



## COMPANY UPDATE / ESTIMATE CHANGES

### Key Metrics

DDR - NYSE (as of 7/25/2017)	\$9.94
Price Target	NA
52-Week Range	\$8.11 - \$19.92
Shares & Units Outstanding (mm) (as of 6/2017)	367
Market Cap. (\$mm)	3647.98
3-Mo. Average Daily Volume (000)	7,408
Institutional Ownership	84%
Debt/Total Market Capital (6/17)	56.1%
Est 3- Year Dividend Growth Rate	0% - 5%
Dividend	\$0.76
Dividend Yield	7.6%
Est. Fixed Charge Coverage	2.7x

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

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.31		\$0.06 A	\$0.22	\$0.22
2Q	\$0.33		\$0.25 A	\$0.23	\$0.23
3Q	\$0.33	\$0.25	\$0.24	\$0.23	\$0.23
4Q	\$0.30	\$0.24	\$0.24	\$0.24	\$0.24
Year	\$1.27	\$0.80	\$0.79	\$0.92	\$0.92
P/FFO	7.8x		12.6x		10.8x

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

### Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$246		\$231 A	\$190	\$190
2Q	\$246		\$227 A	\$191	\$190
3Q	\$245	\$207	\$209	\$196	\$194
4Q	\$232	\$196	\$196	\$202	\$199
Year	\$970	\$851	\$863	\$779	\$773

\*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 298 properties in 34 states and Puerto Rico totaling 100 million square feet.

### REITs

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## DDR Corp.

DDR -- NYSE -- Neutral -- 3

### Second Quarter Results

- **DDR reported second quarter FFO per diluted share of \$0.25 versus \$0.33 a year ago.** Our FFO estimate was \$0.25 per share, three cents below the consensus. Operating FFO was \$0.30 per share.
- **The portfolio was 93.7% leased at the end of the quarter, down 130 basis points from December 31, 2016.**
- **DDR executed 258 leases during the quarter totaling 1.9 million square feet.** There were 185 comparable renewal leases and 28 comparable new leases signed. On a pro rata basis, leasing spreads on new leases were up 10.0% and renewals were up 5.7%.
- **Due to the uncertainty of transaction timing and sizing, management did not provide FFO per share guidance.** We are lowering our 2017 FFO per share estimate by \$0.01 to \$0.79.
- **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 2Q17 revenue declined 7.5% to \$227.4 million from \$245.9 million in last year's second quarter (please see income statement on page 3). Minimum (base) rent of \$164.6 million was down 7.5% from \$178.1 million. The portfolio was 93.7% leased at the end of the quarter, down 130 basis points from 2016 year end. During the second quarter, the company completed 28 comparable new leases and 185 comparable renewals. On a pro rata basis, comparable leasing spreads on new leases were up 10.0% and renewals were up 5.7%. Funds from operations (FFO) were \$93.1 million versus \$120.3 million in the year ago period. FFO per share were \$0.25 versus \$0.33 in the year ago period. Operating FFO per share were \$0.30 versus \$0.33 in the year ago period.

**Retail Environment** - Same store NOI growth on a pro rata basis was down 0.1% in the quarter. Occupancy in the quarter was negatively impacted by tenant bankruptcies and store closings. Management noted on the call that they are seeing strong demand for space from discount retailers.

**Acquisitions & Dispositions** - The company did not make any acquisitions in the quarter. DDR sold nine U.S. shopping centers and two Puerto Rico shopping centers in 2Q. Subsequent to the end of the quarter, DDR sold five additional U.S. shopping centers.

**Management & Organizational Changes** - In March, DDR announced several new hires. David Lukes was named President, CEO, and board member; Michael Makinsen was appointed as Executive Vice President and CCO; and Matthew Ostrower was appointed as Executive Vice President, CFO, and Treasurer. Mr. Lukes, Mr. Makinsen, and Mr. Ostrower all previously worked at Equity One (which was acquired by Regency Centers Corp. (REG - \$64.89) earlier this year).

On the 1Q17 earnings call Mr. Lukes discussed management's plan to complete a portfolio review and look at each asset's individual potential. Management has completed this process and divided all of its assets into one of three categories: durable, growth, or redevelopment. Upon finalizing this review, management has identified \$900 million of assets it would like to sell through mid-2018. This amount includes assets sold in 2Q17.

**Capital Market Activity** - In 2Q17, DDR issued \$450 million of senior unsecured notes and \$175 million of preferred shares. Subsequent to the end of the quarter, DDR retired \$300 million of senior notes.

**Balance Sheet and Debt Maturities** - As of June 30, DDR had \$138.2 million of consolidated debt coming due in 2017 and \$704.2 million in 2018. S&P and Fitch assign DDR a stable credit rating. Moody's assigns DDR a negative credit rating.

**Management's Assumptions & Our Estimate** - Due to the uncertainty inherent in transactions, management has not provided annual EPS and FFO per share guidance. However, management has provided some other operating assumptions for 2017 including same store NOI growth of -1.5% to 0.0%, yearend leased rate of 93.0% to 93.5%, expected g&a spend of \$72 million to \$75 million, expected fee income of \$30 million to \$33 million, expected interest income of \$26 million to \$29 million, and expected redevelopment activity placed in service of \$80 million weighted towards the second half of the year at high single digit yields. Our 2017 FFO per share estimate is \$0.79.

**Quarterly Income Statement**

(in thousands, except per share data)	2Q17	2Q16	% Change
Minimum Rent	\$164,623	\$178,064	-7.5%
Percentage Rent	1,823	1,654	10.2%
Recoveries from Tenants	55,633	61,376	-9.4%
Other Property Revenue	5,321	4,762	11.7%
<b>Total Revenue</b>	<b>227,400</b>	<b>245,856</b>	<b>-7.5%</b>
Operating and Maintenance Expenses	32,150	35,330	-9.0%
Real Estate Taxes	33,744	36,534	-7.6%
<b>Operating Income</b>	<b>161,506</b>	<b>173,992</b>	<b>-7.2%</b>
Other Income (Expenses)	(954)	2,081	
Fee Income	8,787	11,465	-23.4%
Impairment Charges	28,096		
General and Administrative Expenses	22,756	18,499	23.0%
<b>EBITDA</b>	<b>118,487</b>	<b>169,039</b>	
Interest Income	7,166	9,446	-24.1%
Interest Expense	48,908	54,012	-9.4%
Depreciation and Amortization Expense	90,276	97,698	-7.6%
Gain on Debt Retirement			
Gain (Loss) on Equity Derivative Investments			
<b>Income Before Equity Inc., Minority Int., Gains and Other</b>	<b>(13,531)</b>	<b>26,775</b>	
Equity in Net Income of JV	(717)	1,117	
Reserve of Preferred Equity Interests			
Impairment of Joint Venture Investments			
Gain (Loss) on Change in Control of Interests			
Gain on Redemption of Joint Venture Interests			
Income Tax Benefit of Taxable REIT Subsidiary and Other	(473)	(245)	
Discontinued Operations			
Loss (Income) Attributed to Non-controlling Interest	(267)	(310)	
Gain (Loss) on Sales of Real Estate and R/E Investments	44,599	13,721	
<b>Net Income</b>	<b>29,611</b>	<b>41,058</b>	<b>-27.9%</b>
Write-off of Preferred Share Original Issuance Costs			
Preferred Dividends Cost	6,399	5,594	14.4%
<b>Net (Loss) Applicable to Common Shareholders</b>	<b>\$23,212</b>	<b>\$35,464</b>	<b>-34.5%</b>
<b>Net EPS (diluted)</b>	<b>\$0.06</b>	<b>\$0.10</b>	<b>-40.0%</b>

<b>Funds From Operations</b>	2Q17	2Q16	% Change
Net (Loss) Applicable to Common Shareholders	\$23,212	\$35,464	-34.5%
Depreciation and Amortization Expense	88,423	95,626	-7.5%
Equity in Net Income of JV	717	(1,117)	
Impairment of Depreciable Joint Venture Investments			
Joint Ventures' FFO	6,212	6,426	-3.3%
Impairment of Depreciable Real Estate, Net of Non-controlling Interests	19,010		
(Gain) Loss on Sale of Real Estate	(44,525)	(16,154)	
Other Adjustments	76	76	
<b>Total Funds From Operations</b>	<b>\$93,125</b>	<b>\$120,321</b>	<b>-22.6%</b>
<b>FFO Per Share</b>	<b>\$0.25</b>	<b>\$0.33</b>	<b>-24.2%</b>
Avg. Shares and Units Outstanding (diluted)	367,525	366,192	0.4%

Source: Company reports

**Condensed Balance Sheet**

(in thousands)	31-Dec-15	31-Dec-16	30-Jun-17
<b>Real Estate and Rental Property</b>			
Land	\$2,184,145	\$1,990,406	\$1,938,589
Buildings	6,965,632	6,412,532	6,193,366
Fixtures and Tenant Improvements	743,037	735,685	726,721
Depreciation	(2,062,899)	(1,996,176)	(2,001,376)
	\$7,829,915	\$7,142,447	\$6,857,300
Land Held for Development & Construction in Progress	235,385	105,435	113,543
Assets Held for Sale			
<b>Net Investment in Real Estate</b>	<b>\$8,065,300</b>	<b>\$7,247,882</b>	<b>\$6,970,843</b>
Preferred Equity Investment	395,156	393,338	318,181
Cash and Cash Equivalents	22,416	30,430	414,074
Restricted Cash	10,104	8,795	61,462
Investment in and Advances to Joint Ventures	72,576	60,793	117,304
Notes Receivable	42,534	49,503	19,590
Receivables, including Straight-line Rent	129,089	121,367	114,449
Other Assets	359,913	285,410	254,135
<b>Total Assets</b>	<b>\$9,097,088</b>	<b>\$8,197,518</b>	<b>\$8,270,038</b>
Revolving Credit Facilities	210,000	0	
Variable Rate Unsecured Term Debt			
Unsecured Debt	3,149,188	2,913,217	3,060,345
Unsecured Term Loan	397,934	398,399	398,316
Mortgage and Other Secured Debt	1,382,415	1,182,352	1,108,005
<b>Total Debt</b>	<b>\$5,139,537</b>	<b>\$4,493,968</b>	<b>\$4,566,666</b>
Dividends Payable	68,604	75,245	76,744
Other Liabilities	425,478	382,293	368,412
<b>Total Liabilities</b>	<b>5,633,619</b>	<b>4,951,506</b>	<b>5,011,822</b>
<b>Total Equity</b>	<b>\$3,463,469</b>	<b>\$3,246,012</b>	<b>\$3,258,216</b>
<b>Total Liabilities and Equity</b>	<b>\$9,097,088</b>	<b>\$8,197,518</b>	<b>\$8,270,038</b>

<b>Balance Sheet Ratio Analysis</b>	31-Dec-15	31-Dec-15	30-Jun-17
Net R/E Investments / Total Debt	152.3%	158.9%	150.2%
Debt to Equity	148.4%	138.4%	140.2%
Debt to Total Market Capitalization	44.2%	43.1%	56.1%
Debt as % of Total Assets	56.5%	54.8%	55.2%
Equity as % Total Assets	38.1%	39.6%	39.4%

Previous numbers have not been reinstated.

Source: Company reports

## Valuation

Based on our 2018 FFO per share estimate of \$0.92, DDR is trading below its median five-year historic forward P/FFO multiple of 12.58x and at a discount to its peers. 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 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.	18/17E	Price/FFO	
		7/25/2017	Dividend			2016	2017E	2018E	Avg. Growth	Growth Rate	2017E	2018E
Kimco Realty Corporation	KIM	\$19.67	\$1.08	5.5%	71.1%	\$1.31	\$1.52	\$1.61	11.5%	5.9%	12.9x	12.2x
Federal Realty Investments	FRT	\$132.13	\$3.92	3.0%	66.4%	\$5.01	\$5.90	\$6.23	12.2%	5.6%	22.4x	21.2x
Regency Centers Corp.	REG	\$64.89	\$2.12	3.3%	58.4%	\$2.96	\$3.63	\$3.81	14.4%	5.0%	17.9x	17.0x
Weingarten Realty Investors	WRI	\$31.48	\$1.54	4.9%	65.3%	\$2.28	\$2.36	\$2.50	4.8%	5.9%	13.3x	12.6x
<b>Peer Average</b>		<b>\$62.04</b>	<b>\$2.17</b>	<b>4.2%</b>	<b>65.3%</b>	<b>\$2.89</b>	<b>\$3.35</b>	<b>\$3.54</b>	<b>10.7%</b>	<b>5.6%</b>	<b>16.6x</b>	<b>15.8x</b>
<b>S&amp;P 500</b>	<b>.SPX</b>	<b>2,477.13</b>	<b>\$49.00</b>	<b>2.0%</b>	<b>37.5%</b>	<b>\$117.75</b>	<b>\$130.75</b>	<b>\$139.66</b>	<b>9.3%</b>	<b>6.8%</b>	<b>18.9x</b>	<b>17.7x</b>
<b>DDR Corp.</b>	<b>DDR</b>	<b>\$9.94</b>	<b>\$0.76</b>	<b>7.6%</b>	<b>96.2%</b>	<b>\$1.27</b>	<b>\$0.79</b>	<b>\$0.92</b>	<b>-13.8%</b>	<b>16.5%</b>	<b>12.6x</b>	<b>10.8x</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, and Thomson Eikon.

**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 2016 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2016 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.

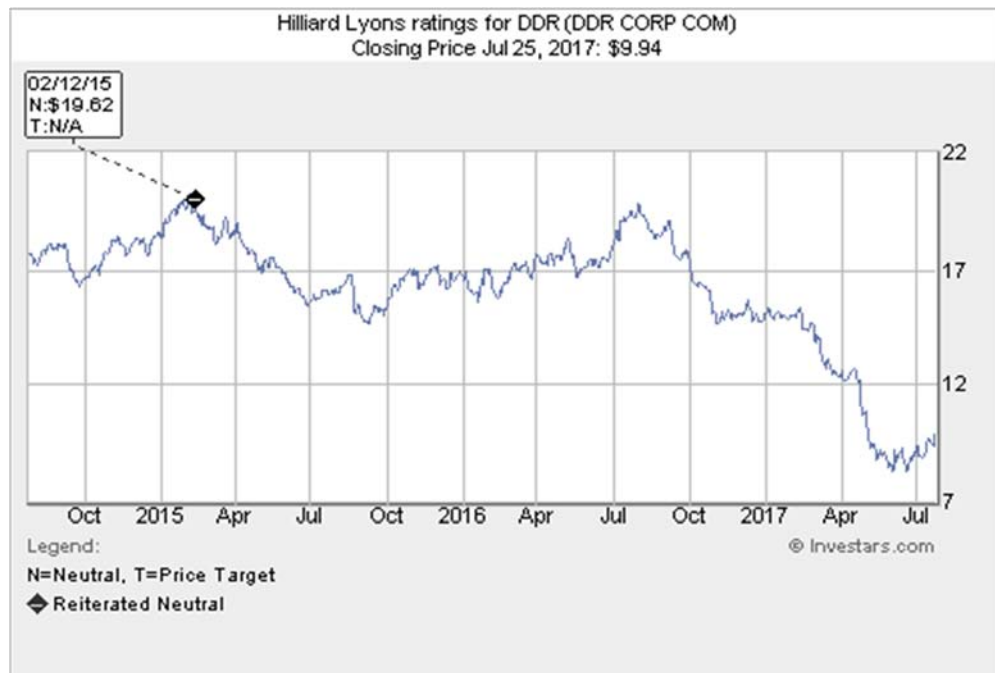
**Suitability Ratings**

**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



<b>Rating</b>	<b>Hilliard Lyons Recommended Issues</b>		<b>Investment Banking Provided in Past 12 Mo.</b>	
	<b># of Stocks Covered</b>	<b>% of Stocks Covered</b>	<b>Banking</b>	<b>No Banking</b>
<b>Buy</b>	36	29%	14%	86%
<b>Hold/Neutral</b>	79	63%	5%	95%
<b>Sell</b>	10	8%	0%	100%

*As of 7 July 2017*

### **Other Disclosures**

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