



### COMPANY UPDATE/ESTIMATE CHANGE

#### Key Metrics

LAND - NASDAQ - 8/8/17	\$12.80
Price Target	\$14.40
52-Week Range	\$9.51 - \$14.09
Shares Outstanding (mm)	13.2
Market Cap. (\$mm)	\$169.0
1-Mo. Average Daily Volume	59,340
Institutional Ownership	39.0%
Debt/Total Capital Jun-17	62.0%
Est 3-year FFO Growth Rate	12.0%
Est 3-year Dividend Growth Rate	2.0%
Book Value	\$ 7.73
Dividend	\$ 0.53
Dividend Yield	4.13%
Est. Fixed Charge Coverage	1.7X

#### FFO Core Normalized

	2016	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$0.13	--	\$0.14 A	\$0.16	\$0.15
2Q	\$0.14	--	\$0.14 A	\$0.16	\$0.17
3Q	\$0.15	\$0.17	\$0.16	\$0.19	\$0.18
4Q	\$0.14	\$0.18	\$0.17	\$0.18	\$0.18
Year	\$0.56	\$0.63	\$0.61	\$0.70	\$0.69
P/FFO	0.0x		21.0x		18.6x

Note that quarters may not add due to rounding

#### Revenue (\$mm)

	2016	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$3.8	--	\$5.9 A	\$7.6	\$7.4
2Q	\$4.2	--	\$6.0 A	\$8.1	\$7.8
3Q	\$4.5	\$6.7	\$6.5	\$8.4	\$8.2
4Q	\$4.9	\$7.1	\$6.9	\$8.8	\$8.7
Year	\$17.3	\$26.1	\$25.3	\$32.9 *	\$32.1

May not add due to rounding.

**Company Description:** Gladstone Land Corp., headquartered in McLean, VA, is a real estate investment trust (REIT) that is focused on investments in farmland, mainly in high value non-commodity crops. Its current farmland is mainly in California, Colorado and Florida, but the company is expanding its reach into other states.

## Gladstone Land Corp.

LAND -- NASDAQ – Long-term Buy-4

### Conference Call Discussion

#### Investment Highlights

- Following the Q2 call, we are adjusting our 2017 FFO estimate to \$0.61 a share as well as our 2018 FFO estimate by a penny to \$0.69 a share.
- During the second quarter conference call management discussed a variety of issues, including the acquisition pipeline, lease expirations, buying capacity, and the cost of debt, among others.
- Management added some color on its current acquisition pipeline, noting that it had four deals amounting to about \$41 million, with three expected to close in Q3 and another in Q4. Our expectation for assets closing for the remainder of the year is \$40 million, which seems very conservative in light of the size of the pipeline and given that the company has already made a \$13.6 million purchase in Q3, which is included in the \$41 million number.
- We are retaining our rating on LAND at Long-term Buy. LAND shares trade below NAV while allowing investors to gain exposure to a unique and attractive asset class. While the share price has moved up and is now closer to NAV, we believe there remains enough upside to retain our Long-term Buy rating even taking into account the company's high risk rating, which is offset by the hard value of the farmland real estate and its historically consistent growth in its value over time. With the increase of the dividend we see the shares as attractive for risk tolerant income-oriented investors. We are retaining our price target in light of the most recent appraisal and recent acquisitions. Our two-to-three year price target remains \$14.40 a share.

**Note Important Disclosures on Pages 6-7.**

**Note Analyst Certification on Page 6.**

**Additional Conference Call Discussion**

On the conference call management updated its appraisal on the company, which places a net asset value of \$14.46 per share on its farmland and cash assets. The valuation is down a penny since its last quarter. Management noted that in the most recent quarter the company had new appraisals done on 21 of its properties, with 15 done by external appraisers and six internally. This resulted in a \$2.7 million increase in value to \$493 million, with the additional shares outstanding resulting in the penny decline. We expect that number to move up at a reasonably steady pace going forward.

Management noted that its acquisition pipeline remains strong. In addition to those investments discussed previously that management anticipates will close in Q3 and Q4, they noted that there was an additional \$15 million worth of properties under purchase agreements. They anticipate the potential for some of these properties to be closed using stock. The expansion into North Carolina in Q2 may lead to more exposure in this state with management looking at organic blueberry farms in the state.

Also discussed during the call was the lease situation, with only four leases expiring during 2018, which amounts to only about 3% of rent. Management noted that the leases extended or renewed during Q2 were done so at higher prices, although there was some difficulty with the Oxnard, CA leases, which actually saw a slight decline. More than offsetting this was strength in the Florida market, which experienced an 8% increase in lease rent. We also expect to see a slight boost in rent beyond Q3 from revenue sharing agreements, with the first one expected to hit in Q4. While we do not expect a lot here, as management will not jeopardize the consistent rent from typical lease payments (due to the potential for such agreements to threaten dividend payments in bad years), some incremental revenue should be recognized here, with LAND typically securing a fixed percentage of gross crop revenue right off the top (management noted that this number was 20% on the most recent farm signed with such an agreement). Management also discussed how the scarcity factor should support lease payments and farm values going forward. They noted that California is losing 50,000 acres of land a year and that this real estate is not re-purposed for agriculture purposes once it is taken out.

On the debt front, the company has about \$16 million in debt coming due over the next 12 months, with the lender of a portion of that amount already agreeing to extend the loan. Excluding that amount, debt due over the coming year amounts to less than 2% of total debt. The average interest rate on the company's entire debt load is currently 3.2%, with an average maturity length of 6 ½ years. The company has raised \$2 million on its at the market stock sale program already in Q2.

David Gladstone, the company's CEO, also took time to discuss water availability, which has become a major issue with the recent drought in California. He discussed how LAND's farms have adequate water availability and how water availability was one of the major factors they use in evaluating the purchase of a farm, especially in a drought prone area such as CA. They stressed that water availability was driving up farm prices, which should benefit its farms, and that the company has taken on drilling wells in some cases where that would increase the value of a farm. He emphasized that this situation was a positive for the firm given the water availability at its CA farms. He also stressed the benefit of inflation for farmland and for farmers in bumping up the price of the produce, as well as the value of the farmland.

**Third Quarter and 2017 Outlook**

At this point, we are looking for full year FFO of \$0.61 a share for 2017, two cents below our previous number on slightly higher expense expectations and slightly lower revenue. This is a function of assuming a conservative \$40 million in additional acquisitions for the remainder of the year, inclusive of the \$13.6 million purchase discussed earlier, which we believe is likely in light of recent discussions with management using existing cash on the balance sheet, debt capacity and potentially some common equity being issued through the ATM and using shares for part of purchase compensation. We also would not be surprised to see some type of preferred offering if available. Our Q3 estimate is now \$0.16 for normalized

FFO per share. Looking forward to 2018, our FFO estimate is now \$0.69 a share, on expectations that acquisitions and investments will be about \$80 million, with the assumption of a slight increase in the share price and issuance of more common equity or issuance of partnership units to acquire farms/farmland.

### **Valuation and Rating**

At this point in its history traditional valuation metrics have little meaning from a valuation perspective for LAND. LAND's early stage of growth means that cash flow is not an appropriate metric to judge its valuation, even though it is now starting to see some meaningful cash generated. At this point, we see the appraisal valuation to be a more appropriate metric on which to evaluate LAND's attractiveness. LAND shares continue to trade at a discount to underlying NAV, while most REIT's are trading at a premium. This is especially the case after the recent common equity offering, which pushed the share price down. Management noted on the conference call that the current appraisal for the company's farmland is \$14.46 a share, approximately 13% above the current share price, including cash and other assets less debt and other liabilities. This valuation is determined mostly from third party appraisals, but is also based on internal appraisals and recent purchase prices. The recent move up has decreased the discount at which the stock is trading, although the continued increasing dividend also offers an opportunity for income-oriented investors. We find LAND shares attractive for long-term appreciation as noted above. While re-zoning of real estate to increase the value of LAND's real estate is speculative, the upside from such moves is substantial.

As far as our price target, we continue to use a discount to the underlying asset value. We believe this is conservative, as most other REITs trade at solid premiums to the underlying asset value. We believe a 5-10% discount is conservative and should protect investors even if there is some softness in the farmland markets. However, in looking out 2-3 years, we are going to assume 3% annual increases in underlying farmland prices (about equal to the long term investment performance of the asset class). As such, our 2-3 year price target on LAND remains \$14.40. When including the recently increased dividend and assuming similar modest increases as management indicated will be forthcoming on the conference call, we believe LAND's shares offer investors total return potential approaching 25% over the period, and as such we are retaining our Long-term Buy rating. While we typically might look for higher appreciation potential for a recommended stock with a 4 risk rating, we believe that the low risk of farmland as an investment makes the lower total return expectation reasonable.

### **Suitability**

LAND has a suitability rating of 4 on our 1-4 scale. While the company's share price is backed by its hard asset base (farms and farmland), the company at this point has a less diversified portfolio of properties than other large, more established REITs. Further, the company has a short operating history, with its IPO occurring in 2013. The company's balance sheet is also somewhat levered and its access to capital is also constrained due to its stock price remaining sharply below the IPO price. Also, farmland has inherent volatility that could be magnified due to leverage and stock market activity.

### **Risks**

There are a number of risks to owning LAND shares and REITs as an investment group. REITs in general need access to debt capital to grow, if such debt and equity capital is unavailable, the company may have difficulty in growing. The company's dividend is very attractive to shareholders and LAND, as well as REITs in general, have seen their prices rise with the decline in overall interest rates. Should rates rise, that could hurt LAND's share price. Because of their thirst for debt, changes in interest rates can also impact a REIT's cash flow and ability to make accretive acquisitions. LAND's concentration upon the farmland real estate sector could be a risk given the recent high level of price appreciation. Should institutional investors reduce exposure to the group, that could lower the value of the company's current portfolio, although it would offer up additional opportunities in the market if prices fall. LAND's concentrated geographic exposure to a small number of states could be an issue if any one state has a problem, or if farm commodities

see declines in pricing, among others. One also must worry about management time, since they manage multiple companies, and also the dependence upon David Gladstones's expertise.

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.

Gladstone Land  
**Table 1. Income Statement**  
 In thousands, except per share #s

	2015		2016		2017E		2018E		Year		
	Year	Year	Q1	Q2	Q3	Q4	Q1A	Q2A		Q3	Q4
Revenues	\$ 7,170	\$ 11,888	\$ 3,679	\$ 4,242	\$ 4,467	\$ 4,917	\$ 5,748	\$ 5,994	\$ 6,138	\$ 6,285	\$ 24,165
Rental income	\$ 48	\$ -	\$ 95	\$ 9	\$ -	\$ 4	\$ 184	\$ -	\$ -	\$ -	\$ 184
Interest & other income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	\$ 15	\$ 13	\$ 3	\$ 3	\$ 2	\$ 3	\$ 2	\$ 2	\$ 2	\$ 2	\$ 8
Tenant Recovery income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisitions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total operating revenue	\$ 7,232	\$ 11,901	\$ 3,777	\$ 4,253	\$ 4,472	\$ 4,924	\$ 5,934	\$ 5,996	\$ 6,504	\$ 6,870	\$ 25,303
Equity income & other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Property Revenue	\$ 7,232	\$ 11,901	\$ 3,777	\$ 4,253	\$ 4,472	\$ 4,924	\$ 5,934	\$ 5,996	\$ 6,504	\$ 6,870	\$ 25,303
Expenses	\$ 435	\$ 729	\$ 180	\$ 159	\$ 161	\$ 170	\$ 248	\$ 242	\$ 231	\$ 234	\$ 954
Property Operating Expenses	\$ 520	\$ 467	\$ 95	\$ 25	\$ 123	\$ 4	\$ 9	\$ 37	\$ 50	\$ 75	\$ 171
Due diligence expense	\$ 2,009	\$ 4,112	\$ 1,255	\$ 1,487	\$ 1,555	\$ 1,719	\$ 2,157	\$ 2,193	\$ 2,318	\$ 2,463	\$ 9,131
Net Interest Expense	\$ 1,522	\$ 2,023	\$ 589	\$ 724	\$ 591	\$ 748	\$ 825	\$ 825	\$ 868	\$ 1,044	\$ 3,708
REIT operating/advertiser expenses	\$ 595	\$ 846	\$ 431	\$ 408	\$ 357	\$ 298	\$ 446	\$ 387	\$ 439	\$ 398	\$ 1,670
General & admin.	\$ 595	\$ 475	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional fees	\$ 1,736	\$ 3,113	\$ 977	\$ 1,326	\$ 1,432	\$ 1,444	\$ 1,472	\$ 1,599	\$ 2,056	\$ 2,124	\$ 7,251
Depreciation	\$ 7,594	\$ 11,766	\$ 3,537	\$ 4,137	\$ 4,218	\$ 4,383	\$ 5,303	\$ 5,283	\$ 5,962	\$ 6,338	\$ 22,886
Total Expenses	\$ (362)	\$ 1,36	\$ 240	\$ 116	\$ 254	\$ 541	\$ 631	\$ 713	\$ 542	\$ 532	\$ 2,418
Income before credits, currency and disc	\$ 263	\$ 97	\$ (458)	\$ (458)	\$ (460)	\$ (1,846)	\$ (458)	\$ (458)	\$ (460)	\$ (470)	\$ (1,846)
Foreign Currency impacts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ (125)	\$ 569	\$ 240	\$ 116	\$ 35	\$ 83	\$ 173	\$ 255	\$ 82	\$ 62	\$ 572
Preferred disc	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Management fee credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income from disc	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income before minority	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Minority interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net income to common	\$ (0.02)	\$ 0.07	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.00	\$ 0.00	\$ 0.04
FFO per share	\$ 0.40	\$ 0.45	\$ 0.13	\$ 0.14	\$ 0.15	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.16	\$ 0.17	\$ 0.61
Shares outstanding	6,852,917	8,639,397	9,992,941	9,997,941	10,018,331	10,024,875	10,018,331	11,850,264	11,961,264	12,072,264	11,569,882
Fully diluted shares	\$ 0.38	\$ 0.47	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.14	\$ 0.14	\$ 0.53
Dividends	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

Source: Company reports and Hilliard Lyons estimates

**Table 5. Funds From Operations Calculation**

Net income for common shareholders	-125	569	240	116	35	83	457	173	255	57	32	468
Adjustments	1,736	3,113	977	1,335	1,432	1,444	1,472	1,599	2,056	2,124	7,251	
Depreciation and amort.	1,392	1,34	110	38	173	23	20	62	50	75	207	
Other	3,002	3,816	1,326	1,488	1,640	1,550	1,665	1,916	2,162	2,231	7,925	
Total funds from operations for common	0	0	0	0	0	0	0	0	0	0	0	
FFO to partnership units	0	0	0	0	0	0	0	0	0	0	0	
FFO	3,002	3,816	1,326	1,488	1,640	1,550	1,665	1,916	2,162	2,231	7,925	
FFO per common share	\$ 0.40	\$ 0.45	\$ 0.13	\$ 0.14	\$ 0.15	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.16	\$ 0.17	\$ 0.61	
Shares, common	6,856,514	8,639,397	9,992,941	9,997,941	10,018,331	10,024,875	10,018,331	11,850,264	11,961,264	12,072,264	11,569,882	
Diluted FFO per common share	\$ 0.40	\$ 0.45	\$ 0.13	\$ 0.14	\$ 0.15	\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.16	\$ 0.17	\$ 0.61	
Shares, common diluted	92.00%	92.00%	0.41%	0.50%	0.48%	0.44%	0.40%	0.39%	0.48%	0.48%	0.48%	
Depreciation %	\$3,002	\$3,816	\$1,326	\$1,488	\$1,640	\$1,550	\$1,665	\$1,916	\$2,162	\$2,231	\$7,925	
FFO Available for common	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Less:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Recurring real estate CAPX	\$ (20.00)	\$ (20.00)	\$ (5.00)	\$ (5.00)	\$ (5.00)	\$ (5.00)	\$ (5.00)	\$ (5.00)	\$ (5.00)	\$ (5.00)	\$ (20.00)	
Required debt repayments	\$ 2,982	\$ 3,796	\$ 1,321	\$ 1,483	\$ 1,640	\$ 1,545	\$ 1,660	\$ 1,911	\$ 2,157	\$ 2,226	\$ 7,905	
Non-real estate depreciation	\$ 0.44	\$ 0.44	\$ 0.13	\$ 0.15	\$ 0.16	\$ 0.15	\$ 0.16	\$ 0.16	\$ 0.18	\$ 0.18	\$ 0.68	
Funds available for distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

Source: Company reports and Hilliard Lyons estimates

*Additional information is available upon request.*

### **Analyst Certification**

I, John M. Roberts, 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.

Gladstone Capital (GLAD-\$9.90), Gladstone Commercial Corp. (GOOD-\$20.88), Gladstone Investment Corp. (GAIN-\$9.72) and Gladstone Land share the same board and management.

The author of this report or members of his family own a long portion in the common shares of Gladstone Investment Corp. and Gladstone Commercial Corp. but cannot trade contrary to his opinion.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of Gladstone Land Corporation in the past 12 months.

Hilliard Lyons has received investment banking compensation from Gladstone Land Corporation in the past twelve months.

Hilliard Lyons has participated in a selling group for an offering of securities of Gladstone Land in the past 12 months.

### **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 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

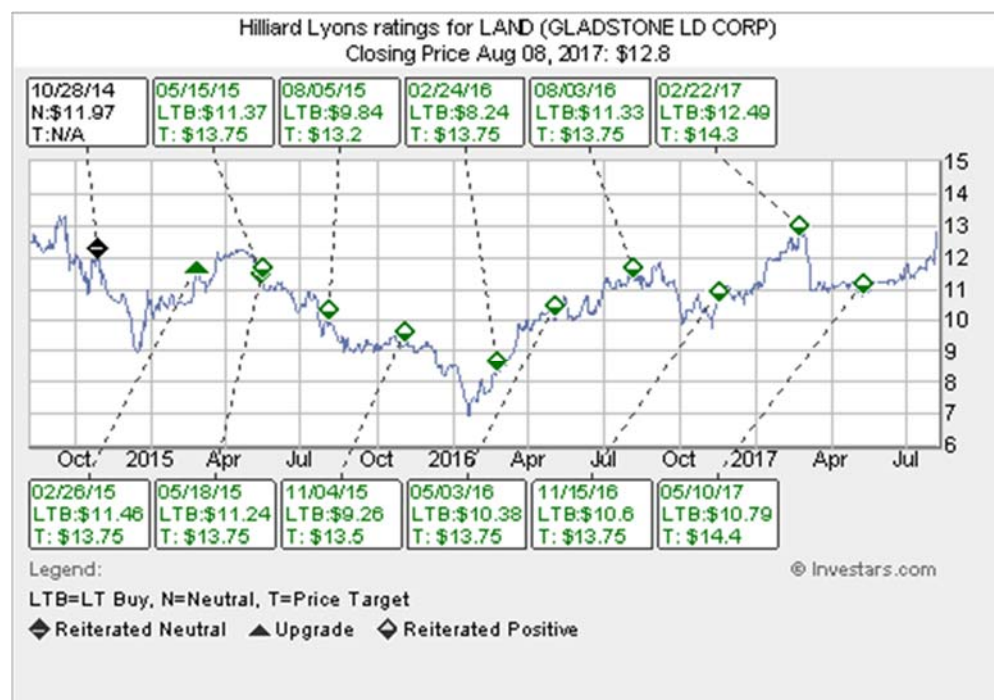
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

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.	
	# of	% of		
Rating	Stocks Covered	Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017



### Other Disclosures

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