HILLIARD LYONS

Real Estate Investment Trusts
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COMPANY UPDATE/ESTIMATE, RATING CHANGE

Gladstone Land Corp.

LAND -- NASDAQ – Neutral-4

Conference Call Discussion. Lowering rating to Neutral

Investment Highlights

- After talking to management and studying the Q3 reported numbers, we are adjusting both our 2017 FFO and 2018 estimates to fine-tune our expectations for investment activity and interest expense. Following a very strong Q3 for investment, we are assuming a lower level of farm purchases closing during the Q4. We are anticipating a slightly lower level of investment during 2018 and an ongoing bump in the cost of debt. As such, our 2017 FFO estimate is now $0.58 a share and our 2018 FFO estimate is $0.62 a share.
- During the third quarter conference call, management discussed less about acquisition activity, and more about the recent natural disasters and impact on current business as well as more on the issues around the lease signed during Q3 at a lower rent level. We are more comfortable that this was a unique issue that will not be repeated in the future. Management noted that there was no impact on the company's farms from either the fires in California or the recent hurricanes in the south.
- We are reducing our rating on LAND to Neutral. LAND shares have moved up to a point where they trade close to NAV and no longer provide adequate upside potential to justify a positive rating. While the shares still allow investors to gain exposure to a unique and attractive asset class and offer solid and growing income, the upside that we see from current price levels are not enough to justify current purchases and a positive rating. Having said that, we continue to expect LAND to offer a growing income stream and solid asset value, so investors may wish to hold stakes for that income.

Key Metrics

LAND - NASDAQ - 11/7/17		$13.92
Price Target		N/A
52-Week Range	$9.70 -	$14.29
Shares Outstanding (mm)		13.7
Market Cap. ($mm)		$190.7
1-Mo. Average Daily Volume		59,340
Institutional Ownership		39.0%
Debt/Total Capital	Sep-17	64.7%
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		3.79%
Est. Fixed Charge Coverage		1.7X

FFO Core Per share Normalized

	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$0.13	--	$0.14	A	$0.15	$0.14
2Q	$0.14	--	$0.14	A	$0.17	$0.16
3Q	$0.15	--	$0.14	A	$0.18	$0.16
4Q	$0.14	$0.17	$0.15		$0.18	$0.16
Year	$0.56	$0.61	$0.58		$0.69	$0.62
P/FFO	0.0x		24.0x			22.5x

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	$7.4		$7.4
2Q	$4.2	--	$6.0	A	$7.8		$7.8
3Q	$4.5	--	$6.6	A	$8.2		$8.1
4Q	$4.9	$6.9	$6.9		$8.7		$8.5
Year	$17.3	$25.3	$25.4		$32.1	*	$31.8

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.*

Note Important Disclosures on Pages 4-5.
Note Analyst Certification on Page 4.

Additional Conference Call Discussion

On the conference call management updated its appraisal on the company, which places a net asset value of $14.15 per share on its farmland and cash assets, down $0.31 a share from the previous quarter, mainly a function of dilution from the additional shares issued in the underwritten offering undertaken during the quarter. Management noted that the company had 12 appraisals done on farms during the quarter, all done by outside appraisers and that there was a $0.5 million increase on the value of those farms, or about 1%. As such, we note that the decline in net asset value had nothing to do with the value of the farms, but rather of that value being divided by a larger number of shares as a result of the offering, which was done at a discount to the market price, and the impact of the underwriting costs also had a negative impact.

We questioned management about the drop in rent on the two leases signed during Q3. There was a somewhat unique situation here, in that these farms were owned by a partnership with the two owners passing away very recently, and the heirs not wanting to continue to farm the properties. As such, one of the leases was signed for a lower use (from strawberries to vegetables), while LAND took over the other and is going to farm the property itself through its taxable REIT subsidiary. We anticipate that the decline in rent here is temporary, and after the three year lease is up on the property signed by an outside farmer, the lease rent will rise back to market. We would expect that the farm being used by LAND will be marketed and will likely be signed to a long-term lease by an outside farmer following the current growing season.

The company has two properties under signed purchase agreements that should amount to about $9 million, and has several others that could be purchased longer term. Management anticipates that some of these will be closed using operating partnership units.

On the debt front, the company has about $35 million in available buying power, although there remains additional sources of capital for the company—mainly partnership units. We would not be surprised to see the company use the preferred or common market again for more permanent capital. Management noted that 90% of its current debt is fixed rate, meaning little upside risk on current debt, although they did note that they anticipate that debt costs will rise going forward. Management noted that it has $24 million in debt coming due in the next 12 months, with $16 million of that anticipated to be refinanced with existing lenders.

Fourth Quarter and 2017 Outlook

At this point, we are looking for full year FFO of $0.58 a share for 2017 down from our previous number of $0.61. This is a function of now only assuming $10 million in additional acquisitions for the remainder of the year, and the impact of the stock issued during Q3. This also assumes no new common equity being issued until early next year. Our Q4 estimate is now $0.15 per share for core FFO. As the company adds new common equity it will tend to initially be somewhat dilutive, although management is doing a good job of limiting such dilution until waiting closer to an acquisition before issuing stock. Looking forward to 2018, we have retained our expectations for acquisitions for the full year at $80 million, although we have also slightly increased our cost of debt based on management discussion on the conference call. We are also assuming some incremental common equity issuance through an at the market trading program, which will tend to be a little less dilutive. As such, our estimate is now $0.62 a share. We note, however, that for our thesis, which depends on asset value, earnings and FFO is less of a concern, other than being high enough to allow for the dividend to be covered. Management stressed that it anticipated that cash flow would cover the dividend, and in fact that the dividend would likely be raised on a quarterly basis. However, we believe in light of the modest expectation for FFO increase going forward that the dividend increase seen in Q4 (a tenth of a cent per monthly payment) is likely to be more like what we will see going forward.

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 the company's 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. As noted earlier, the recent equity offering pushed down LAND's asset value. While the company should recoup some of this as they buy new farms (assuming that they are purchasing them at attractive prices), this dilution is still a fact at this point. Management noted on the conference call that the current appraisal for the company's farmland placed a value of $14.15 a share, approximately 2% 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. With this discount having dropped sharply, the shares no longer look like the value we have seen in the past. And with the increased dividend offers an attractive opportunity for investors, we just do not see the type of upside we have seen recently that would justify our past rating of Long-term Buy. At this point, using our past analysis to calculate our 2-3 year price target for LAND the number is now barely above $14. With the shares trading just under $14 and the dividend yield sitting a little below 4%, a Neutral rating seems more appropriate. As such, we are reducing our rating on LAND to Neutral.

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 an issue due to its stock price remaining below the IPO price and the company typically having to issue shares at a discount to get an underwriting completed. 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.

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

Hilliard Lyons has received investment banking compensation from Gladstone Land in the past 12-months.

Gladstone Capital (GLAD-$9.77), Gladstone Commercial Corp. (GOOD-$22.39), Gladstone Investment Corp. (GAIN-$10.81) and Gladstone Land share the same board and management.

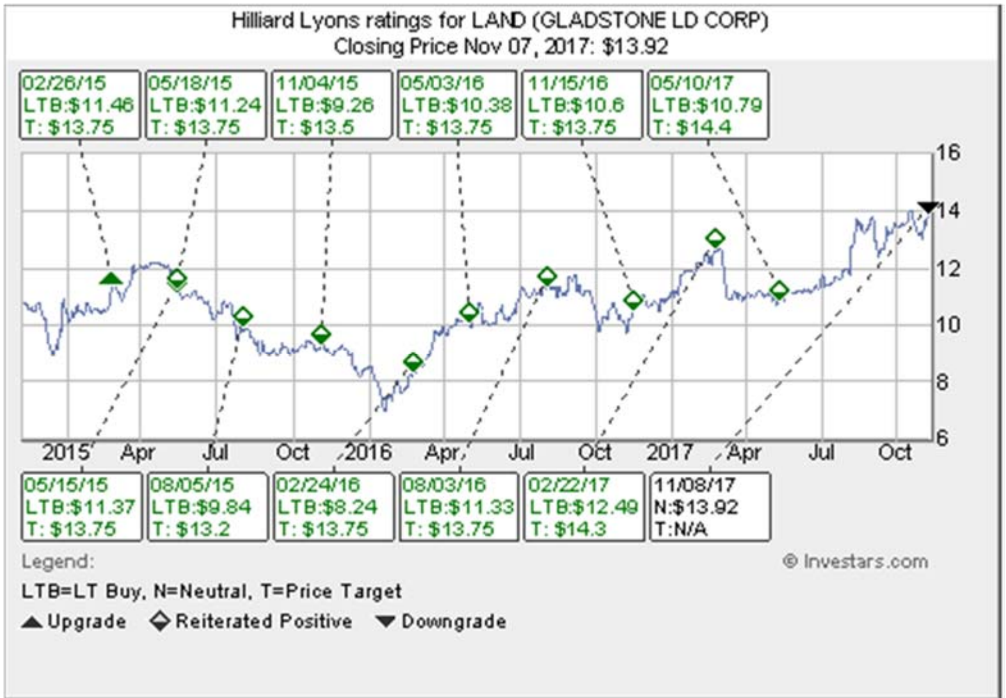
The author of this report or members of his family own a long portion in the common shares of Gladstone Investment Corp., Gladstone Commercial Corp. and Gladstone Land but cannot trade contrary to his opinion.

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.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017



Other Disclosures

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