



### COMPANY UPDATE

#### Key Metrics

LAND - NASDAQ - 5/9/17	\$10.79
Price Target	\$14.30
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

	Prior	Current	Prior	Current
2016	2017E	2017E	2018E	2018E
1Q	\$0.13	--	\$0.14	--
2Q	\$0.14	\$0.14	\$0.14	--
3Q	\$0.15	\$0.17	\$0.17	--
4Q	\$0.14	\$0.18	\$0.18	--
Year	\$0.56	\$0.62	\$0.63	\$0.70
P/FFO	0.0x	17.1x		15.4x

Note that quarters may not add due to rounding

#### Revenue (\$mm)

	Prior	Current	Prior	Current
2016	2017E	2017E	2018E	2018E
1Q	\$3.8	--	\$5.9	--
2Q	\$4.2	--	\$6.4	--
3Q	\$4.5	--	\$6.7	--
4Q	\$4.9	--	\$7.1	--
Year	\$17.3	\$26.1	*	\$33.0

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

**Q1 Results a Penny Above our Estimate.**

#### Investment Highlights

- Yesterday after the close, LAND reported Q1 FFO of \$0.14 a share, a penny above our estimate and last year's number. The top line was marginally lower than we projected, but expenses were well controlled. The company continues to acquire farms, adding another one in Q1.
- LAND increased its dividend subsequent to the end of the quarter and offers a solid dividend yield of nearly 5%. The company continues to offer a competitive dividend yield for a REIT.
- We are retaining our Long-term Buy rating on LAND shares at this point. LAND shares have been pretty much flat this year, moving off of recent highs from March when the company undertook a share offering at a level below the then share price. As such, the shares remain below our 2-3 year price target of \$14.30 a share, which is based on a 15% discount to what we anticipate the company's NAV will be in 2-3 years. We find the current price level attractive and remain of the opinion that investors purchase the shares for the long-term. The company offers investors exposure to a unique and attractive asset class and for those investors looking for exposure to farmland LAND shares remain attractive for long-term appreciation. We are going to wait until after today's conference call before making any decision on any changes to our estimates and rating, however.

**Note Important Disclosures on Pages 6-7.**  
**Note Analyst Certification on Page 6.**

**First Quarter Review**

Total operating revenues were \$5.93 million, compared to \$3.78 million in Q1 '16, up 57.1% year over year. Acquisitions were the major drivers to the increase in the top line.

Total operating expenses were up 28.2% to \$1.67 million from \$1.31 million. Expenses are higher as a percent of revenue for LAND at this point and ongoing start-up costs are likely to keep net cash flow low until LAND can add enough properties to offset the costs involved. Further, the ordinary business expenses related to making acquisitions are large as a percent of sales. Interest expense rose 71.9% to \$2.16 million, while depreciation and amortization rose 50.7% on LAND's recent acquisition activity. Net income was \$0.15 million versus \$0.23 million in the year earlier period. Adjusted FFO were up over the previous year at \$1.67 million versus \$1.32 million. FFO per share was \$0.141 versus \$0.132, on a 4.0% increase in shares outstanding.

LAND has moderated its leverage over the past year. At the current time the company's debt-to-equity stands at 1.8 to 1 on a book basis versus 1.9 to 1 in the year earlier period. The company's debt level stood at \$240.8 million at quarter-end in comparison to \$207.3 million at year end. On a market basis, debt as a percent of total capitalization stood at approximately 65% at quarter-end.

**Other 1st Quarter Activity**

**Investment Activity** – LAND made one investment in Q1, acquiring a farm in Florida for \$54 million. The farm is expected to grow organic produce, mainly vegetables. The property will be leased under a seven year lease, with annual escalators and three five year extension options. Management believes that this farm could see pressure from residential property developers down the line.

**Capital/Financing Activity** – During Q1 LAND undertook a common stock offering, selling just over 1.9 million shares raising nearly \$20 million including offering expenses. LAND also added \$32.4 million in long-term debt at a very attractive interest rate of 3.33%, with rates fixed for 3-7 years. Other than that, remaining capital came from draws on the company's credit line.

**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 previous quarter, the company raised it again, up 1.2% to \$0.043 a month or \$0.516 annually and the company again raised the dividend for the second quarter increasing it to a monthly payment of \$0.0435 or \$0.522 annually. The payout ratio on our expected FFO estimate for 2017 is just over 80%.

**Quarterly Income Statement**

	1st Q 17	1st Q 16	% Change
Rental Revenue	\$5,748,000	\$3,679,474	56.2%
Other Income	2,000	3,203	-37.6%
Interest Income from Mortgage Note Receivable	184,000	94,641	94.4%
<b>Total Operating Revenues</b>	<b>5,934,000</b>	<b>3,777,318</b>	<b>57.1%</b>
Property Operating Expenses	248,000	180,203	37.6%
Base Management Fee	394,000	387,154	1.8%
Administration Fee	227,000	211,860	7.1%
Incentive Fee	350,000	0	
Professional Fees	0	0	
Due Diligence Expense	9,000	95,224	-90.5%
General and Administrative Expenses	446,000	431,326	3.4%
<b>Total Operating Expenses</b>	<b>1,674,000</b>	<b>1,305,767</b>	<b>28.2%</b>
Credit to Incentive Fee	0	0	
<b>EBITDA</b>	<b>4,260,000</b>	<b>2,471,551</b>	<b>72.4%</b>
Interest Expense	2,157,000	1,254,849	71.9%
Depreciation and Amortization Expenses	1,472,000	976,710	50.7%
Preferred share dividends	458,000	0	
Discontinued Operations (loss)	0	0	
<b>Net Income</b>	<b>\$173,000</b>	<b>\$239,992</b>	<b>-27.9%</b>
Non-controlling	\$21,000	\$5,576	
<b>Net Income Available to Common Shareholders</b>	<b>\$152,000</b>	<b>\$234,416</b>	<b>-35.2%</b>
Net EPS (diluted)	\$0.01	\$0.02	-37.7%
Avg. Shares Outstanding (diluted)	10,395,736	9,992,941	4.0%
<b>Funds From Operations</b>			
	1st Q 17	1st Q 16	
Net Income Available to Common Shareholders	\$173,000	\$234,416	-26.2%
Depreciation and Amortization (incl. discontinued op	1,472,000	976,710	50.7%
Other	20,000	109,724	
<b>Total Funds From Operations</b>	<b>\$1,665,000</b>	<b>\$1,320,850</b>	<b>26.1%</b>
<b>FFO Per Share</b>	<b>\$0.141</b>	<b>\$0.132</b>	<b>6.3%</b>

Source: Company reports.

**Condensed Balance Sheet**

	March 31, 2017	December 31, 2016
<b>Real Estate (Net of Depreciation)</b>	<b>\$379,499,000</b>	<b>\$326,310,621</b>
<b>Mortgage Note Receivable</b>	<b>0</b>	<b>0</b>
Lease Intangibles (net)	1,872,000	1,999,773
Short term Investments	0	0
Cash and Cash Equivalents	2,473,000	2,438,021
Restricted Cash	0	0
Deferred Offering Costs	0	0
Deferred Financing Cost	225,000	239,135
Prepaid Expenses	0	0
Deposits on Real Estate	0	0
Other Assets	2,913,000	2,997,469
<b>Total Assets</b>	<b>\$386,982,000</b>	<b>\$333,985,019</b>
<b>Mortgage Note Payable</b>	<b>\$220,720,000</b>	<b>\$190,797,012</b>
<b>Borrowings under Line of Credit</b>	<b>\$20,050,000</b>	<b>\$16,550,000</b>
Deferred Rent Liability	0	0
Asset Retirement Obligation Liability	0	0
Accounts Payable and Accrued Expenses	2,596,000	2,801,194
Due to Related	980,000	750,796
Deferred Tax Liability	0	0
Rent Received / Security Deposits / Other	8,974,000	7,653,582
<b>Total Liabilities</b>	<b>253,320,000</b>	<b>218,552,584</b>
Preferred Stock	27,714,000	27,655,273
Common Stock	12,000	10,025
Additional Paid in Capital	109,012,000	90,081,837
Retained Earnings	(14,621,000)	(13,401,529)
Non-controlling	11,545,000	11,086,829
<b>Total Shareholders' Equity</b>	<b>\$133,662,000</b>	<b>\$115,432,435</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$386,982,000</b>	<b>\$333,985,019</b>

<b>Balance Sheet Ratio Analysis</b>	March 31, 2017	December 31, 2016
Investments (net) as % of Assets	98.1%	97.7%
Cash & Equiv. and Restricted Cash as % of Assets	0.6%	0.7%
Debt to Equity	180.1%	179.6%
Total Liabilities as % of Assets	65.5%	65.4%
Shareholders' Equity as % of Assets	34.5%	34.6%

Source: Company reports.

**First Take**

LAND seems to have done a good job in keeping expenses down during the most recent quarter, allowing it to exceed our bottom line estimate despite missing our revenue estimate. Acquisitions continue to be additive to the company's results, although we believe that it is approaching the peak of the amount of debt the company's balance sheet can sustain, although the small equity offering completed in Q1 does offer some room for growth. LAND continues to use operating partnership units, which provides an additional source of investment capital. Acquisitions have remained reasonably consistent, and at this point unless we hear something different on the conference call, we anticipate that the company should meet our expectations, which are very modest when compared to the \$54 million in acquisitions during Q1. The constraint again will be the balance sheet and ability to raise equity capital, although the company seems to still be able to layer on additional debt. The decline in the share price following the most recent equity offering may limit future growth, however. We will be questioning management on their expectations for capital raising activity in light of the high level of debt-to-capital and lower stock price. Having said that, LAND remains a long term story that will play out over the next couple of years. With the positive Q1 results we remain of the opinion that the company is attractively priced and retain our Long-term Buy rating. The second quarter dividend increase is a little puzzling to us in light of the need for additional capital and the low share price, but management seems to be playing to its retail shareholders. We will have a report with any changes to our estimates or ratings following the 8:30 AM conference call.

**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.

*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, 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.

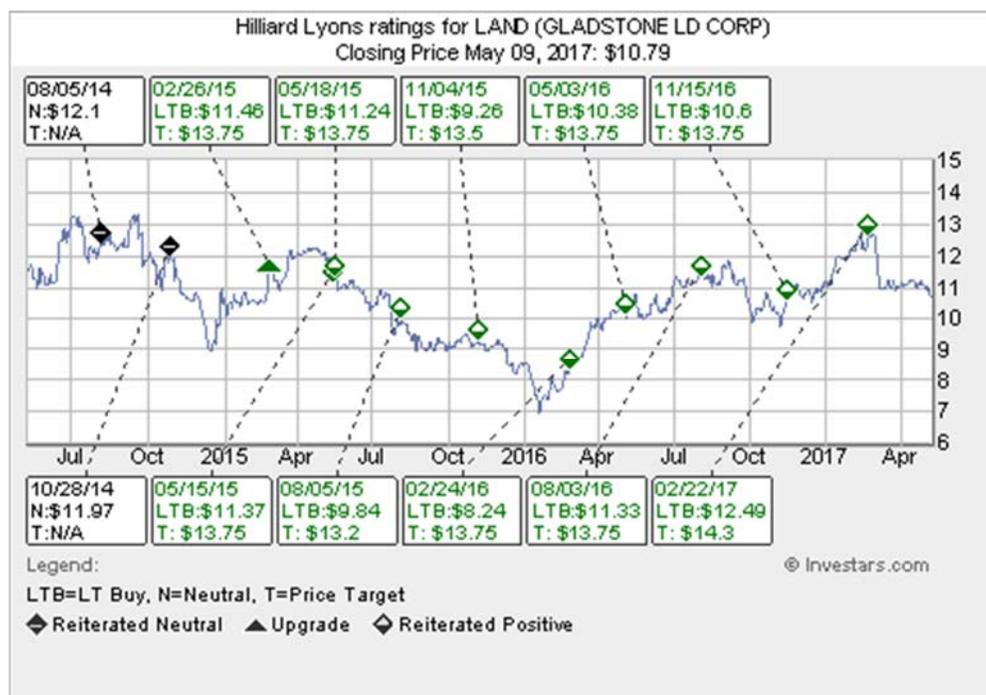
### **Suitability Ratings**

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.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	32	26%	13%	88%
Hold/Neutral	79	64%	8%	92%
Sell	12	10%	0%	100%

As of 8 May 2017

### Other Disclosures

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