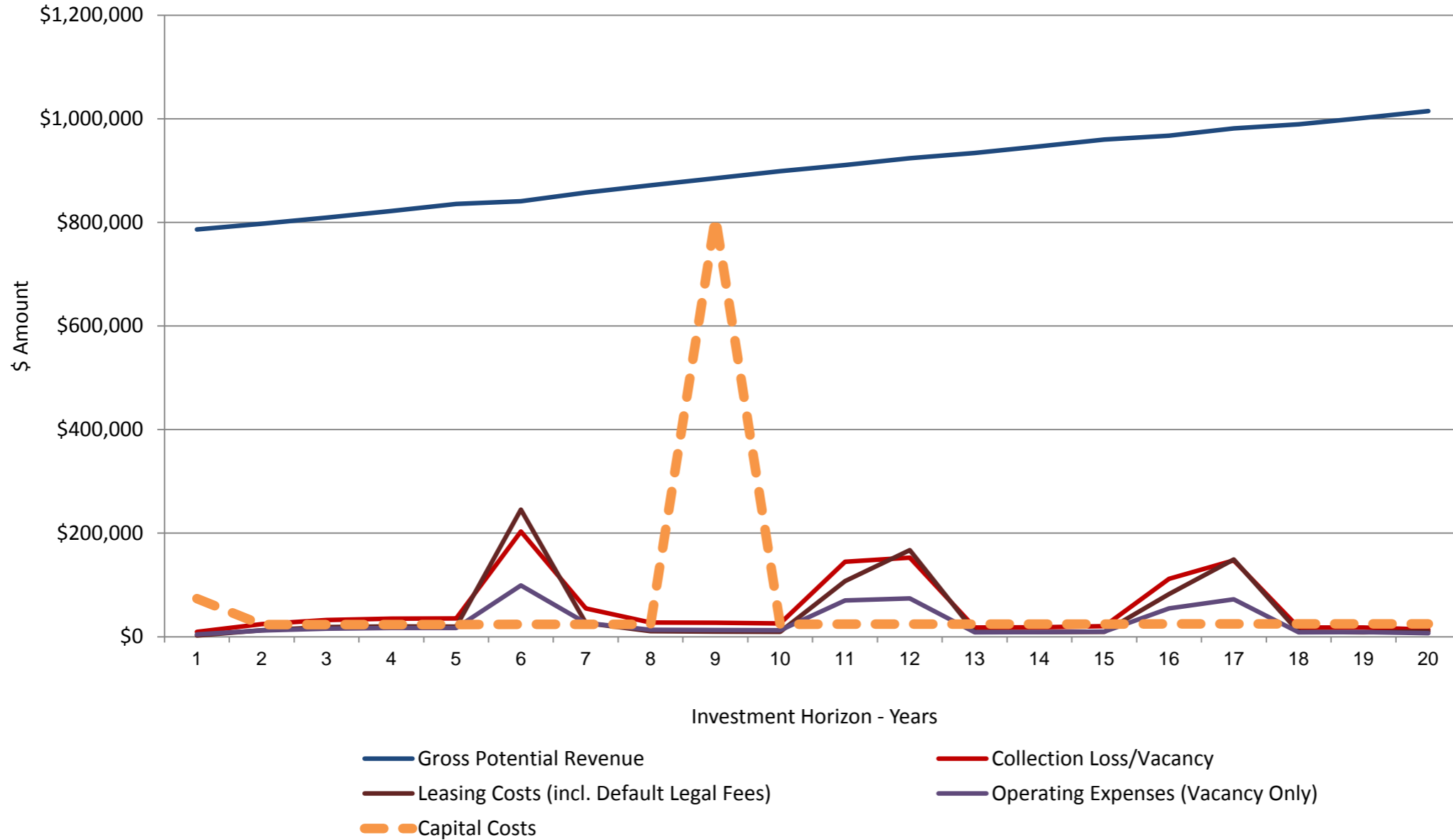




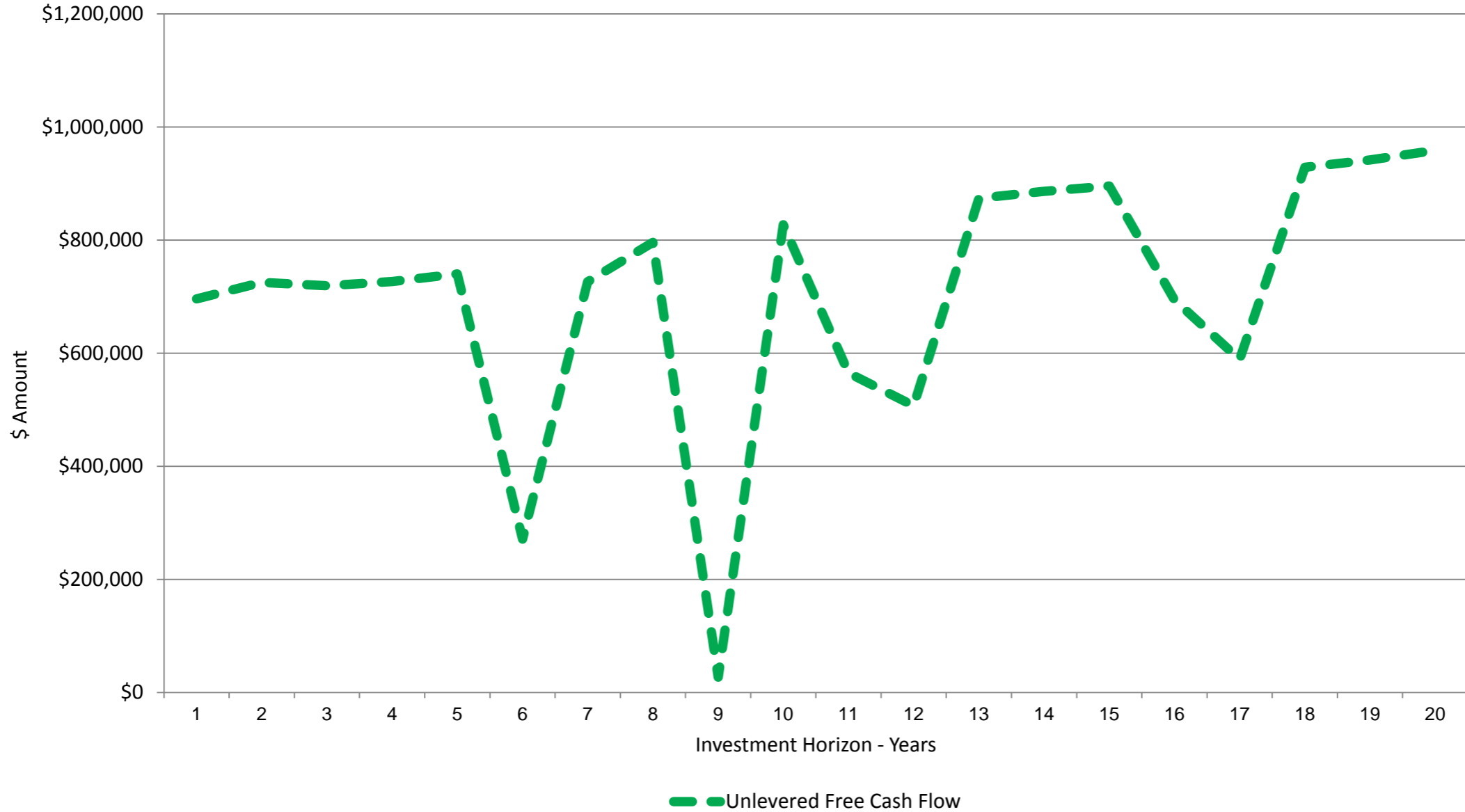
BREAKDOWN OF FREE CASH FLOW – LEASING COSTS



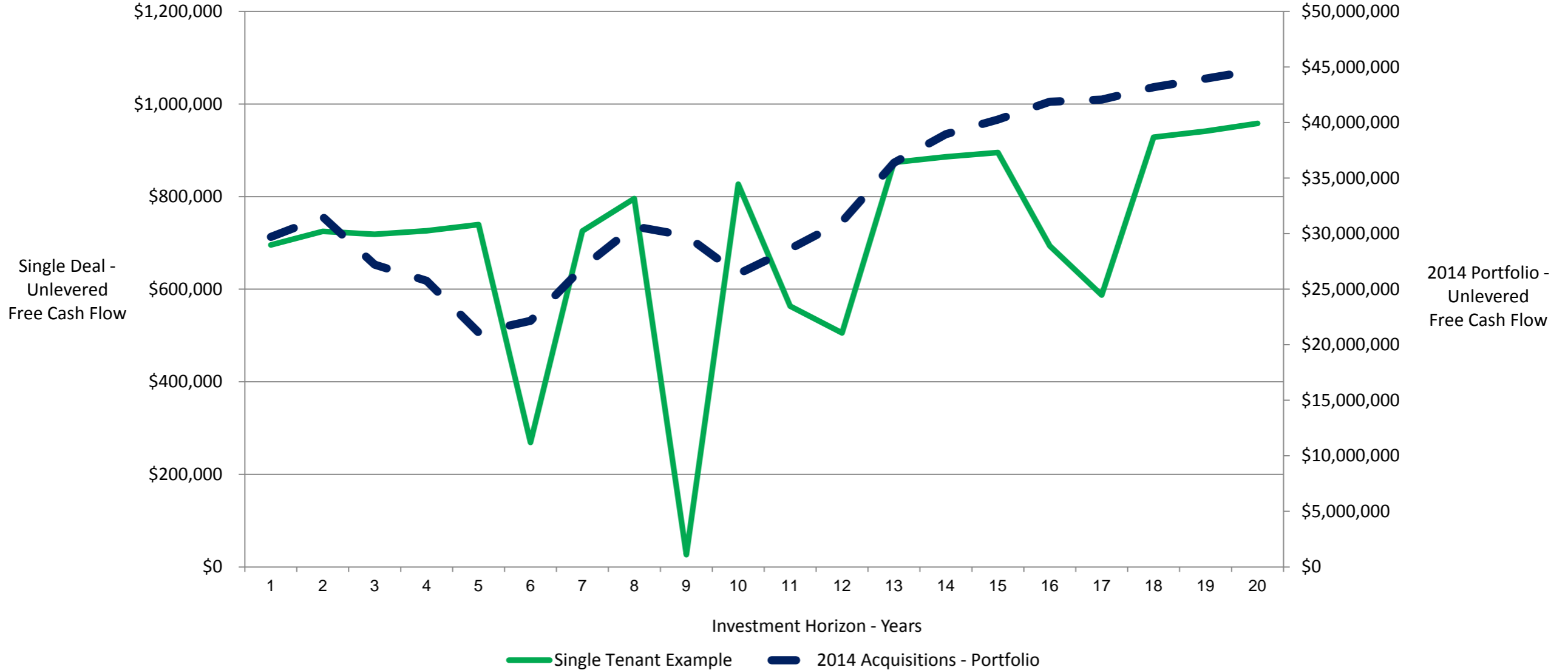
BREAKDOWN OF FREE CASH FLOW – CAPITAL EXPENDITURES

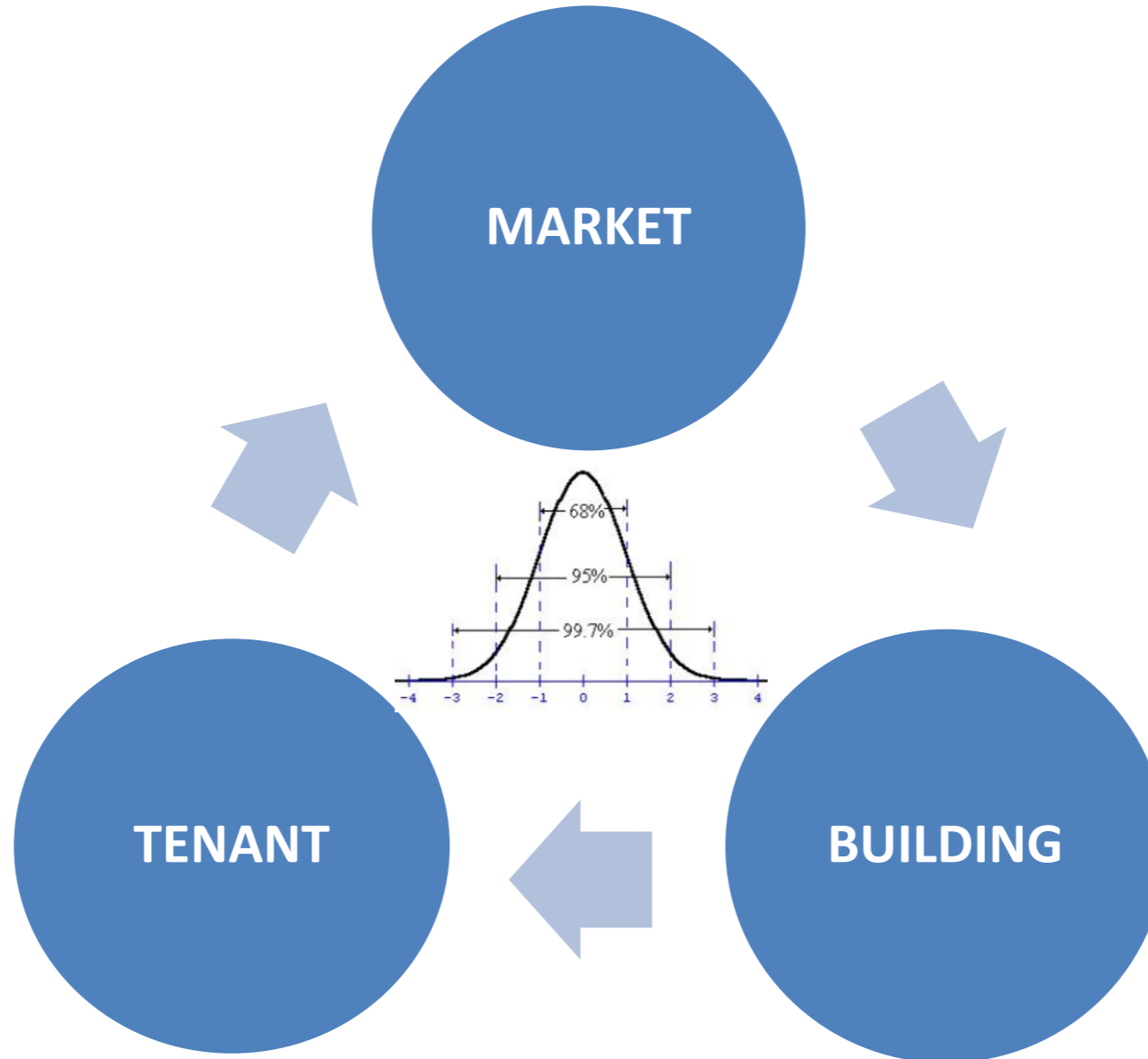


BREAKDOWN OF FREE CASH FLOW

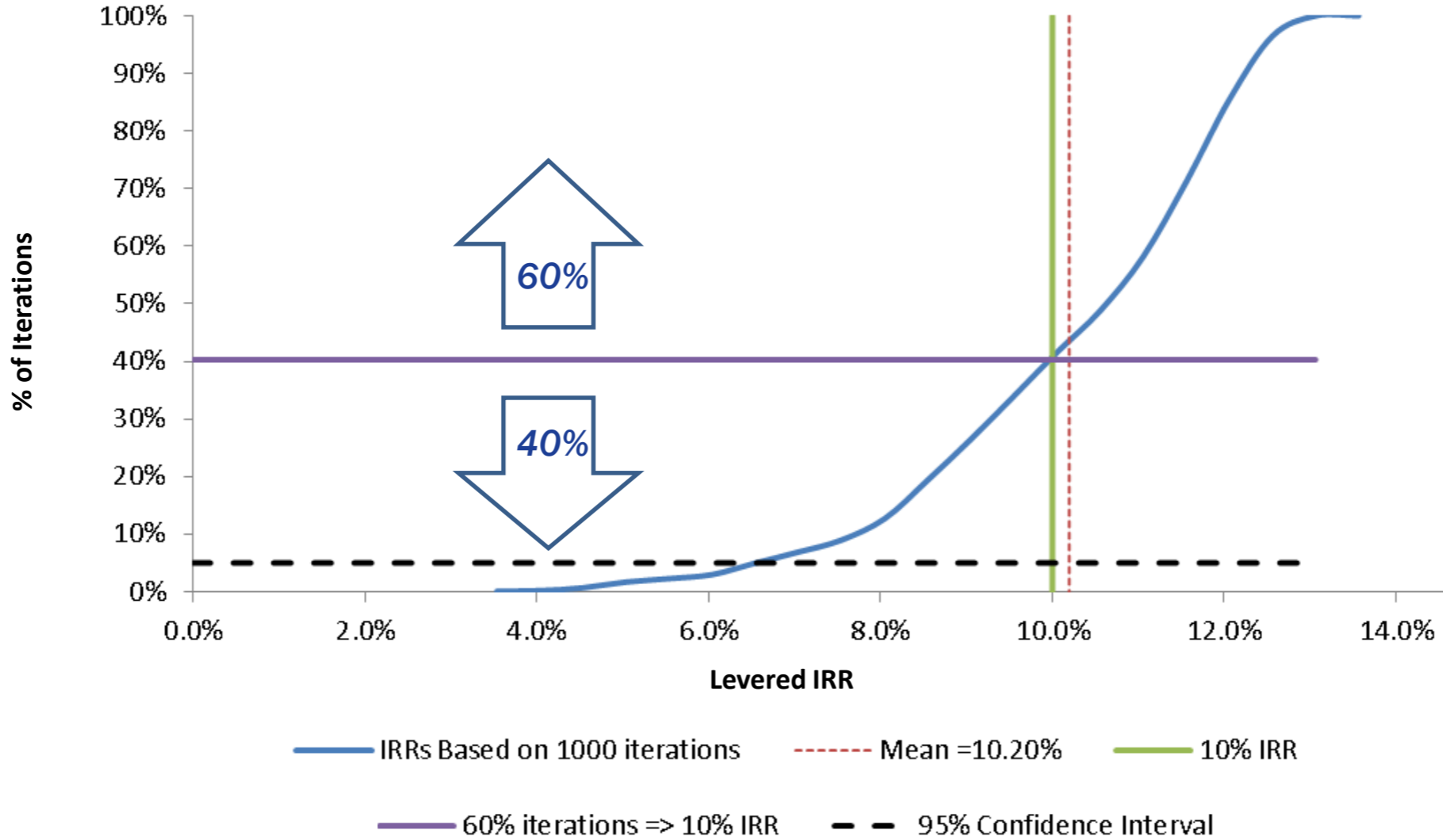


PORTFOLIO EFFECT





SIMULATION ANALYSIS: 1000 ITERATIONS



Validation of Resulting IRR

- **People, Systems, & Processes**

- ➔ Constant improvement
- ➔ Positioned for growth

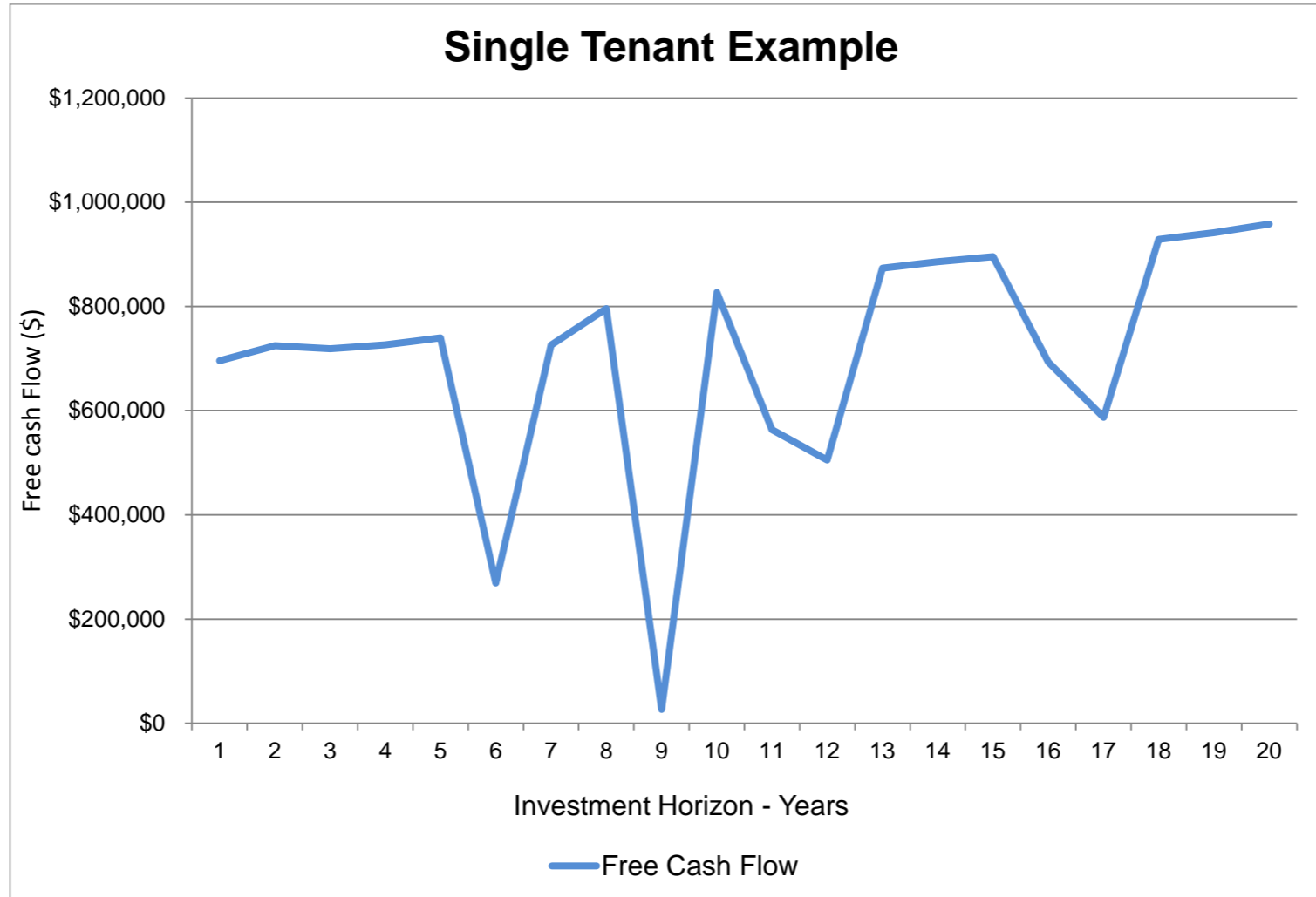
- **Probabilistic Assessment of Risk**

- ➔ Focus on cash flows from properties
- ➔ Agnostic on underwriting parameters

CORPORATE PERSPECTIVE

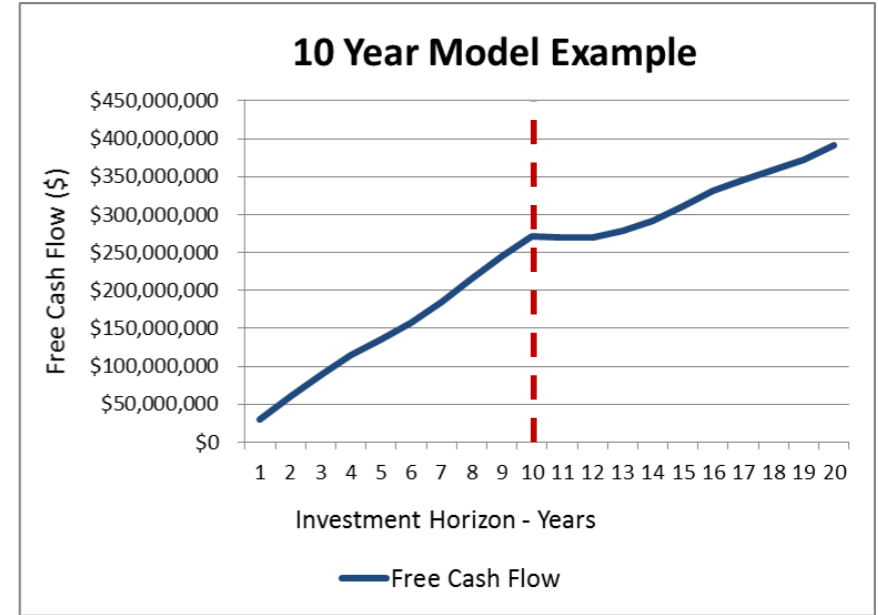
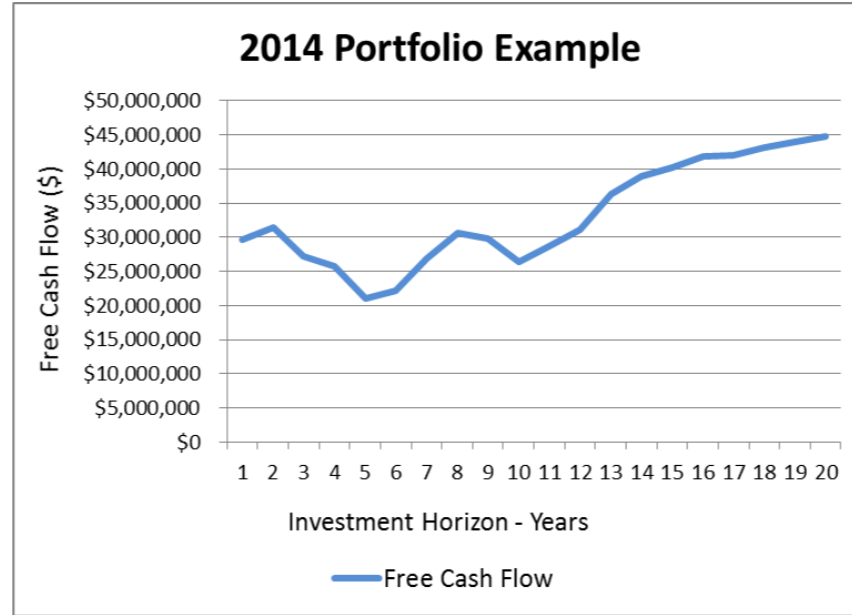
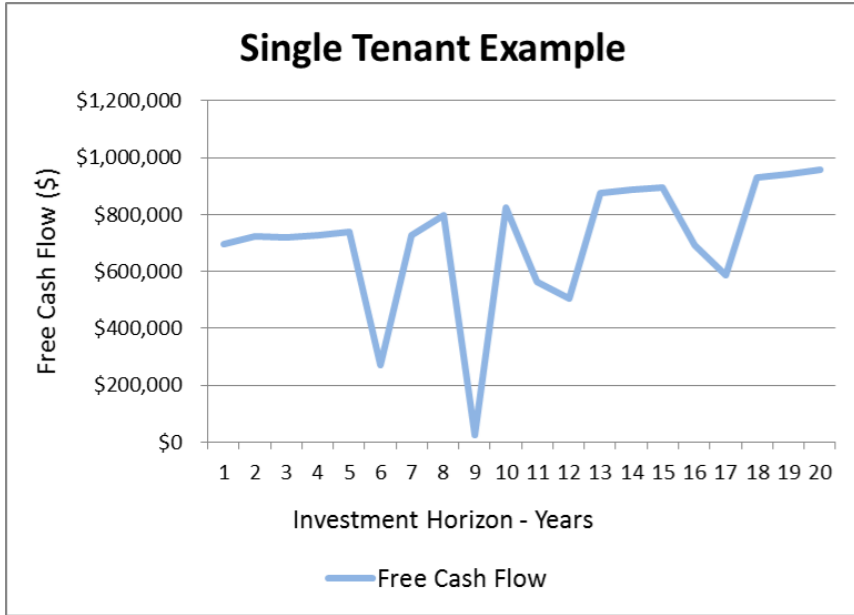
Geoffrey G. Jervis
EVP/Chief Financial Officer

ATTRACTIVE INDIVIDUAL ASSET RETURNS



10 Year IRR: 8% Unlevered, 10%+ Levered
20 Year IRR: 8% Unlevered, 10%+ Levered

PORTFOLIO CONSTRUCTION IS VALUE ADD



Diversification From Portfolio Construction Leads to Dramatically Different Risk Profile While Maintaining Returns

THE POWER OF ACQUISITIONS

Typical Transaction		Accretion Analysis	
	Single Asset		Single Asset
\$ Invested	\$10,000,000	Equity	\$6,000,000
Unlevered IRR	8.00%	Share Price	\$21.50
Capitalization		New Shares	279,070
Equity Cap %	60.00%	FFO	\$630,000
Debt Cap %	40.00%	FFO/New Share	\$2.26
Cost of Debt	4.00%		
Additional G&A (0.10%)	\$10,000		
Income Statement			
NOI	\$800,000		
G&A	10,000		
EBITDA	\$790,000		
Interest Expense	160,000		
FFO	\$630,000		
ROE	10.50%		

Incremental Acquisitions are Highly Accretive

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