



## COMPANY UPDATE / ESTIMATE CHANGES / PRICE TARGET CHANGE

### REITs

Analyst: Carol L. Kemple  
502.588.1839 / [CKemple@hilliard.com](mailto:CKemple@hilliard.com)  
Institutional Sales Desk: George Moorin  
502.588.9141 / [GMoorin@hilliard.com](mailto:GMoorin@hilliard.com)  
J.J.B. Hilliard, W.L. Lyons, LLC  
November 8, 2017

#### Key Metrics

SKT - NYSE (as of 11/7/2017)	\$22.29
Price Target	\$31.00
52-Week Range	\$21.81 - \$37.34
Shares & Units Outstanding (mm)	100
Market Cap. (\$mm)	\$2,229
3-Mo. Average Daily Volume (000)	1,648
Institutional Ownership	102%
Debt/Total Market Cap. (9/17)	42%
Est 3 - Year Dividend Growth Rate	5% - 10%
Annual Dividend	\$1.37
Dividend Yield	6.1%
Interest Coverage Ratio (9/17)	4.38x

#### FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.55		\$0.58 A	\$0.60	\$0.60
2Q	\$0.59		\$0.59 A	\$0.61	\$0.62
3Q	\$0.62		\$0.27 A	\$0.63	\$0.64
4Q	\$0.61	\$0.63	\$0.64	\$0.65	\$0.65
Year	\$2.36	\$2.05	\$2.08	\$2.50	\$2.51
P/FFO	9.4x		10.7x		8.9x

Quarterly amounts may not add up to annual amounts due to rounding.

#### Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$111		\$121 A	\$126	\$126
2Q	\$111	\$122	\$120 A	\$124	\$123
3Q	\$119		\$121 A	\$128	\$127
4Q	\$125	\$128	\$129	\$134	\$133
Year	\$466	\$489	\$490	\$512	\$508

**Company Description:** Tanger Factory Outlet Centers, Inc., headquartered in Greensboro, North Carolina, owns or has interest in 44 outlet centers comprising 15.3 million square feet of gross leasable area in 22 states and Canada.

## Tanger Factory Outlet Centers, Inc.

SKT -- NYSE – Buy-- 3

### Third Quarter Results

- **Tanger reported third quarter FFO of \$0.27 per share versus \$0.62 per share in 3Q16.** This was two cents above our estimate and a penny above the consensus. Adjusted FFO per share was \$0.63 versus \$0.62.
- **Occupancy remained strong.** Consolidated occupancy was 96.9% at the end of the third quarter.
- **Leasing spreads were up 2.6% in the trailing twelve months ended September 30, 2017.** Initial base rents on renewed spaces were up 4.4% and down 2.3% on re-tenanted spaces.
- **Tanger is considering several locations for new development projects.**
- **Management adjusted 2017 FFO per share guidance to a range of \$2.05 to \$2.09 from a range of \$2.04 to \$2.09.** (See page three for more details on guidance.) We are raising our 2017 FFO per share estimate to \$2.08.
- **We rate Tanger Buy.** We believe the current share price represents an attractive entry point for these quality shares. We have lowered our price target from \$32.50 to \$31.00 based on lower valuation assumptions and our updated financial estimates.

**Note Important Disclosures on Pages 7 and 8.  
Note Analyst Certification on Page 7.**

### **Additional Discussion**

Total revenue for the third quarter was \$120.8 million, up 1.4% from \$119.1 million in the year ago period. Base rents, which made up 66.5% of total revenue, increased 1.0%. Expense reimbursements were \$34.2 million versus \$33.1 million and represented 91.0% of total property operating expenses versus 88.5% last year. Same-store NOI (net operating income) remained positive in the quarter, increasing 0.7%. The occupancy rate for the consolidated portfolio at the end of the quarter was 96.7%. Leasing spreads were up 2.6% in the trailing twelve months ended September 30, 2017. Initial base rents on renewed spaces were up 4.4% and down 2.3% on re-tenanted spaces.

Total expenses grew 0.2% in the quarter to \$79.4 million. General and administrative expense declined 9.8%. Depreciation and amortization expense was up 6.1%. Operating income increased 3.8% in the quarter to \$41.4 million. Interest expense grew 6.3% to \$16.5 million.

Net income available to common shareholders in the quarter was a loss of \$15.5 million versus a gain of \$68.5 million in the year ago period. Earnings per share were a loss of \$0.17 in the quarter compared to a gain of \$0.72 in the year ago period. Funds from operations available to common shareholders were \$26.7 million, or \$0.27 per share, compared to \$62.1 million, or \$0.62 per share, in the year ago period.

### **Overview**

**Retail Environment** - We believe the retail outlook remains relatively positive for outlet centers. Outlet stores continue to be one of, if not the most, profitable divisions for most retailers. We believe consumers will shop at outlet centers in good and bad times. Since consumers can find the same brands at outlet centers that they would at their local mall, they may not feel they are trading down by shopping at this lower cost option, but just getting a bargain. Reported same center tenant sales were down 0.9% for the rolling twelve months ended September 30, due in part to store closures at eight centers related to Hurricanes Harvey and Irma. The company has several centers it is remerchandising, which may negatively impact occupancy and revenue in the near term, but should help the center in the long term.

**Financials** - As of September 30, Tanger had \$1.8 billion in wholly owned debt and \$175.7 million from its share of joint venture debt. As of September 30, the company had \$148.2 million outstanding on its unsecured lines of credit. Tanger has \$0.8 million of consolidated debt maturing in 2017 and \$3.2 million maturing in 2018. We believe Tanger's balance sheet is in excellent shape.

**Bonds** - In July, Tanger completed a \$300 million offering of 3.875% senior notes due 2027. Net proceeds were \$295.9 million. Net proceeds were used to redeem Tanger's 6.125% senior notes due 2020. A \$34.1 million make-whole premium was expensed in 3Q17 related to this redemption.

**Share Repurchase Plan** - In May, SKT's board authorized the repurchase of up to \$125 million of Tanger's common shares over the next 24 months. SKT repurchased 414,000 common shares during 3Q at a weighted average price of \$24.18 per share for total consideration of \$10.0 million.

**Grand Opening** - During the quarter, Tanger completed construction on a 123,000 square foot expansion at Tanger's Lancaster, Pennsylvania center. In October, Tanger celebrated the grand opening of Tanger Outlets Fort Worth. This center opened 93% leased.

**Developments** - Tanger continues to explore additional development options, but does not expect to open a new center in 2018. Management plans to allocate free cash flow in 2018 to increasing the dividend, paying down variable rate debt, and buying back Tanger stock.

**Guidance & Estimates** - Management adjusted its 2017 FFO per share guidance from a range of \$2.04 to \$2.09 to a range of \$2.05 to \$2.09. Guidance assumes a projected increase in same-center NOI of 0.5% to 1.0%, full year lease termination fees of \$3.1 million for the consolidated portfolio, average g&a per quarter of between \$11.0 million and \$11.5 million, and 2017 weighted average diluted common shares of 94.5 million and 99.6 million for earnings per share and FFO per share, respectively. Guidance does not include the impact of any additional financing activities or any potential acquisitions or dispositions. Our 2017 FFO per share estimate is \$2.08.

**Quarterly Income Statement**

(in thousands, except per share data)	3Q17	3Q16	% Change
<b>Revenues</b>			
Base Rentals	\$80,349	\$79,569	1.0%
Percentage Rentals	3,138	2,995	4.8%
Expense Reimbursements	34,180	33,125	3.2%
Management, Leasing and Other Services	588	806	-27.0%
Other Income	2,510	2,642	-5.0%
<b>Total Revenues</b>	<b>120,765</b>	<b>119,137</b>	<b>1.4%</b>
<b>Expenses</b>			
Property Operating	37,571	37,442	0.3%
General and Administrative	10,934	12,128	-9.8%
Acquisition Costs		487	
Abandoned Pre-Development Costs			
Executive Severance			
Depreciation and Amortization	30,976	29,205	6.1%
Abandoned Due Diligence Costs	(99)		
Impairment Charge			
<b>Total Expenses</b>	<b>79,382</b>	<b>79,262</b>	<b>0.2%</b>
<b>Operating Income</b>	<b>41,383</b>	<b>39,875</b>	<b>3.8%</b>
Interest Expense	16,489	15,516	6.3%
Casualty Gain			
Gain on Previously Held Interest in Acquired Joint Venture		46,258	
Loss on Early Extinguishment of Debt	35,626		
Gain on Sale of Real Estate		1,418	
Gain on Sale of Assets and Interests in Unconsolidated Entities			
Interest and Other Income	591	24	
Loss on Termination of Derivatives			
<b>Income Before Equity in Earnings (Loss) of Unconsolidated Joint Ventures</b>	<b>(10,141)</b>	<b>72,059</b>	
Equity in Earnings (Loss) of Unconsolidated Joint Ventures	(5,893)	715	
Discontinued Operations			
<b>Net Income</b>	<b>(16,034)</b>	<b>72,774</b>	
Non-controlling Interest in Operating Partnership	815	(3,668)	
Non-controlling Interest in Other Consolidated Partnerships		(2)	
<b>Net Income Attributable to Shareholders</b>	<b>(15,219)</b>	<b>69,104</b>	
Preferred Share Dividend			
Original Issuance Costs Related to Redeemed Preferred Shares			
Allocation of Earnings to Participating Securities	(306)	(627)	
<b>Net Income Available to Common Shareholders</b>	<b>(\$15,525)</b>	<b>\$68,477</b>	
<b>Earnings Per Diluted Share</b>	<b>(\$0.17)</b>	<b>\$0.72</b>	
<b>Average Shares Outstanding</b>	<b>93,923</b>	<b>95,672</b>	<b>-1.8%</b>

<b>Funds From Operations</b>	<b>3Q17</b>	<b>3Q16</b>	<b>% Change</b>
Net Income	(\$16,034)	\$72,774	
Depreciation and Amortization - Discontinued Operations			
Depreciation and Amortization - Consolidated Properties	30,396	28,850	5.4%
Depreciation and Amortization - Unconsolidated Joint Ventures	3,583	4,325	-17.2%
Gain on Sale of Assets and Interests in Unconsolidated Entities			
Gain on Previously Held Interest in Acquired Joint Venture		(46,258)	
Impairment Charge - Unconsolidated Joint Ventures	9,021	2,919	
Gain on Fair Value Measurement of Previously Held Interest in Acquired JV			
<b>Funds From Operations</b>	<b>\$26,966</b>	<b>\$62,610</b>	<b>-56.9%</b>
Preferred Share Dividends			
Original Issuance Costs Related to Redeemed Preferred Shares			
FFO Attributable to Noncontrolling Interests in Other Consolidated Partnerships		(3)	
Allocation to Participating Securities	(306)	(539)	
<b>Funds From Operations Available to Common Shareholders</b>	<b>\$26,660</b>	<b>\$62,068</b>	<b>-57.0%</b>
<b>FFO Per Share (diluted)</b>	<b>\$0.27</b>	<b>\$0.62</b>	<b>-56.5%</b>
<b>Average Shares and Units Outstanding</b>	<b>98,951</b>	<b>100,725</b>	<b>-1.8%</b>

Source: Company report

**Condensed Balance Sheet**

(in thousands)	12/31/2015	12/31/2016	9/30/2017
<b>Assets:</b>			
Rental Property			
Land	\$240,267	\$272,153	\$268,821
Buildings, Improvements and Fixtures	2,249,417	2,647,477	2,694,549
Construction in Progress	23,533	46,277	87,762
	2,513,217	2,965,907	3,051,132
Accumulated Depreciation	(748,341)	(814,583)	(875,121)
<b>Rental Property, Net</b>	<b>\$1,764,876</b>	<b>\$2,151,324</b>	<b>\$2,176,011</b>
Cash and Cash Equivalents	21,558	12,222	8,773
Restricted Cash	121,306		
Rental Property Held for Sale			
Investments in Unconsolidated Joint Ventures	201,083	128,104	125,819
Deferred Charges, Net	138,971	151,579	135,768
Other Assets	78,913	82,985	95,075
<b>Total Assets</b>	<b>\$2,326,707</b>	<b>\$2,526,214</b>	<b>\$2,541,446</b>
<b>Liabilities, Minority Interest and Shareholders' Equity:</b>			
Senior, Unsecured Notes	794,253	1,135,309	1,134,181
Senior, Unsecured Bridge Loan			
Unsecured Term Loan, Net of Discount	267,419	322,410	323,011
Mortgage Payable	311,834	172,145	170,776
Unsecured Lines of Credit	190,300	58,002	146,013
<b>Total Debt</b>	<b>1,563,806</b>	<b>1,687,866</b>	<b>1,773,981</b>
Construction Trade Payables			
Accounts Payable and Accrued Expenses	97,396	78,143	84,091
Deferred Financing Obligation	28,388		
Other Liabilities	31,085	54,764	74,339
<b>Total Liabilities</b>	<b>\$1,720,675</b>	<b>\$1,820,773</b>	<b>\$1,932,411</b>
Commitments			
Noncontrolling Redeemable Interest in Other Consolidated Partnerships			
<b>Shareholders' Equity</b>			
Preferred Shares			
Common Shares	959	961	945
Paid in Capital	806,379	820,251	781,020
Distributions in Excess of Earnings	(195,486)	(122,701)	(183,975)
Accumulated Other Comprehensive Loss	(36,715)	(28,295)	(19,713)
<b>Total Shareholders' Equity</b>	<b>\$575,137</b>	<b>\$670,216</b>	<b>\$578,277</b>
Non-controlling Interest	30,895	35,225	30,758
<b>Total Equity</b>	<b>\$606,032</b>	<b>\$705,441</b>	<b>\$609,035</b>
<b>Total Liabilities, Minority Interest and Equity</b>	<b>\$2,326,707</b>	<b>\$2,526,214</b>	<b>\$2,541,446</b>

<b>Balance Sheet Ratio Analysis</b>	12/31/2015	12/31/2016	9/30/2017
Net Rental Property / Total Debt	112.9%	127.5%	122.7%
Debt to Equity	271.9%	251.8%	306.8%
Debt to Total Market Capitalization	32.0%	32.0%	42.0%
Debt as % of Total Assets	67.2%	66.8%	69.8%
Shareholders' Equity as % of Total Assets	24.7%	26.5%	22.8%

Previous numbers have not been restated.

Source: Company reports and SNL.com

## Valuation

Based on our 2018 FFO per share estimate, Tanger is trading at a discount to its peer group and at a discount to its median historic 5 year forward price/FFO multiple. We believe Tanger is in a better position than many of its peers due to its strong balance sheet, strong occupancy and positive rent spreads, ability to consistently raise its dividend, and its outlet shopping option that is performing well in many different economic environments. We believe Tanger's shares should trade at a 12.5x multiple applied to our 2018 FFO per share estimate of \$2.51, resulting in a \$31.00 target price. We note that the multiple we use is down from our previous multiple of 13.0x due to our view that the negative retail narrative may continue to put pressure on valuations in the near term, despite our positive outlook on Tanger's fundamentals and balance sheet. We rate Tanger Buy.

Retail REITs	Symbol	Price		Yield	Payout Ratio	FFO Per Share			2-Year Estd. Avg. Growth	18/17E Growth Rate	Price/FFO	
		11/7/2017	Dividend			2016	2017E	2018E			2017E	2018E
Simon Property Group Inc.	SPG	\$159.05	\$7.40	4.7%	66.1%	\$10.49	\$11.20	\$12.22	8.2%	9.1%	14.2x	13.0x
Kimco Realty Corp.	KIM	\$18.82	\$1.12	6.0%	72.7%	\$1.31	\$1.54	\$1.58	10.3%	2.6%	12.2x	11.9x
Macerich Co.	MAC	\$58.76	\$2.96	5.0%	74.9%	\$5.08	\$3.95	\$4.10	-9.6%	3.8%	14.9x	14.3x
Taubman Centers Inc.	TCO	\$48.60	\$2.50	5.1%	67.8%	\$2.87	\$3.69	\$3.87	17.4%	4.9%	13.2x	12.6x
Federal Realty Investment Trust	FRT	\$128.61	\$4.00	3.1%	67.8%	\$5.01	\$5.90	\$6.21	12.0%	5.3%	21.8x	20.7x
<b>Group Average</b>		<b>\$82.77</b>	<b>\$3.60</b>	<b>4.8%</b>	<b>69.9%</b>	<b>\$4.95</b>	<b>\$5.26</b>	<b>\$5.60</b>	<b>7.7%</b>	<b>5.1%</b>	<b>15.3x</b>	<b>14.5x</b>
<b>S&amp;P 500</b>	<b>.SPX</b>	<b>\$2,590.64</b>	<b>\$50.08</b>	<b>1.9%</b>	<b>38.3%</b>	<b>\$117.75</b>	<b>\$130.88</b>	<b>\$141.11</b>	<b>9.9%</b>	<b>7.8%</b>	<b>19.8x</b>	<b>18.4x</b>
<b>Tanger Factory Outlet Centers</b>	<b>SKT</b>	<b>\$22.29</b>	<b>\$1.37</b>	<b>6.1%</b>	<b>65.9%</b>	<b>\$2.36</b>	<b>\$2.08</b>	<b>\$2.51</b>	<b>3.2%</b>	<b>20.7%</b>	<b>10.7x</b>	<b>8.9x</b>

SKT does not have any public competitors that solely own factory outlet centers.

SPG, TCO, and MAC own outlet centers in addition to malls.

Our peer group for SKT is made up of mall and shopping center REITs.

We rate Simon Buy; the rest are not rated.

SPX figures are EPS not FFO per share.

Source: NAREIT, HL Estimates, and Thomson Eikon.

## Dividend

To maintain REIT status, Tanger is required to distribute at least 90% of its taxable income to its shareholders each year. On April 6, 2017, the Board approved a 5.4% annual dividend increase on its common shares, raising the dividend from \$1.30 per share to \$1.37 per share. This was Tanger's 24th consecutive annual dividend increase.

## Suitability

We assign shares of Tanger Factory Outlet Centers a suitability rating of 3 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's lack of property diversification despite what we view as a strong balance sheet. We believe these shares are suited for investors seeking capital appreciation and an attractive dividend yield.

## Risks and Considerations

Tanger Factory Outlet Centers' FFO may be impacted by external factors beyond the company's control or by internal factors. These risks include, but are not limited to: general economic conditions, a slowing economy, bankruptcies of tenants, store closings, inability to refinance existing debt or obtain new debt, rising interest rates, higher fuel prices that could slow consumer travel, increased competition for development sites, and inclement weather.

*Additional information is available upon request.*

### **Analyst Certification**

I, Carol L. Kemple, 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.

### **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 total 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.

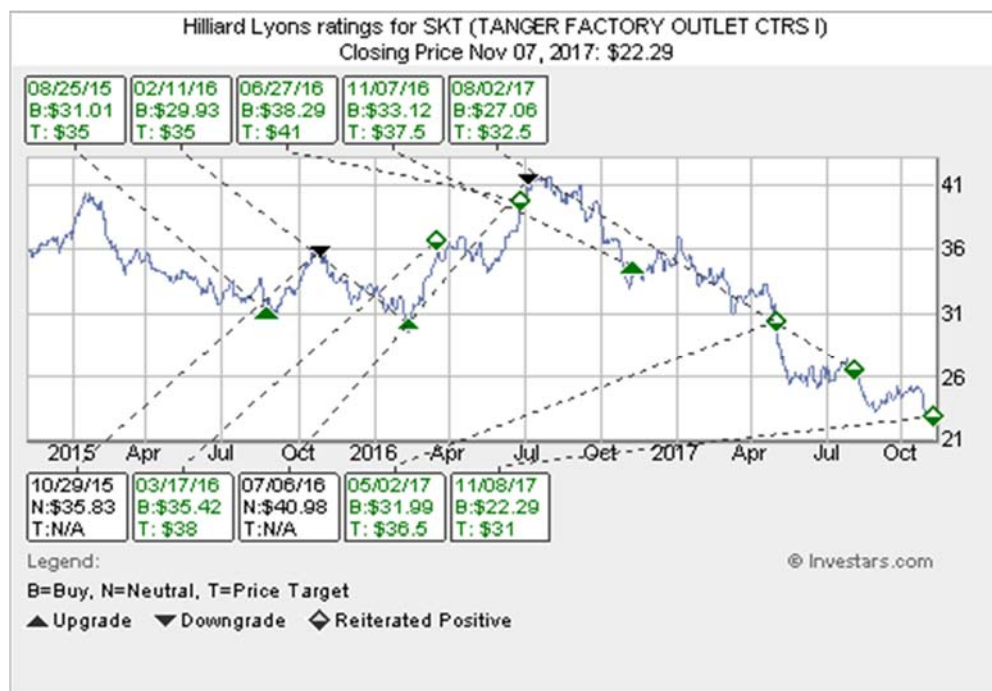
### **Suitability Ratings**

**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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# 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

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.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.