



COMPANY UPDATE / ESTIMATE CHANGES / PRICE TARGET CHANGE

Key Metrics

SPG - NYSE (as of 4/26/2017)	\$165.04
Price Target	\$196.00
52-Week Range	\$163.55 - \$229.10
Shares & Units Outstanding (mm)	360
Market Cap. (\$mm)	\$59,414
3-Mo. Average Daily Volume (000)	1,776.7
Institutional Ownership	98%
Debt/Total Market Capital (3/17)	33%
Annual Dividend	\$7.00
Dividend Yield	4.2%
Fixed Charge Coverage (3/17)	5.0x

FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$2.63		\$2.74 A	\$2.95	\$2.83
2Q	\$2.63	\$2.80	\$2.82	\$2.97	\$3.00
3Q	\$2.70	\$2.85	\$2.88	\$3.04	\$3.05
4Q	\$2.53	\$3.10	\$3.10	\$3.30	\$3.29
Year	\$10.49	\$11.54	\$11.53	\$12.25	\$12.17
P/FFO	15.7x		14.3x		13.6x

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

NOI (Net Operating Income) (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$942		\$976 A	\$1,064	\$1,024
2Q	\$947	\$998	\$994	\$1,071	\$1,063
3Q	\$971	\$1,039	\$1,034	\$1,112	\$1,103
4Q	\$1,033	\$1,089	\$1,084	\$1,163	\$1,153
Year	\$3,894	\$4,118	\$4,088	\$4,411	\$4,343

Company Description: Simon Property Group, Inc., headquartered in Indianapolis, Indiana, owns or has an interest in retail properties in North America, Europe, and Asia.

REITs

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Simon Property Group, Inc.

SPG - NYSE – Buy - 2

First Quarter Results

- **Simon reported first quarter FFO of \$2.74 per share versus \$2.63 per share in the year ago period.** Results were slightly below our estimate and the consensus, and were positively impacted by strong releasing spreads.
- **Occupancy was flat year-over-year at 95.6%.** We note Simon combines occupancy and rental rates for the regional malls and premium outlets, instead of reporting them separately. Releasing spreads for the trailing twelve months were up 13.0%.
- **Development Activity.** Simon has redevelopment and expansion plans underway at 25 properties in the U.S., Canada, and Europe. Simon's total cost of all development and redevelopment projects under construction at quarter end was \$1.7 billion.
- **Management maintained 2017 FFO per share guidance of \$11.45 to \$11.55.** Our revised FFO per share estimate is \$11.53, down from \$11.54 previously.
- **We are maintaining our Buy rating.** We are lowering our one year price target by a dollar to \$196.00.

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

Additional Discussion

Total revenue for the first quarter was \$1.3 billion, up 0.7% from the year ago period (please see page 3). Minimum (base) rent, which made up 62.9% of total revenue, was up 3.5%. Tenant reimbursements, the next largest revenue item, were \$378.9 million versus \$371.6 million and represented an estimated 136.6% versus 134.0% of total real estate expenses, including property operating expenses, real estate taxes, maintenance, advertising and a credit loss provision.

Combined occupancy (both regional malls and premium outlets) was flat from 1Q16 at 95.6%. Releasing spreads for the 12 months ended March 31, 2017 rose 13.0%. Comparable NOI (net operating income) increased 3.8% for the three months ended March 31, 2017.

Net income available to common shareholders was \$477.7 million compared to \$481.0 million in the year ago period. Funds from operations were \$2.74 per share, up from \$2.63 per share a year ago.

Overview

Retail & Leasing Environment - Total sales per square foot at Simon's malls and premium outlets were up 30 basis points on a rolling twelve month basis. Base minimum rent per square foot was up 4.4% y/y and releasing spreads were up 13.0%. We believe many retailers with expansion plans would rather open up shop in quality class A malls like many of Simon's, instead of class B and C malls.

A lot of media focus has been given lately to store closings. We believe the measured re-tenanting and redevelopment of underperforming anchor space could be a good opportunity for mall REITs to grow revenue in the long term and bring different uses to the malls. CEO David Simon mentioned on the earnings call that he is frustrated by the narrative in the news because that is not what is happening at SPG's business. Management mentioned that traffic is strong at its malls. Outlet business continues to be strong. Leasing activity remains solid.

Development & Renovation Activity - Simon has three new outlet centers and one full price retail center under development. In addition to these projects, Simon has renovation and expansion plans underway for 25 properties in the U.S., Canada, and Europe. We expect management will most likely concentrate its new development efforts on outlet centers in the near future.

Share Repurchase - During 1Q17, the company repurchased 870,692 common shares. The board has authorized a two year extension of its \$2.0 billion common stock repurchase program.

Financials - In our opinion, Simon's balance sheet is well positioned. The company has \$2.4 billion of debt maturities in 2017 and \$1.0 billion in 2018, including its share of joint venture debt. Debt (including JV debt) to total market capitalization was 32.5% at March 31, 2017. Simon has over \$7.0 billion of liquidity.

Credit Facility - In March SPG amended and extended its \$4.0 billion unsecured multi-currency revolving credit facility. This facility can be increased to \$5.0 billion and it initially matures on June 30, 2021, with an additional one year extension at the company's sole option. The interest rate on this amended facility was reduced from the previous rate.

Guidance and Estimates - Management maintained 2017 FFO per share guidance of \$11.45 to \$11.55. Our 2017 FFO per share estimate is \$11.53.

Quarterly Income Statement

(in thousands, except per share amounts)	1Q17	1Q16	% Change
Minimum (Base) Rent	\$846,798	\$818,536	3.5%
Overage Rent	28,204	28,916	-2.5%
Tenant Reimbursements	378,915	371,613	2.0%
Management Fees and Other Revenue	30,547	33,400	-8.5%
Other Income	61,299	84,250	-27.2%
Total Revenue	1,345,763	1,336,715	0.7%
Property Operating Expenses	104,048	103,060	1.0%
Real Estate Taxes	106,659	109,423	-2.5%
Repairs and Maintenance	25,601	26,065	-1.8%
Advertising and Promotion	35,948	35,038	2.6%
Provision (Reversal) for Credit Losses	5,210	3,664	42.2%
Home and Regional Office Costs	42,979	38,607	11.3%
General and Administrative Expenses	14,001	14,864	-5.8%
Impairment Charge			
Transaction Expenses			
Marketable and Non-Marketable Securities Charges and Realized Gains, net			
Other Expenses	23,814	20,479	16.3%
Depreciation and Amortization Expense	310,832	300,614	3.4%
Total Operating Expenses	669,092	651,814	2.7%
Operating Income	676,671	684,901	-1.2%
Interest Expense	(198,202)	(219,190)	
Loss on Extinguishment of Debt			
Income Tax Benefit (Expense) on Taxable REIT Subsidiaries	3,521	(15,186)	
Income from Unconsolidated Entities	69,085	90,626	-23.8%
Impairment Charge from Investments in Unconsolidated Entities			
Gain Upon Acquisition of Controlling Interest, and on Sale or Disposal of Assets, etc.		22,688	
Discontinued Operations			
Discontinued Operations Transaction Expenses			
Consolidated Net Income	551,075	563,839	-2.3%
Net Income Attributed to Noncontrolling Interest	72,505	82,010	-11.6%
Preferred Dividends	834	834	0.0%
Net Income	\$477,736	\$480,995	-0.7%
Earnings Per Share	\$1.53	\$1.55	-1.3%
Avg. Shares Outstanding	312,810	309,416	1.1%

Funds From Operations	1Q17	1Q16	% Change
Consolidated Net Income	\$551,075	\$563,839	-2.3%
Adjustments to Consolidated Net Income to Arrive at FFO:			
Depreciation and Amortization Expense	307,688	297,196	3.5%
Depreciation and Amortization of Unconsolidated Entities	131,218	118,242	11.0%
Impairment Charges of Depreciable Real Estate			
Gain Upon Acquisition of Controlling Interest, on Sale or Disposal of Assets, etc.		(22,688)	
Net Income Attributable to Noncontrolling Interest Holders in Properties	244	(729)	
Depreciation and Amortization Attributable to Noncontrolling Interest Holders	(3,900)	(2,714)	
Preferred Distributions and Dividends	(1,313)	(1,313)	
Funds From Operations	\$985,012	\$951,833	3.5%
FFO Per Share (diluted)	\$2.74	\$2.63	4.2%
Avg. Shares and Units Outstanding for FFO Calculations	360,130	361,395	-0.4%

Source: Company reports

Condensed Balance Sheet

(in thousands)	12/31/2015	12/31/2016	3/31/2017
Investment Properties, at cost	\$33,463,124	\$35,226,089	\$35,309,727
Less - Accumulated Depreciation	9,915,386	10,865,754	11,079,988
Net Investment in Real Estate	\$23,547,738	\$24,360,335	\$24,229,739
Cash and Cash Equivalents	701,134	560,059	513,400
Tenant Receivables and Accrued Revenue, net	624,605	664,619	621,600
Investment in Unconsolidated Entities, at Equity	2,481,574	2,367,583	2,374,693
Investment in Klepierre at Equity	1,943,363	1,797,394	1,821,994
Deferred Costs and Other Assets	1,352,259	1,353,588	1,384,667
Note Receivable from Related Parties			
Total Assets	\$30,650,673	\$31,103,578	\$30,946,093
Mortgage and Other Indebtedness	\$22,502,173	\$22,977,104	\$23,149,053
Accounts Payable and Accrued Expenses	1,323,801	1,214,022	1,081,185
Cash Distributions and Losses in Partnerships and Joint Ventures	1,368,544	1,359,738	1,360,077
Other Liabilities, Minority Interest and Accrued Dividends	214,249	455,040	459,926
Total Liabilities	\$25,408,767	\$26,005,904	\$26,050,241
Commitments and Contingencies			
Limited Partners' Interest in the Operating Partnership			
Limited Partners' Preferred Interest in the Operating Partnership	25,537	137,762	166,847
Series I Convertible Perpetual Preferred Stock			
Stockholders' Equity			
All Series of Preferred Stock			
Series J 8 3/8% Cumulative Redeemable Preferred Stock	43,733	43,405	43,323
Common Stock	31	32	32
Capital in Excess of Par Value	9,384,450	9,523,086	9,558,328
Accumulated Deficit	(4,266,930)	(4,459,387)	(4,559,037)
Other	(252,686)	(114,126)	(100,843)
Common Stock Held in Treasury at Cost	(437,134)	(682,562)	(834,536)
Total Stockholders' Equity	\$4,471,464	\$4,310,448	\$4,107,267
Noncontrolling Interest	744,905	649,464	621,738
Total Equity	\$5,216,369	\$4,959,912	\$4,729,005
Total Liabilities and Stockholders' Equity	\$30,650,673	\$31,103,578	\$30,946,093

Balance Sheet Ratio Analysis	12/31/2015	12/31/2016	3/31/2017
Net R/E Investments / Total Debt	104.6%	106.0%	104.7%
Debt to Equity	431.4%	463.3%	489.5%
Debt (including JV debt) to Total Market Capitalization	29.3%	31.6%	32.5%
Debt as % of Total Assets	73.4%	73.9%	74.8%
Shareholders' Equity as % of Total Assets	14.6%	13.9%	13.3%

Previous numbers have not been restated.

Source: Company reports

Valuation

Currently at 13.6x our 2018 FFO per share estimate of \$12.17, SPG's stock is trading at a premium to its peer group (see table below) and below its five year historic and ten year historic median forward P/FFO multiples. We believe Simon warrants a premium to its peers due to its proven track record, large market capitalization, strong balance sheet, high quality properties, and excellent management team. **We rate the shares Buy with a \$196.00 target price.** We derive our target price by applying a 16.1x multiple (equal to the company's median 10 year historic forward price/FFO multiple) to our 2018 FFO per share estimate of \$12.17. We believe using SPG's median 10-year multiple instead of SPG's 5-year multiple is more conservative, given that it includes the years of the "Great Recession".

Regional Mall REITs	Symbol	Price	Current	Yield	Payout Ratio	FFO Per Share			2-Year Exp.	18/17E	Price/FFO	
		4/26/2017	Dividend			2016	2017E	2018E	Avg. Growth	Growth	FY 2017E	FY 2018E
GGP Inc.	GGP	\$21.97	\$0.88	4.0%	57.5%	\$1.57	\$1.53	\$1.64	2.2%	7.2%	14.4x	13.4x
Macerich Company	MAC	\$62.11	\$2.84	4.6%	71.7%	\$5.08	\$3.96	\$4.15	-9.2%	4.8%	15.7x	15.0x
Taubman Centers, Inc.	TCO	\$64.30	\$2.50	3.9%	66.5%	\$2.87	\$3.76	\$4.09	21.3%	8.8%	17.1x	15.7x
CBL & Associates Properties	CBL	\$9.73	\$1.06	10.9%	46.1%	\$2.69	\$2.30	\$2.32	-6.9%	0.9%	4.2x	4.2x
Peer Average		\$39.53	\$1.82	5.8%	60.5%	\$3.05	\$2.89	\$3.05	1.9%	5.4%	12.8x	12.1x
S&P 500	SPX	2,387.45	\$48.08	2.0%	36.8%	\$117.75	\$130.61	\$140.06	9.5%	7.2%	18.3x	17.0x
Simon Property Group, Inc.	SPG	\$165.04	\$7.00	4.2%	60.7%	\$10.49	\$11.53	\$12.17	8.0%	5.3%	14.3x	13.6x

Note: GGP and CBL are rated Neutral and Buy, respectively, by Hilliard Lyons and the rest are not rated. SPX figures are EPS, not FFO per share.

Source: NAREIT, Baseline, SNL Financial, company reports, and Hilliard Lyons' estimates

Suitability

We assign shares of Simon Property Group a suitability rating of 2 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's large market cap and what we view as a strong balance sheet.

Risks and Considerations

Simon Property Group's FFO may be impacted by external factors beyond the company's control or by internal factors. These risks include, but are not limited to: interest rate risk, inability to secure financing or joint venture partners, a slowing economy, general economic risk, political risk, currency risk, international economic risk, bankruptcy of tenants, store closings, inclement weather and rising materials cost related to developments and redevelopments.

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	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 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.

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