



## COMPANY UPDATE / ESTIMATE CHANGES

### Key Metrics

DDR - NYSE (as of 2/13/2017)	\$15.40
Price Target	N/A
52-Week Range	\$14.67 - \$19.92
Shares & Units Outstanding (mm) (as of 12/2016)	367
Market Cap. (\$mm)	\$5,652
3-Mo. Average Daily Volume (000)	2,502.1
Institutional Ownership	88%
Debt/Total Market Capital (12/16)	43.1%
Est 3- Year Dividend Growth Rate	0% - 5%
Dividend	\$0.76
Dividend Yield	4.9%
Est. Fixed Charge Coverage	2.7x

### FFO Per Share & Unit FY 12/31

	2015	2016	Prior 2017E	Curr. 2017E
1Q	\$0.04	\$0.31	\$0.31	\$0.30
2Q	\$0.29	\$0.33	\$0.29	\$0.29
3Q	\$0.31	\$0.33	\$0.29	\$0.27
4Q	\$0.32	\$0.30	\$0.29	\$0.25
Year	\$0.96	\$1.27	\$1.18	\$1.11
P/FFO	16.0x	12.1x		13.9x

Quarterly results may not add to full year amounts due to rounding.

### Revenue (\$mm)

	2015	2016	Prior 2017E	Curr. 2017E
1Q	\$251	\$246	\$237	\$228
2Q	\$249	\$246	\$229	\$220
3Q	\$249	\$245	\$229	\$211
4Q	\$247	\$232	\$235	\$197
Year	\$995	\$970	\$930	\$856

\*Revenue for the entire year may be less than the four quarters combined due to some properties being sold during the year, and earlier revenue from these properties may be accounted for as discontinued operations in full year results and not revenue.

Quarterly results may not add to full year amounts due to rounding. Previous results have not been restated.

**Company Description:** DDR Corp., headquartered in Cleveland, Ohio, owns and manages 319 properties in 35 states and Puerto Rico totaling 106 million square feet.

### REITs

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## DDR Corp.

DDR -- NYSE -- Neutral -- 3

### Fourth Quarter Results

- **DDR reported fourth quarter FFO per diluted share of \$0.30 versus \$0.32 a year ago.** Our FFO estimate was \$0.30 per share, a penny below the consensus.
- **The portfolio was 95.0% leased at the end of the quarter, down 40 basis points from December 31, 2015.**
- **DDR executed 272 leases during the quarter totaling 1.9 million square feet.** There were 199 renewal leases and 73 new leases signed. On a pro rata basis and excluding Puerto Rico, leasing spreads on new leases were up 21.3% and renewals were up 8.3%.
- **Management initiated 2017 FFO per share guidance of \$1.10 - \$1.14.** We are lowering our 2017 FFO per share estimate by seven cents to \$1.11. We are lowering our 2017 numbers due to an increase in our disposition estimate for the year.
- **We are maintaining our Neutral rating on DDR.** We believe the shares are fairly valued at this time.

**Note Important Disclosures on Pages 6-7.**  
**Note Analyst Certification on Page 6.**

**Additional Discussion**

Total 4Q16 revenue declined 5.8% to \$232.2 million from \$246.5 million in last year's fourth quarter (please see income statement on page 3). Minimum (base) rent of \$167.9 million was down 6.3% from \$179.2 million. The portfolio was 95.0% leased at the end of the quarter, down 40 basis points from 2015 year end. During the fourth quarter, the company completed 73 new leases and 199 renewals. On a pro rata basis and excluding Puerto Rico, leasing spreads on new leases were up 21.3% and renewals were up 8.3%. Funds from operations (FFO) were \$111.2 million versus \$116.7 million in the year ago period. FFO per share were \$0.30 versus \$0.32 in the year ago period.

**Retail Environment** - Same store NOI growth on a pro rata basis was 2.5% in the quarter (excluding Puerto Rico). The company is exploring selling its assets in Puerto Rico. DDR is seeing good demand for vacant big box spaces in the portfolio. Management believes it can have success leasing space it gets back from lower quality tenants to higher quality tenants at good leasing spreads. The company is seeing some typically mall based tenants look to open stores at its centers.

**Acquisitions & Dispositions** - DDR sold 24 operating assets and three land parcels for an aggregate \$497 million at the company's share in 4Q. DDR did not purchase any assets during 4Q.

**Balance Sheet and Debt Maturities** - As of December 31, DDR had \$484.6 million of consolidated debt coming due in 2017 and \$729.3 million in 2018. We believe these maturities are manageable. All three of the major credit rating agencies (Moody's, Fitch, & S&P) rate DDR's outlook stable.

**Guidance & Our Estimate** - Management initiated 2017 FFO guidance of \$1.10 - \$1.14. Guidance assumptions include dispositions of \$800 million to \$1 billion at DDR's share, acquisitions of \$100 million, same store NOI growth of 1.0% to 2.0%, leased rate 25 to 50 basis points greater at 2017 year end compared to 2016 year end, \$80 million of redevelopments, \$30 to \$33 million of fee income, \$33 to \$36 million of interest income, \$175 to \$190 million of interest expense, \$77 to \$80 million of g&a expenses, no dividend increase and no major capital raises. Our 2017 FFO per share estimate is \$1.11.

## Quarterly Income Statement

(in thousands, except per share data)	4Q16	4Q15	% Change
Minimum Rent	\$167,933	\$179,154	-6.3%
Percentage Rent	2,827	2,675	5.7%
Recoveries from Tenants	55,701	58,703	-5.1%
Other Property Revenue	5,707	5,998	-4.9%
<b>Total Revenue</b>	<b>232,168</b>	<b>246,530</b>	<b>-5.8%</b>
Operating and Maintenance Expenses	28,812	33,893	-15.0%
Real Estate Taxes	35,197	36,271	-3.0%
<b>Operating Income</b>	<b>168,159</b>	<b>176,366</b>	<b>-4.7%</b>
Other Income (Expenses)	(148)	(439)	
Fee Income	8,093	8,258	-2.0%
Impairment Charges	6,029		
General and Administrative Expenses	20,941	17,920	16.9%
<b>EBITDA</b>	<b>149,134</b>	<b>166,265</b>	
Interest Income	9,254	7,510	23.2%
Interest Expense	51,740	59,203	-12.6%
Depreciation and Amortization Expense	99,468	102,575	-3.0%
Gain on Debt Retirement			
Gain (Loss) on Equity Derivative Investments			
<b>Income Before Equity Inc., Minority Int., Gains and Other</b>	<b>7,180</b>	<b>11,997</b>	
Equity in Net Income of JV	1,618	(5,486)	
Impairment of Joint Venture Investments		(1,909)	
Gain (Loss) on Change in Control of Interests			
Gain on Redemption of Joint Venture Interests			
Income Tax Benefit of Taxable REIT Subsidiary and Other	(680)	(285)	
Discontinued Operations	25,916	89,417	
Loss (Income) Attributed to Non-controlling Interest	(293)	(268)	
Gain (Loss) on Sales of Real Estate and R/E Investments			
<b>Net Income</b>	<b>33,741</b>	<b>93,466</b>	<b>-63.9%</b>
Write-off of Preferred Share Original Issuance Costs			
Preferred Dividends Cost	5,594	5,594	
<b>Net (Loss) Applicable to Common Shareholders</b>	<b>\$28,147</b>	<b>\$87,872</b>	<b>-68.0%</b>
<b>Net EPS (diluted)</b>	<b>\$0.08</b>	<b>\$0.24</b>	

<b>Funds From Operations</b>	4Q16	4Q15	% Change
Net (Loss) Applicable to Common Shareholders	\$28,147	\$87,872	-68.0%
Depreciation and Amortization Expense	97,356	100,582	-3.2%
Equity in Net Income of JV	(1,618)	5,486	
Impairment of Depreciable Joint Venture Investments		1,909	
Joint Ventures' FFO	6,868	6,465	6.2%
Impairment of Depreciable Real Estate, Net of Non-controlling Interests	6,029		
(Gain) Loss on Sale of Real Estate	(25,698)	(85,728)	
Other Adjustments	76	69	
<b>Total Funds From Operations</b>	<b>\$111,160</b>	<b>\$116,655</b>	<b>-4.7%</b>
<b>FFO Per Share</b>	<b>\$0.30</b>	<b>\$0.32</b>	<b>-6.3%</b>
Avg. Shares and Units Outstanding (diluted)	366,700	364,400	0.6%

Source: Company reports

**Condensed Balance Sheet**

(in thousands)	<b>31-Dec-14</b>	<b>31-Dec-15</b>	<b>31-Dec-16</b>
<b>Real Estate and Rental Property</b>			
Land	\$2,208,468	\$2,184,145	\$1,990,406
Buildings	7,087,040	6,965,632	6,412,532
Fixtures and Tenant Improvements	645,035	743,037	735,685
Depreciation	(1,909,585)	(2,062,899)	(1,996,176)
	<b>\$8,030,958</b>	<b>\$7,829,915</b>	<b>\$7,142,447</b>
Land Held for Development & Construction in Progress	395,242	235,385	105,435
Assets Held for Sale			
<b>Net Investment in Real Estate</b>	<b>\$8,426,200</b>	<b>\$8,065,300</b>	<b>\$7,247,882</b>
Preferred Equity Investment		395,156	393,338
Cash and Cash Equivalents	20,937	22,416	30,430
Restricted Cash	11,375	10,104	8,795
Investment in and Advances to Joint Ventures	414,848	72,576	60,793
Notes Receivable	56,245	42,534	49,503
Receivables, including Straight-line Rent	132,661	129,089	121,367
Other Assets	479,629	359,913	285,410
<b>Total Assets</b>	<b>\$9,541,895</b>	<b>\$9,097,088</b>	<b>\$8,197,518</b>
Revolving Credit Facilities	29,009	210,000	0
Variable Rate Unsecured Term Debt			
Unsecured Debt	2,765,893	3,149,188	2,913,217
Unsecured Term Loan	350,000	397,934	398,399
Mortgage and Other Secured Debt	2,089,805	1,382,415	1,182,352
<b>Total Debt</b>	<b>\$5,234,707</b>	<b>\$5,139,537</b>	<b>\$4,493,968</b>
Dividends Payable	61,468	68,604	75,245
Other Liabilities	448,192	425,478	382,293
<b>Total Liabilities</b>	<b>5,744,367</b>	<b>5,633,619</b>	<b>4,951,506</b>
<b>Total Equity</b>	<b>\$3,797,528</b>	<b>\$3,463,469</b>	<b>\$3,246,012</b>
<b>Total Liabilities and Equity</b>	<b>\$9,541,895</b>	<b>\$9,097,088</b>	<b>\$8,197,518</b>

<b>Balance Sheet Ratio Analysis</b>	<b>31-Dec-14</b>	<b>31-Dec-15</b>	<b>31-Dec-16</b>
Net R/E Investments / Total Debt	153.4%	152.3%	158.9%
Debt to Equity	137.8%	148.4%	138.4%
Debt to Total Market Capitalization	42.7%	44.2%	43.1%
Debt as % of Total Assets	54.9%	56.5%	54.8%
Equity as % Total Assets	39.8%	38.1%	39.6%

Previous numbers have not been reinstated.

Source: Company reports

## Valuation

Based on our 2017 FFO per share estimate of \$1.11, DDR is trading below its median five-year historic forward P/FFO multiple of 15.6x and at a discount to its peers. We believe several of DDR's peers are trading at rich multiples. While we do not view the stock as expensive at this level, we would like to see a near-term catalyst before becoming aggressive on the name. We believe FFO growth could continue to be negative in 2018 due to the high level of dispositions expected in 2017. We believe at the current level the stock is fairly valued.

Shopping Center REITs Ranked by Market Cap.	Symbol	Price	Current	Yield	Payout Ratio	FFO Per Share			2-Year Exp.	17/16E	Price/FFO	
		2/13/2017	Dividend			2015	2016E/A	2017E	Avg. Growth	Growth Rate	2016E/A	2017E
Kimco Realty Corporation	KIM	\$24.91	\$1.08	4.3%	82.4%	\$1.23	\$1.31	\$1.53	12.2%	16.8%	19.0x	16.3x
Federal Realty Investments	FRT	\$142.95	\$3.92	2.7%	78.2%	\$4.74	\$5.01	\$5.89	12.1%	17.6%	28.5x	24.3x
Regency Centers Corp.	REG	\$71.24	\$2.04	2.9%	68.9%	\$2.63	\$2.96	\$3.46	15.8%	16.9%	24.1x	20.6x
Weingarten Realty Investors	WRI	\$36.30	\$1.46	4.0%	64.9%	\$2.07	\$2.25	\$2.41	8.2%	7.1%	16.1x	15.1x
<b>Peer Average</b>		<b>\$68.85</b>	<b>\$2.13</b>	<b>3.5%</b>	<b>73.6%</b>	<b>\$2.67</b>	<b>\$2.88</b>	<b>\$3.32</b>	<b>12.1%</b>	<b>14.6%</b>	<b>21.9x</b>	<b>19.1x</b>
<b>S&amp;P 500</b>	<b>SPX</b>	<b>2,328.25</b>	<b>\$44.95</b>	<b>1.9%</b>	<b>38.7%</b>	<b>\$118.23</b>	<b>\$116.29</b>	<b>\$127.45</b>	<b>3.9%</b>	<b>9.6%</b>	<b>20.0x</b>	<b>18.3x</b>
<b>DDR Corp.</b>	<b>DDR</b>	<b>\$15.40</b>	<b>\$0.76</b>	<b>4.9%</b>	<b>59.8%</b>	<b>\$0.96</b>	<b>\$1.27</b>	<b>\$1.11</b>	<b>7.8%</b>	<b>-12.6%</b>	<b>12.1x</b>	<b>13.9x</b>

Note: Weingarten is rated Neutral by Hilliard Lyons; the rest are not rated.  
SPX figures are EPS not FFO per share.

Source: NAREIT, HL Estimates, Baseline, and Thomson One.

**Dividend** - In January 2016, DDR announced a quarterly dividend of \$0.19 per share, up 10% from the \$0.1725 per share rate paid in each of the four quarters of 2015.

## Suitability

We assign shares of DDR Corp. a suitability rating of 3 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's lack of property type diversification offset by what we view as a good balance sheet.

## Risks and Considerations

DDR's FFO could be impacted by external factors beyond the company's control or due to internal factors. We believe these risk factors include, but are not limited to: interest rate risk, a decline in consumer spending, change in consumer spending patterns/trends, general economic risk, currency risk, an inability to finance acquisitions or developments, development risk, higher construction or supply cost, bankruptcy of tenant(s), etc.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2015 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2015 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

*Additional information is available upon request.*

**Analyst Certification**

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

**Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

**Investment Ratings**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price set back in the next 12 months.

**Suitability Ratings**

**1** - A large cap, core holding with a solid history

**2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

**3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

**4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

**Other Disclosures**

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