



### COMPANY UPDATE/PRICE TARGET CHANGE

#### Key Metrics

LAND - NASDAQ - 5/9/17	\$10.79
Price Target	\$14.40
52-Week Range	\$9.51 - \$12.89
Shares Outstanding (mm)	12.9
Market Cap. (\$mm)	\$139.2
1-Mo. Average Daily Volume	59,340
Institutional Ownership	39.0%
Debt/Total Capital Mar-17	65.0%
Est 3-year FFO Growth Rate	12.0%
Est 3-year Dividend Growth Rate	2.0%
Book Value	\$ 7.73
Dividend	\$ 0.52
Dividend Yield	4.84%
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
2Q	\$0.14	\$0.14	\$0.14	--	\$0.16
3Q	\$0.15	\$0.17	\$0.17	--	\$0.19
4Q	\$0.14	\$0.18	\$0.18	--	\$0.18
Year	\$0.56	\$0.63	\$0.63		\$0.70
P/FFO	0.0x		17.1x		15.4x

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
2Q	\$4.2	\$6.4	\$6.4	--	\$8.1
3Q	\$4.5	\$6.7	\$6.7	--	\$8.4
4Q	\$4.9	\$7.1	\$7.1	--	\$8.8
Year	\$17.3	\$26.1	\$26.1	\$33.0 *	\$32.9

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

- Among the most important discussion on the conference call, in our opinion, was some discussion around the potential for a recharacterization of LAND's real estate from farming to other uses. While such moves are extremely long-term in nature, the upside from such moves are geometric in nature, with acreage in crop-land selling in the thousands per acre versus tens or hundreds of thousands for acreage for commercial or residential use. While getting such changes through is difficult (zoning changes, government processes, votes, etc.) and takes a long-time, the payoff can be huge. We believe this is something that is missing from LAND's perceived value and share price.
- We are retaining our 2017 FFO estimate at \$0.63 a share despite the Q1 beat as we are pushing up our expectations for interest rates a bit.
- Management also updated its appraisal on LAND, which places a net asset value of \$14.47 per share on its farmland and cash assets. This is up slightly from the previous appraisal due to recent investments and sales of assets near existing farms at higher prices.
- We are retaining our rating on LAND at Long-term Buy. LAND shares trade solidly below NAV while allowing investors to gain exposure to a unique and attractive asset class. We also believe that the long-term opportunity noted earlier is not reflected in the share price and offers some additional upside for those willing to hold the shares for a longer period of time. This opportunity, which is highly speculative, is sort of a long-term option that is embedded in LAND shares. In our view, the value of this option is not reflected in LAND's current share price. As such we continue to see LAND shares as attractive long-term investments; while the dividend provides a steady income source the shares also provide steady potential growth for investors willing to take some risk.

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

**Additional Conference Call Discussion**

Management offered some insight into its expected forward investment activity, noting that its pipeline remained robust and that there was an expectation for several farm purchases closing over the coming two quarters. They believed that current buying power is about an additional \$60 million without any issuance of additional equity. The current size of the pipeline looks in the \$150 million area. Management was very unhappy with the current share price and said they would be unlikely to raise common equity capital to increase its buying power at current common share prices, although they did suggest the potential for adding buying power through the issuance of preferred stock rather than common. They also noted the likelihood of using partnership units as a means to increase potential investment capital. We are not anticipating an additional common equity offering this year, and thus are slightly reducing our expectation for near term investment. Management also noted the increased demand for farmland as land is taken out of production through re-zoning and that this is increasing the demand for the farmland that remains.

Management also discussed its continued increasing dividends and that it expects to continue to increase them going forward. David Gladstone stressed that LAND would continue to be a dividend paying company that raises the dividend on a consistent basis. We are not convinced that this is the best use of cash flow with the share price so low and access to capital somewhat constrained as a result. We would rather see them retain some of the cash flow to reinvest in the business, but Mr. Gladstone is definitely sensitive to his retail shareholder base and its desire for consistent and higher dividends.

**Second Quarter and 2016 Outlook**

Despite reducing our expectation for investments slightly, we are retaining our expectations for both 2017 and 2018 with the Q1 beat versus our expectations. Our full year FFO estimate remains at \$0.63 a share for 2017. Our Q2 estimate is \$0.14. Looking forward to 2018, our FFO estimate remains at \$0.70 a share on acquisitions and investments of \$75.0 million, a number that assumes a slight increase in the share price, and issuance of approximately two million shares of equity through either a common offering or issuance of partnership units. A small amount of preferred issuance is also assumed to be issued.

**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 \$14.47 a share, approximately 34% 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 down has increased the discount at which the stock is trading, while the continued increasing dividend also offers an opportunity for income-oriented investors. We also 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 noted earlier.

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 \$14.40. 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 approaching 50% over the period, and as such we are retaining 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.

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

	2015		2016		2017E		2018E		Year		
	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3		Q4	
Revenues											
Rental income	\$ 11,888	\$ 3,679	\$ 4,242	\$ 4,467	\$ 4,917	\$ 17,305	\$ 5,748	\$ 5,886	\$ 6,027	\$ 6,172	\$ 23,833
Interest & other income	\$ 48	\$ 95	\$ 9	\$ 2	\$ 4	\$ 109	\$ 184	\$ 180	\$ 180	\$ 180	\$ 724
Other income	\$ 13	\$ 3	\$ 3	\$ 2	\$ 3	\$ 11	\$ 2	\$ 2	\$ 2	\$ 2	\$ 8
Tenant Recovery income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisitions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total operating revenue	\$ 11,901	\$ 3,777	\$ 4,253	\$ 4,472	\$ 4,924	\$ 17,426	\$ 5,934	\$ 6,394	\$ 6,687	\$ 7,058	\$ 26,073
Equity income & other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Property Revenue	\$ 11,901	\$ 3,777	\$ 4,253	\$ 4,472	\$ 4,924	\$ 17,426	\$ 5,934	\$ 6,394	\$ 6,687	\$ 7,058	\$ 26,073
Expenses											
Property Operating Expenses	\$ 435	\$ 180	\$ 159	\$ 161	\$ 170	\$ 670	\$ 248	\$ 224	\$ 234	\$ 236	\$ 942
Due diligence expense	\$ 520	\$ 467	\$ 25	\$ 123	\$ 4	\$ 246	\$ 9	\$ 50	\$ 100	\$ 75	\$ 234
Net Interest Expense	\$ 2,009	\$ 1,255	\$ 1,487	\$ 1,555	\$ 1,719	\$ 6,015	\$ 2,157	\$ 2,158	\$ 2,213	\$ 2,362	\$ 8,890
REIT operating/adviser expenses	\$ 1,522	\$ 2,023	\$ 599	\$ 724	\$ 591	\$ 2,663	\$ 971	\$ 1,090	\$ 893	\$ 1,073	\$ 4,027
General & admin.	\$ 777	\$ 846	\$ 431	\$ 408	\$ 357	\$ 1,494	\$ 446	\$ 582	\$ 485	\$ 409	\$ 1,922
Professional fees	\$ 595	\$ 475	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 1,736	\$ 3,113	\$ 977	\$ 1,335	\$ 1,432	\$ 5,197	\$ 1,472	\$ 1,916	\$ 1,965	\$ 2,004	\$ 7,358
Total Expenses	\$ 7,954	\$ 11,766	\$ 3,537	\$ 4,137	\$ 4,218	\$ 16,275	\$ 5,303	\$ 6,020	\$ 5,890	\$ 6,160	\$ 23,373
Income before credits, currency and disc	\$ (362)	\$ 240	\$ 116	\$ 254	\$ 541	\$ 1,151	\$ 631	\$ 374	\$ 797	\$ 898	\$ 2,700
Foreign Currency impacts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	\$ 263	\$ 97	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Priended disc	\$ (27)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Management fee credit	\$ -	\$ 321	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income from disc	\$ 14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income before minority	\$ (125)	\$ 569	\$ 240	\$ 116	\$ 254	\$ 1,151	\$ 631	\$ 374	\$ 797	\$ 898	\$ 2,700
Minority interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net income to common	\$ (125)	\$ 569	\$ 234	\$ 108	\$ 32	\$ 457	\$ 152	\$ (109)	\$ 312	\$ 398	\$ 753
FFO per share	\$ (0.02)	\$ 0.07	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.05	\$ 0.01	\$ (0.01)	\$ 0.03	\$ 0.03	\$ 0.07
Shares outstanding	6,852,917	8,639,397	9,992,941	10,018,331	10,024,875	10,008,522	10,395,736	11,800,000	11,911,000	12,022,000	11,532,184
Fully diluted shares	6,852,917	8,639,397	10,230,639	10,738,820	10,872,447	11,250,353	11,844,984	13,249,258	13,359,258	13,469,258	12,980,692
Dividends	\$ 38	\$ 47	\$ 12	\$ 12	\$ 12	\$ 50	\$ 13	\$ 13	\$ 14	\$ 14	\$ 53

**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	-109	312	398	753
Adjustments	1,736	3,113	977	1,335	1,432	5,187	1,472	1,916	1,965	2,004	7,358	
Depreciation and amort.	1,382	134	110	38	173	343	20	0	0	0	0	
Other	3,002	3,816	1,326	1,488	1,640	5,988	1,665	1,807	2,278	2,402	8,111	
Total funds from operations for common	3,002	8,639,397	1,326	1,488	1,640	11,550	1,665	1,807	2,278	2,402	8,111	
FFO to partnership units	3,002	0	0	0	0	0	0	0	0	0	0	
FFO	3,002	8,639,397	1,326	1,488	1,640	11,550	1,665	1,807	2,278	2,402	8,111	
FFO per common share	\$ 0.40	\$ 0.45	\$ 0.13	\$ 0.15	\$ 0.16	\$ 0.60	\$ 0.16	\$ 0.15	\$ 0.19	\$ 0.20	\$ 0.70	
Shares, common	6,836,514	8,639,397	9,992,941	10,018,331	10,024,875	10,008,522	10,395,736	11,800,000	11,911,000	12,022,000	11,532,184	
Diluted FFO per common share	\$ 0.40	\$ 0.45	\$ 0.13	\$ 0.14	\$ 0.15	\$ 0.56	\$ 0.14	\$ 0.14	\$ 0.17	\$ 0.18	\$ 0.63	
Shares, common diluted	92.00%	8,639,397	10,231,639	10,738,820	10,872,447	11,254,353	11,848,984	13,253,258	13,363,258	13,473,258	12,980,692	
Depreciation %	92.00%	0.41%	0.50%	0.48%	0.48%	0.44%	0.40%	0.48%	0.48%	0.48%	0.48%	
FFO Available for common	\$ 3,002	\$ 3,816	\$ 1,326	\$ 1,488	\$ 1,640	\$ 5,988	\$ 1,665	\$ 1,807	\$ 2,278	\$ 2,402	\$ 8,111	
Less:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Recurring real estate CAPX	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Required debt repayments	\$ (20.00)	\$ -	\$ (5.00)	\$ (5.00)	\$ (5.00)	\$ (20.00)	\$ (5.00)	\$ (5.00)	\$ (5.00)	\$ (5.00)	\$ (20.00)	
Non-real estate depreciation	\$ 2,982	\$ 3,796	\$ 1,321	\$ 1,483	\$ 1,635	\$ 5,968	\$ 1,660	\$ 1,802	\$ 2,273	\$ 2,397	\$ 8,091	
Funds available for distribution	\$ 0.44	\$ 0.44	\$ 0.13	\$ 0.15	\$ 0.16	\$ 0.60	\$ 0.16	\$ 0.15	\$ 0.19	\$ 0.20	\$ 0.70	
Per share	\$ 0.44	\$ 0.44	\$ 0.13	\$ 0.15	\$ 0.16	\$ 0.60	\$ 0.16	\$ 0.15	\$ 0.19	\$ 0.20	\$ 0.70	

**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.

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

Gladstone Capital (GLAD-\$9.83, Neutral), Gladstone Commercial Corp. (GOOD-\$20.31, Neutral), Gladstone Investment Corp. (GAIN-\$9.09, Neutral) 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.

### **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

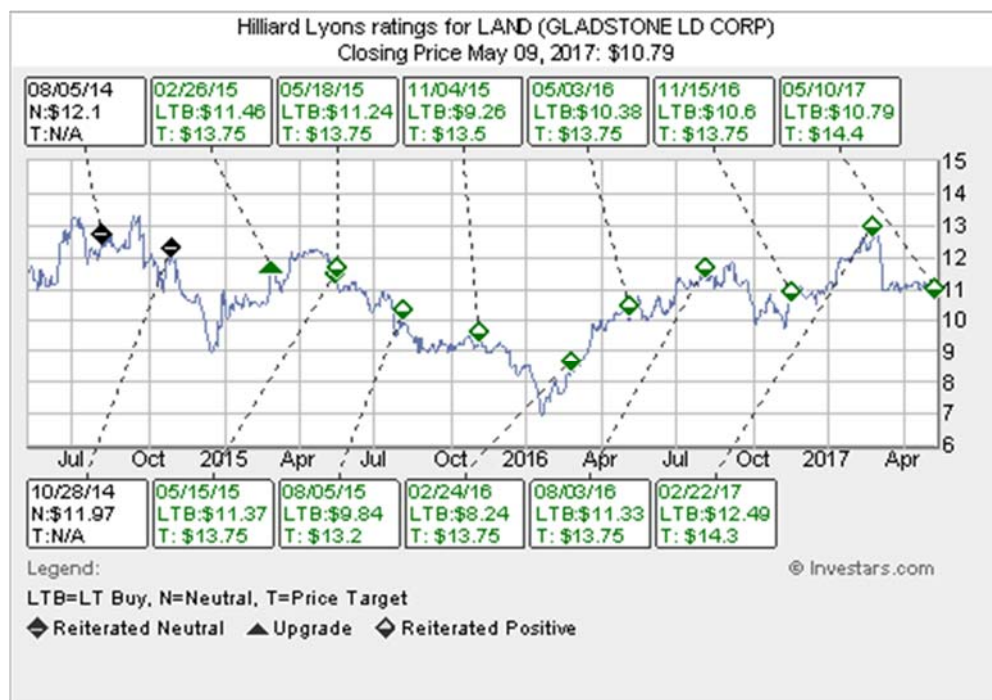
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

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.

<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>	32	26%	13%	88%
<b>Hold/Neutral</b>	79	64%	8%	92%
<b>Sell</b>	12	10%	0%	100%

*As of 8 May 2017*



### Other Disclosures

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