



## COMPANY UPDATE / ESTIMATE CHANGES

### Key Metrics

DDR - NYSE (as of 11/1/2017)	\$7.78
Price Target	NA
52-Week Range	\$7.55 - \$15.82
Shares & Units Outstanding (mm) (as of 9/2017)	368
Market Cap. (\$mm)	2863.04
3-Mo. Average Daily Volume (000)	3,982
Institutional Ownership	83%
Debt/Total Market Capital (9/17)	53.3%
Est 3- Year Dividend Growth Rate	0% - 5%
Dividend	\$0.76
Dividend Yield	9.8%
Est. Fixed Charge Coverage	2.5x

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

	Prior		Curr.		
	2016	2017E	2017E	2018E	2018E
1Q	\$0.31		\$0.06	A	\$0.22
2Q	\$0.33		\$0.25	A	\$0.23
3Q	\$0.33	\$0.24	\$0.13		\$0.25
4Q	\$0.30	\$0.24	\$0.25		\$0.27
Year	\$1.27	\$0.79	\$0.69		\$0.92
P/FFO	6.1x		11.3x		8.0x

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

### Revenue (\$mm)

	Prior		Curr.		
	2016	2017E	2017E	2018E	2018E
1Q	\$246		\$231	A	\$190
2Q	\$246		\$227	A	\$191
3Q	\$245		\$220		\$205
4Q	\$232	\$196	\$195		\$219
Year	\$970	\$863	\$873		\$804

\*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 286 properties in 33 states and Puerto Rico totaling 97 million square feet.*

## REITs

Analyst: Carol L. Kemple  
 502.588.1839 / [CKemple@hilliard.com](mailto:CKemple@hilliard.com)  
 Institutional Sales Desk: George Moorin  
 502.588.9141 / [GMoorin@hilliard.com](mailto:GMoorin@hilliard.com)  
 J.J.B. Hilliard, W.L. Lyons, LLC  
 November 2, 2017

## DDR Corp.

DDR -- NYSE -- Neutral -- 3

### Third Quarter Results

- **DDR reported third quarter FFO per diluted share of \$0.13 versus \$0.33 a year ago.** Our FFO estimate was \$0.24 per share. The quarter was negatively impacted by Hurricanes Irma and Maria in Puerto Rico. Operating FFO was \$0.30 per share.
- **The portfolio was 93.4% leased at the end of the quarter, down 200 basis points from the year ago period.**
- **DDR executed 315 leases during the quarter totaling 1.8 million square feet.** There were 35 comparable new leases and 239 comparable renewal leases signed. On a pro rata basis, leasing spreads on new leases were up 6.8% and renewals were up 6.1%.
- **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 \$0.10 to \$0.69, mostly to account for the 3Q miss. We believe the uncertainty due to the timing of shops reopening and paying rent in Puerto Rico and the timing of when DDR receives business interruption insurance payments makes near-term financials harder to predict than in the past.
- **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 3Q17 revenue declined 10.2% to \$220.1 million from \$245.2 million in last year's third quarter (please see income statement on page 3). Minimum (base) rent of \$153.9 million was down 13.4% from \$177.8 million. The portfolio was 93.4% leased at the end of the quarter, down 200 basis points from the year ago period. During the third quarter, the company completed 35 comparable new leases and 239 comparable renewals. On a pro rata basis, comparable leasing spreads on new leases were up 6.8% and renewals were up 6.1%. Funds from operations (FFO) were \$46.3 million versus \$120.1 million in the year ago period. FFO per share were \$0.13 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 0.9% in the quarter. However, excluding Puerto Rico this number would have been flat with the year ago period. Occupancy in the quarter was negatively impacted by tenant bankruptcies and store closings. Management is very focused on finding the right tenant to fill a space rather than just filling a space.

**Acquisitions & Dispositions** - The company made one acquisition in the quarter. DDR sold sixteen U.S. properties in 3Q. Subsequent to the end of the quarter, DDR sold two additional U.S. shopping centers.

**Capital Market Activity** - During the quarter, DDR retired \$600 million of senior notes and issued \$350 million of 3.900% senior notes due 2024. DDR repaid a \$200 million secured term loan in 3Q17.

**Refinancing** - In September DDR refinanced its two existing revolving credit facilities, increased borrowing capacity and extended their maturities. The prior \$750 million unsecured revolving credit facility was amended to a \$950 million unsecured revolving credit facility. The amended facility has an initial maturity of September 1, 2021 with two six month extension options and contains an accordion feature that allows for up to \$1.45 billion of total capacity. The company's \$50 million unsecured revolving credit facility was also refinanced. The company also recast \$200 million of its existing \$400 million unsecured term loan. The recast portion matures January 31, 2023 and the remaining portion matures January 20, 2018 with two one year extension options.

**Balance Sheet and Debt Maturities** - As of September 30, DDR had \$5.0 million of consolidated debt coming due in 2017 and \$202.1 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 U.S. portfolio same store NOI growth of -0.5% to 0.5%, U.S. portfolio year-end leased rate of 93.25% to 93.75%, expected g&a spend of \$72 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 \$0.69. We believe the uncertainty due to the timing of shops reopening and paying rent in Puerto Rico and the timing of when DDR receives business interruption insurance payments makes near-term financials harder to predict than in the past.

**Quarterly Income Statement**

(in thousands, except per share data)	3Q17	3Q16	% Change
Minimum Rent	\$153,925	\$177,844	-13.4%
Percentage Rent	1,016	1,193	-14.8%
Recoveries from Tenants	51,368	59,743	-14.0%
Other Property Revenue	13,824	6,458	114.1%
<b>Total Revenue</b>	<b>220,133</b>	<b>245,238</b>	<b>-10.2%</b>
Operating and Maintenance Expenses	28,950	32,012	-9.6%
Real Estate Taxes	30,618	36,157	-15.3%
<b>Operating Income</b>	<b>160,565</b>	<b>177,069</b>	<b>-9.3%</b>
Other Income (Expenses)	(64,340)	(384)	
Fee Income	7,291	8,562	-14.8%
Impairment Charges	10,284	104,877	
Hurricane Casualty and Impairment Loss	6,089		
General and Administrative Expenses	16,425	18,785	-12.6%
<b>EBITDA</b>	<b>70,718</b>	<b>61,585</b>	
Interest Income	6,807	9,304	-26.8%
Interest Expense	46,296	53,940	-14.2%
Depreciation and Amortization Expense	85,210	95,451	-10.7%
Gain on Debt Retirement			
Gain (Loss) on Equity Derivative Investments			
<b>Income Before Equity Inc., Minority Int., Gains and Other</b>	<b>(53,981)</b>	<b>(78,502)</b>	
Equity in Net Income of JV	4,811	(1,457)	
Adjustments (Reserve) of Preferred Equity Interests	15,377		
Impairment of Joint Venture Investments			
Gain (Loss) on Change in Control of Interests		(1,087)	
Gain on Redemption of Joint Venture Interests			
Valuation Allowance of Prepaid Tax Asset	(8,777)		
Income Tax Benefit of Taxable REIT Subsidiary and Other	(490)	(398)	
Discontinued Operations			
Loss (Income) Attributed to Non-controlling Interest	(248)	(284)	
Gain (Loss) on Sales of Real Estate and R/E Investments	44,291	21,368	
<b>Net Income</b>	<b>983</b>	<b>(60,360)</b>	
Write-off of Preferred Share Original Issuance Costs			
Preferred Dividends Cost	8,383	5,594	49.9%
<b>Net (Loss) Applicable to Common Shareholders</b>	<b>(\$7,400)</b>	<b>(\$65,954)</b>	
<b>Net EPS (diluted)</b>	<b>(\$0.02)</b>	<b>(\$0.18)</b>	<b>-88.9%</b>

<b>Funds From Operations</b>	3Q17	3Q16	% Change
Net (Loss) Applicable to Common Shareholders	(\$7,400)	(\$65,954)	
Depreciation and Amortization Expense	81,064	93,334	-13.1%
Equity in Net Income of JV	(4,811)	1,457	
Impairment of Depreciable Joint Venture Investments			
Joint Ventures' FFO	8,268	6,581	25.6%
Impairment of Depreciable Real Estate, Net of Non-controlling Interests	13,620	104,877	
(Gain) Loss on Sale of Real Estate	(44,477)	(20,234)	
Other Adjustments	76	76	
<b>Total Funds From Operations</b>	<b>\$46,340</b>	<b>\$120,137</b>	<b>-61.4%</b>
<b>FFO Per Share</b>	<b>\$0.13</b>	<b>\$0.33</b>	<b>-60.6%</b>
Avg. Shares and Units Outstanding (diluted)	368,196	366,487	0.5%

Source: Company reports

**Condensed Balance Sheet**

(in thousands)	<b>31-Dec-15</b>	<b>31-Dec-16</b>	<b>30-Sep-17</b>
<b>Real Estate and Rental Property</b>			
Land	\$2,184,145	\$1,990,406	\$1,903,805
Buildings	6,965,632	6,412,532	6,002,788
Fixtures and Tenant Improvements	743,037	735,685	673,738
Depreciation	(2,062,899)	(1,996,176)	(1,942,051)
	<b>\$7,829,915</b>	<b>\$7,142,447</b>	<b>\$6,638,280</b>
Land Held for Development & Construction in Progress	235,385	105,435	116,746
Assets Held for Sale			
<b>Net Investment in Real Estate</b>	<b>\$8,065,300</b>	<b>\$7,247,882</b>	<b>\$6,755,026</b>
Preferred Equity Investment	395,156	393,338	327,309
Cash and Cash Equivalents	22,416	30,430	18,268
Restricted Cash	10,104	8,795	1,826
Investment in and Advances to Joint Ventures	72,576	60,793	107,643
Notes Receivable	42,534	49,503	19,591
Receivables, including Straight-line Rent	129,089	121,367	176,561
Other Assets	359,913	285,410	234,473
<b>Total Assets</b>	<b>\$9,097,088</b>	<b>\$8,197,518</b>	<b>\$7,640,697</b>
Revolving Credit Facilities	210,000	0	60,000
Variable Rate Unsecured Term Debt			
Unsecured Debt	3,149,188	2,913,217	2,809,404
Unsecured Term Loan	397,934	398,399	397,858
Mortgage and Other Secured Debt	1,382,415	1,182,352	750,269
<b>Total Debt</b>	<b>\$5,139,537</b>	<b>\$4,493,968</b>	<b>\$4,017,531</b>
Dividends Payable	68,604	75,245	78,419
Other Liabilities	425,478	382,293	355,731
<b>Total Liabilities</b>	<b>5,633,619</b>	<b>4,951,506</b>	<b>4,451,681</b>
<b>Total Equity</b>	<b>\$3,463,469</b>	<b>\$3,246,012</b>	<b>\$3,189,016</b>
<b>Total Liabilities and Equity</b>	<b>\$9,097,088</b>	<b>\$8,197,518</b>	<b>\$7,640,697</b>

<b>Balance Sheet Ratio Analysis</b>	<b>31-Dec-15</b>	<b>31-Dec-15</b>	<b>30-Sep-17</b>
Net R/E Investments / Total Debt	152.3%	158.9%	165.2%
Debt to Equity	148.4%	138.4%	126.0%
Debt to Total Market Capitalization	44.2%	43.1%	53.3%
Debt as % of Total Assets	56.5%	54.8%	52.6%
Equity as % Total Assets	38.1%	39.6%	41.7%

Previous numbers have not been reinstated.

Source: Company reports

## Valuation

Based on our 2018 FFO per share estimate of \$0.97, 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 near-term issues in Puerto Rico could add some uncertainty and lumpiness to earnings. We believe at the current level the stock is fairly valued.

Shopping Center REITs Ranked by Market Cap.		Price	Current	Yield	Payout Ratio	FFO Per Share			2-Year Exp.	18/17E	Price/FFO	
Symbol	11/1/2017	Dividend				2016	2017E	2018E	Avg. Growth	Growth Rate	2017E	2018E
Kimco Realty Corporation	KIM	\$18.55	\$1.12	6.0%	72.7%	\$1.31	\$1.54	\$1.59	10.7%	3.2%	12.0x	11.7x
Federal Realty Investments	FRT	\$121.70	\$4.00	3.3%	67.8%	\$5.01	\$5.90	\$6.21	12.0%	5.3%	20.6x	19.6x
Regency Centers Corp.	REG	\$62.12	\$2.12	3.4%	57.8%	\$2.96	\$3.67	\$3.82	14.5%	4.1%	16.9x	16.3x
Weingarten Realty Investors	WRI	\$30.94	\$1.54	5.0%	64.4%	\$2.28	\$2.39	\$2.49	4.6%	4.2%	12.9x	12.4x
<b>Peer Average</b>		<b>\$58.33</b>	<b>\$2.20</b>	<b>4.4%</b>	<b>65.7%</b>	<b>\$2.89</b>	<b>\$3.38</b>	<b>\$3.53</b>	<b>10.4%</b>	<b>4.2%</b>	<b>15.6x</b>	<b>15.0x</b>
<b>S&amp;P 500</b>	<b>.SPX</b>	<b>2,579.36</b>	<b>\$49.49</b>	<b>1.9%</b>	<b>37.8%</b>	<b>\$117.75</b>	<b>\$131.03</b>	<b>\$141.07</b>	<b>9.9%</b>	<b>7.7%</b>	<b>19.7x</b>	<b>18.3x</b>
<b>DDR Corp.</b>	<b>DDR</b>	<b>\$7.78</b>	<b>\$0.76</b>	<b>9.8%</b>	<b>110.1%</b>	<b>\$1.27</b>	<b>\$0.69</b>	<b>\$0.97</b>	<b>-11.8%</b>	<b>40.6%</b>	<b>11.3x</b>	<b>8.0x</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. Nearer-term risk related to Puerto Rico and the timing of insurance claims and uncertainty surrounding the recovery of business there could impact FFO as well.

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.

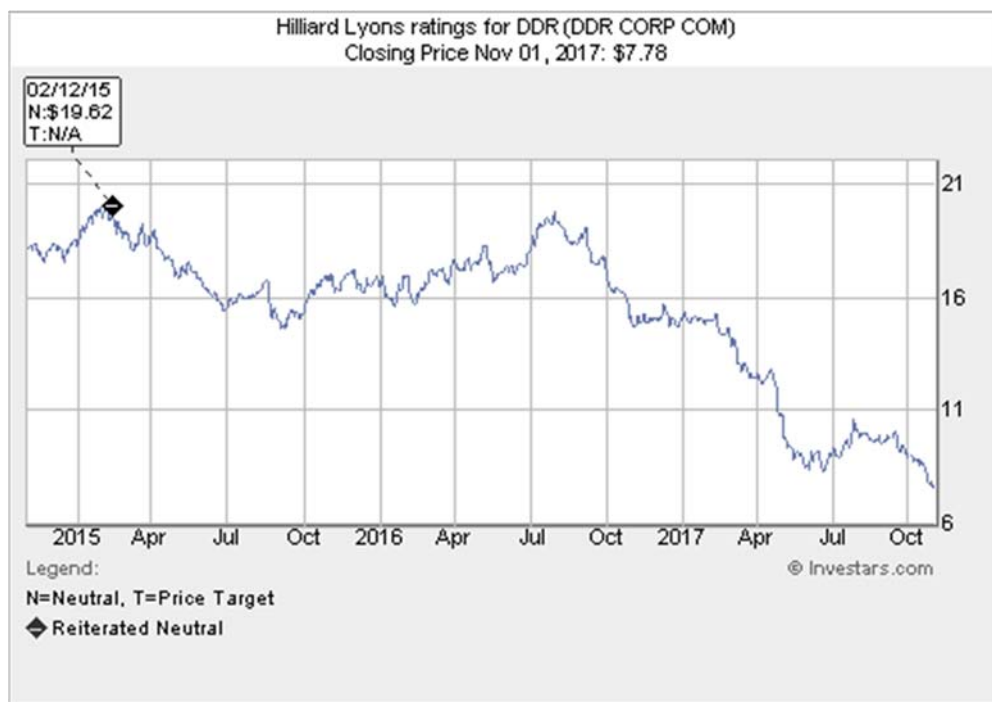
### **Suitability Ratings**

**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



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

**Other Disclosures**

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.