



COMPANY UPDATE

Key Metrics

LAND - NASDAQ - 2/21/17	\$12.49
Price Target	\$13.75
52-Week Range	\$8.09 - \$12.87
Shares Outstanding (mm)	11.5
Market Cap. (\$mm)	\$143.6
1-Mo. Average Daily Volume	23,657
Institutional Ownership	39.0%
Debt/Total Capital Dec-16	65.0%
Est 3-year FFO Growth Rate	15.0%
Est 3-year Dividend Growth Rate	2.0%
Book Value	\$ 7.73
Dividend	\$ 0.52
Dividend Yield	4.13%
Est. Fixed Charge Coverage	1.7X

FFO Core Normalized

	2015	Prior 2016	Current 2016	Prior 2017E	Current 2017E
1Q	\$0.11	--	\$0.13	\$0.12	\$0.12
2Q	\$0.10	--	\$0.14	\$0.14	\$0.14
3Q	\$0.11	--	\$0.15	\$0.18	\$0.18
4Q	\$0.13	--	\$0.14	\$0.18	\$0.18
Year	\$0.45		\$0.56	\$0.63	\$0.63
P/FFO	0.0x		22.3x		19.8x

Note that quarters may not add due to rounding

Revenue (\$mm)

	2015	Prior 2016	Current 2016	Prior 2017E	Current 2017E
1Q	\$2.6	--	\$3.8	\$5.3	\$5.3
2Q	\$2.8	--	\$4.2	\$5.8	\$5.8
3Q	\$3.1	--	\$4.5	\$6.0	\$6.0
4Q	\$3.4	--	\$4.9	\$6.4	\$6.4
Year	\$11.9		\$17.3	\$23.5 *	\$23.5

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

Q4 Results Equal Our Estimate.

Investment Highlights

- Last night after the close, LAND reported Q4 normalized FFO excluding one time items of \$0.14 a share, equal to our estimate. We have seen the company ramp up the amount of purchases so far in Q1, with its biggest single acquisition to date already made in Q1. The recent rise in the share price should enable the company to issue equity for acquisitions. We will wait until the conference call to make any definitive conclusions on the acquisition front, although equity offerings may be on the table to complete purchases.
- LAND's dividend yield is above the overall REIT group with recent dividend increases.
- We are retaining our Long-term Buy rating on LAND shares at this time, although they are approaching our estimate of current fair value with the recent move up in the share price towards recent highs. Our \$13.75 price target is based upon a 15% discount to where we believe the company's asset value will be two-to-three years out. The recent share price rise has lowered the discount to the value of its underlying assets, something that we will need to look at in relation to the risk of the investment. However, management also noted a significant rise in NAV in the quarter to \$14.21, which may allow for a rise in our fair value estimate, although we will need to discuss this increase with management before making a final conclusion on that front.
- The shares enable investors to gain exposure to a unique and attractive asset class, while receiving an above market level of income. However, we note that we will need to reevaluate our estimate of asset value in light of the recent purchases and increased NAV number. A report outlining any changes will be out later today following the company's 8:30AM conference call.

Note Important Disclosures on Pages 5-6.
Note Analyst Certification on Page 5.

Fourth Quarter Review

Total operating revenues were \$4.92 million, compared to \$3.41 million in Q4 '15, up 44.3%. Acquisitions made throughout 2016 were the major drivers to the increase in the top line. Total operating expenses were up 43.0% to \$2.66 million from \$1.86 million, less than the increase in the top line. Net income was \$0.08 million compared to \$0.35 million. Normalized FFO were \$1.55 million compared to \$1.23 million in the year earlier period. Normalized FFO per share was \$0.14 versus \$0.13, on a 21.2% increase in shares outstanding to 11.25 million shares.

LAND's leverage has moved up as it continues to add new properties and use debt for its purchases. The company's debt-to-equity stands at 2.7 to 1 on a book basis compared to 1.8 to 1 at the end of last year. The total debt balance stood at \$237.5 million at yearend. On a market basis, debt as a percent of total capitalization at yearend stood at approximately 65%.

Other 4th Quarter Activity

Investment Activity – LAND made only one acquisition in Q4, an almond orchard amounting to 197 acres in Fresno County, CA for \$6.5 million. The company leased the farm back to the seller under a 10-year triple net lease and has two five year extension options and variable rent components based upon revenues earned on the properties. The company expects to see an annual cap rate of between 8 and 10 percent over the life of the lease. Subsequent to quarter end, the company made two large purchases, one of 3,750 acres of organic farmland in Southern Florida for \$54 million and the other is a 16,595 acre farm in Baca County, CO for \$12.1 million, which includes \$9.1 million in cash and 233,952 common units at an above market price. The larger property is being leased under a seven year lease with three 5-year extensions, while the Colorado property is being leased under an initial lease through 2020 plus a five year extension. We anticipate a return of around 6% on these purchases.

Capital/Financing Activity – During Q4 LAND increased the size of its credit facility, from \$125 million to \$200 million. They also saw a reduction in cost and extension of the term of the facility. Subsequent to quarter end the company obtained \$32.4 million in long-term debt at an average effective rate of 3.33% fixed for 5 years.

Dividend – LAND established a very high initial dividend, paying \$1.44 annually, to satisfy requirements related to its change to REIT structure. Following this first year, the company established a dividend more appropriate to its cash flow, paying \$0.36 a share, or \$0.03 a month. As the company's cash flow moved up, LAND increased its dividend twice in 2015, once in Q1 to \$0.42 (3.5 cents a month) and another in Q2 to \$0.48 (4 cents a month). Then in 2016 it again raised it twice to \$0.495 (\$0.4125 a month) and then to \$0.51 a share (\$0.425 a month). For the current quarter, the company raised it again, up 1.2% to \$0.043 a month or \$0.516 annually. The payout ratio on our expected FFO estimate for 2017 is just over 80%.

Condensed Balance Sheet

	December 31, 2016	December 31, 2015
Real Estate (Net of Depreciation)	\$326,310,621	\$221,783,425
Mortgage Note Receivable	0	0
Lease Intangibles (net)	1,999,773	1,763,541
Short term Investments	0	0
Cash and Cash Equivalents	2,438,021	2,532,522
Restricted Cash	0	0
Deferred Offering Costs	0	0
Deferred Financing Cost	239,135	1,186,718
Prepaid Expenses	0	0
Deposits on Real Estate	0	0
Other Assets	2,997,469	2,472,041
Total Assets	\$333,985,019	\$229,738,247
Mortgage Note Payable	\$190,797,012	\$142,633,157
Borrowings under Line of Credit	\$16,550,000	\$100,000
Deferred Rent Liability	0	0
Asset Retirement Obligation Liability	0	0
Accounts Payable and Accrued Expenses	2,801,194	3,495,339
Due to Related	750,796	565,593
Deferred Tax Liability	0	0
Rent Received / Security Deposits / Other	7,653,582	4,937,439
Total Liabilities	218,552,584	151,731,528
Preferred Stock	27,655,273	0
Common Stock	10,025	9,993
Additional Paid in Capital	90,081,837	86,892,095
Retained Earnings	(13,401,529)	(8,895,369)
Non-controlling	11,086,829	0
Total Shareholders' Equity	\$115,432,435	\$78,006,719
Total Liabilities and Shareholders' Equity	\$333,985,019	\$229,738,247

Balance Sheet Ratio Analysis	December 31, 2016	December 31, 2015
Investments (net) as % of Assets	97.7%	96.5%
Cash & Equiv. and Restricted Cash as % of Assets	0.7%	1.1%
Debt to Equity	179.6%	183.0%
Total Liabilities as % of Assets	65.4%	66.0%
Shareholders' Equity as % of Assets	34.6%	34.0%

Source: Company reports.

First Take

Not really much of a surprise here. In fact, the only real issue is the company's relatively low level of investment in Q4, something it definitely overcame with the strong investment activity so far in the first quarter of 2017. We anticipate that the recent rise in price and strong acquisition activity so far in the year may indicate that an equity issuance could be in the cards sometime in the first half of the year. This is something that we will be asking about on the conference call this morning and even more likely in the face of the large jump in debt even before the purchases announced in Q1. With the stock price having moved up towards our price target, we will be re-evaluating our price target and rating following this morning's conference call and our discussion with management. The more than \$0.50 a share increase in management's estimate of NAV is something else that we will need to be looking at and quizzing management on. Should our expectations for acquisition activity go up and the increase in NAV be justified, an increased price target could be forthcoming, something that could be further supported by the strong investment activity so far in Q1. So while we see a modest bump-up in our target price as likely, we will wait until this morning's conference call and discussions with management before making a final call on that front.

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 levered and its access to capital is also constrained due to its stock price remaining 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. 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 Gladstone'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.

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.

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.

Gladstone Capital (GLAD-\$8.71), Gladstone Commercial Corp. (GOOD-\$20.61), Gladstone Investment Corp. (GAIN-\$9.13) and Gladstone Land share the same board and management.

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

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, usually 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 Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 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.

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