



COMPANY UPDATE/ESTIMATE/PRICE TARGET CHANGE

Key Metrics

LAND - NASDAQ - 2/21/17	\$12.49
Price Target	\$14.30
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	2016	Prior 2017E	Current 2017E
1Q	\$0.11	--	\$0.13	\$0.13
2Q	\$0.10	--	\$0.14	\$0.14
3Q	\$0.11	--	\$0.15	\$0.17
4Q	\$0.13	--	\$0.14	\$0.18
Year	\$0.45	\$0.56	\$0.63	\$0.62
P/FFO	0.0x	22.3x		20.1x

Note that quarters may not add due to rounding

Revenue (\$mm)

	2015	2016	Prior 2017E	Current 2017E
1Q	\$2.6	--	\$3.8	\$5.9
2Q	\$2.8	--	\$4.2	\$6.4
3Q	\$3.1	--	\$4.5	\$6.7
4Q	\$3.4	--	\$4.9	\$7.1
Year	\$11.9	\$17.3	\$23.5 *	\$26.1

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

- LAND shares have moved up pretty significantly over the past several months and have moved up to within shouting distance of our previous price target. However, recent acquisition activity and new appraisals have allowed us to push our estimate of fair value 2-3 years out to \$14.30 a share, offering just enough potential total return to that target to justify our Long-term Buy rating in light of the share's risk rating.
- We are fine-tuning our 2017 FFO estimate to \$0.62 due to strong Q1 investment activity more than offset by a dilutive equity offering. We are initiating a 2018 estimate of \$0.70 a share.
- Management noted that the current appraisal of the value of its properties places a net asset value of \$14.21 per share on its underlying farmland. The company's shares are trading below this asset value.
- We are retaining our rating on LAND at Long-term Buy at this point. Our estimate of fair value 2-3 years out is \$14.30 a share, offering just enough price appreciation potential to justify a positive rating. LAND shares also allow investors to gain exposure to a unique and attractive asset class, and offer income-oriented investors a nice and modestly growing dividend which provides a regular cash flow stream. However, we do note that the potential price appreciation is only just enough to justify a positive rating, so we would not chase the stock up if it moves much higher going forward.

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

Additional Conference Call Discussion

Overall, the conference call was reasonably consistent with previous conference calls, although with more discussion on the company's underlying asset value. The company's appraisal of its properties was discussed with the assessed asset value for the firm standing at \$14.21 a share. This valuation includes a combination of outside appraisals, internal valuations and purchase prices for those properties recently purchased. Management noted that most of the \$3 million increase in the fair value of its properties came from increases in the value of farms appraised by third party appraisers, rather than from internally determined ones. We believe this value offers a realistic assessment of the firm's worth when considering a comparison to other REIT groups. The appraised value remains above the current share price, in spite of the strength over the past year.

On the leasing front, management noted that it expects to renew all of the leases that are set to expire in 2017 at higher rates. During 2016, management noted that it re-signed all of the leases that were set to expire in the year at increased lease rates averaging 23%. The company's portfolio remains 100%-leased. Management also discussed some of the fundamentals on its recent purchases, with the cap rate on the large farm purchased in the first quarter having an initial GAAP return of 5.3%, and that one of the farms purchased in Q4 has a variable rent feature that should allow for a higher than typical return.

On the debt/capitalization front, management noted that while it has some capacity left under its debt agreements, its pretty close to being effectively maxed out on the capital front after its most recent purchases with the debt level now approaching 70% of capital. While management believes that farmland offers a higher ability to borrow than other types of real estate, markets are likely to restrain the company from much further growth without additional equity capital. Management implied on the call that it was considering some type of new equity with that in mind, with convertible preferred being the most likely issuance based on management commentary. Management continues to indicate a reticence to issuing common equity even at the currently higher price due to the dilutive impact of any such issuance. We note that the company has little debt coming due over the next five years. The company's mortgage line does not expire until 2029. The company's credit line does not come due until 2024. The total cost of the company's debt load is a very low 3.12% currently, very low in light of the high level of leverage on the company's balance sheet. Management also noted that its debt was effectively fixed for six years.

On the cost front, management noted that the appraisals undertaken during Q4 bumped its G&A expense up in Q4. Strategically, management offered some thoughts about the factors driving demand for farmland, including the move towards organic foods and healthier eating. They noted that most of LAND's farms are targeted towards the organic trend. The recent heavy precipitation in California has also improved the water issue in that state where historical levels of drought had caused questions on farmland in the state. Management stressed that as part of its due diligence it carefully looked at water availability on the farms it is purchasing, and that all of its farms had adequate water sources to withstand drought conditions, and the recent rain has alleviated any potential risk here.

First Quarter and 2017 Outlook

At this point, we are fine-tuning our estimate of FFO down a penny to \$0.62 a share for 2017. This is a function of a steady level of projected investments of \$100 million for the full year, but the bulk of them closing early in the year after the large Q1 purchase. Offsetting that, is our expectation for 3 million common shares being offered, also early in the year, and likely through a convertible preferred stock offering. The company will likely be using existing cash on the balance sheet and available debt capacity in the near term and then the equity will be issued, likely in Q2. Our Q1 FFO estimate is \$0.13. We also note that the company's expense base is becoming less of an issue as management has stayed reasonably disciplined and the revenue base is increasing. One of the problems with a start-up REIT has always been that the cost base overwhelms the revenue until it reaches critical mass. Management is addressing this issue. We note that this is one area where being externally managed actually is a benefit, as the costs will stay relatively low until the size of the company grows. Looking forward to 2018, we are initiating an estimate of \$0.70 as we anticipate acquisitions in a similar range to 2017.

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. Despite recent strength, LAND's shares trade at a discount to underlying NAV, while most REIT's are trading at a premium. Management noted on the conference call that the current appraisal for the company's farmland is \$14.21 a share, approximately 14% 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 in the price has sharply lowered the discount at which the stock has traded recently, although the continued increasing dividend does offer an opportunity for income-oriented investors. Beyond that, investors looking specifically for exposure to farmland could find LAND shares attractive for long-term appreciation.

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 is now \$14.30. When including the recently increased dividend (and not assuming any more, although we believe they will be forthcoming), we believe LAND's shares offer investors total return potential of about 25% over the period, just enough to retain our Long-term buy rating.

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 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. 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

	2014		2015		2016		2017E		Year			
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3		Q4		
Revenues	\$ 4,028	\$ 7,170	\$ 2,622	\$ 2,780	\$ 3,080	\$ 3,402	\$ 11,888	\$ 5,035	\$ 5,156	\$ 5,280	\$ 5,406	\$ 20,878
Rental income	\$ 56	\$ 48	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10	\$ 10	\$ 10	\$ 10	\$ 40
Interest & other income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	\$ 10	\$ 15	\$ -	\$ 3	\$ 3	\$ 7	\$ 13	\$ 5	\$ 5	\$ 5	\$ 5	\$ 20
Tenant Recovery income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisitions	\$ 4,094	\$ 7,232	\$ 2,622	\$ 2,784	\$ 3,084	\$ 3,408	\$ 11,901	\$ 5,947	\$ 6,397	\$ 6,687	\$ 7,062	\$ 26,093
Total operating revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity income & other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Property Revenue	\$ 4,094	\$ 7,232	\$ 2,622	\$ 2,784	\$ 3,084	\$ 3,408	\$ 11,901	\$ 5,947	\$ 6,397	\$ 6,687	\$ 7,062	\$ 26,093
Expenses	\$ 119	\$ 435	\$ 206	\$ 156	\$ 192	\$ 175	\$ 729	\$ 232	\$ 217	\$ 221	\$ 230	\$ 900
Property Operating Expenses	\$ 154	\$ 520	\$ 171	\$ 178	\$ 62	\$ 56	\$ 467	\$ 75	\$ 50	\$ 100	\$ 75	\$ 300
Due diligence expense	\$ 1,119	\$ 2,009	\$ 949	\$ 947	\$ 1,064	\$ 1,151	\$ 4,112	\$ 2,029	\$ 2,033	\$ 2,089	\$ 2,233	\$ 8,363
Net Interest Expense	\$ 1,047	\$ 1,522	\$ 427	\$ 506	\$ 538	\$ 552	\$ 2,023	\$ 905	\$ 1,032	\$ 851	\$ 1,040	\$ 3,828
REIT operating/adviser expenses	\$ 679	\$ 777	\$ 230	\$ 253	\$ 202	\$ 161	\$ 846	\$ 604	\$ 582	\$ 485	\$ 410	\$ 2,080
General & admin.	\$ -	\$ 595	\$ 167	\$ 84	\$ 113	\$ 111	\$ 475	\$ -	\$ -	\$ -	\$ -	\$ -
Professional fees	\$ 722	\$ 1,736	\$ 792	\$ 712	\$ 809	\$ 801	\$ 3,113	\$ 1,726	\$ 1,866	\$ 1,915	\$ 1,953	\$ 7,459
Depreciation	\$ 3,840	\$ 7,594	\$ 2,941	\$ 2,837	\$ 2,980	\$ 3,007	\$ 11,766	\$ 5,570	\$ 5,780	\$ 5,660	\$ 5,940	\$ 22,950
Total Expenses	\$ 254	\$ (362)	\$ (319)	\$ (53)	\$ 103	\$ 401	\$ 136	\$ 377	\$ 616	\$ 1,027	\$ 1,122	\$ 3,142
Income before credits, currency and disc	\$ 263	\$ (27)	\$ 321	\$ -	\$ -	\$ 14	\$ 14	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign Currency Impacts	\$ (1,520)	\$ 41	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (458)	\$ (458)	\$ (458)	\$ (458)	\$ (1,832)
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Preferred divs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Management fee credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income from disc	\$ (1,225)	\$ (125)	\$ 2	\$ (53)	\$ 180	\$ 416	\$ 569	\$ (81)	\$ 158	\$ 569	\$ 664	\$ 1,310
Income before minority	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Minority interest	\$ (1,225)	\$ (125)	\$ 2	\$ (53)	\$ 180	\$ 416	\$ 569	\$ (81)	\$ 158	\$ 569	\$ 664	\$ 1,310
Net income to common	\$ (0.20)	\$ (0.02)	\$ 0.00	\$ (0.01)	\$ 0.02	\$ 0.05	\$ 0.07	\$ (0.01)	\$ 0.01	\$ 0.04	\$ 0.05	\$ 0.10
FFO per share	\$ 0.16	\$ 0.40	\$ 0.11	\$ 0.10	\$ 0.11	\$ 0.13	\$ 0.45	\$ 0.13	\$ 0.14	\$ 0.17	\$ 0.18	\$ 0.62
Shares outstanding	6,215,173	6,852,917	7,685,264	8,439,855	9,061,000	9,066,000	8,639,397	11,134,875	13,245,875	13,356,875	13,467,875	12,801,375
Fully diluted shares	6,210,173	6,852,917	7,753,717	8,439,855	9,061,000	9,066,000	8,639,397	12,380,353	14,470,353	14,580,353	14,690,353	14,025,375
Dividends	\$ 1.08	\$ 0.38	\$ 0.11	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.47	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.52

Source: Company reports and Hilliard Lyons estimates

Table 5. Funds From Operations Calculation

	2014	2015	2016	2017E	Year	
Net income for common shareholders	-1,225	2	-53	180	416	569
Adjustments	722	1,736	792	712	809	801
Depreciation and amort.	0	1,392	60	171	4	17
Other	-502	3,002	853	830	993	1,233
Total funds from operations for common	0	3,002	853	830	993	1,233
FFO to partnership units	-502	3,002	853	830	993	1,233
FFO per common share	\$ 0.13	\$ 0.40	\$ 0.11	\$ 0.10	\$ 0.11	\$ 0.13
Shares, common	6,215,173	6,852,914	7,685,264	8,439,855	9,061,000	9,282,280
Diluted FFO per common share	\$ 0.16	\$ 0.40	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.13
Shares, common diluted	92.00%	92.00%	92.00%	92.00%	92.00%	92.00%
Depreciation %	92.00%	92.00%	92.00%	92.00%	92.00%	92.00%
FFO Available for common	(\$502)	\$3,002	\$853	\$830	\$993	\$1,233
Less:	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Recurring real estate CAPX	\$ (20.00)	\$ (20.00)	\$ (20.00)	\$ (20.00)	\$ (20.00)	\$ (20.00)
Required debt repayments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-real estate depreciation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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.

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, generally 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

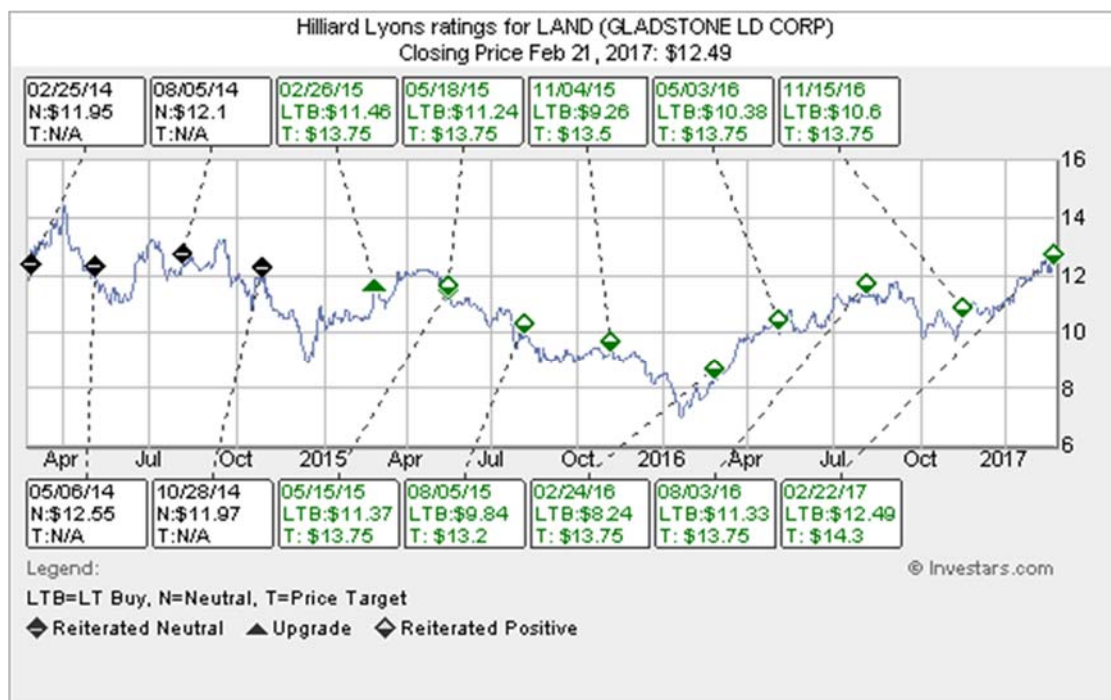
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

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

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