



COMPANY UPDATE / ESTIMATE CHANGES

Key Metrics

SPG - NYSE (as of 7/31/2017)	\$158.50
Price Target	\$196.00
52-Week Range	\$150.15 - \$228.47
Shares & Units Outstanding (mm)	358
Market Cap. (\$mm)	\$56,743
3-Mo. Average Daily Volume (000)	1,982
Institutional Ownership	100%
Debt/Total Market Capital (6/17)	34%
Annual Dividend	\$7.20
Dividend Yield	4.5%
Fixed Charge Coverage (6/17)	5.1x

FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$2.63		\$2.74 A	\$2.84	\$2.84
2Q	\$2.63		\$2.47 A	\$3.01	\$2.97
3Q	\$2.70	\$2.89	\$2.90	\$3.08	\$3.09
4Q	\$2.53	\$3.11	\$3.12	\$3.30	\$3.33
Year	\$10.49	\$11.18	\$11.22	\$12.23	\$12.23
P/FFO	15.1x		14.1x		13.0x

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	\$1,024	\$1,023
2Q	\$947		\$980 A	\$1,063	\$1,032
3Q	\$971	\$1,034	\$1,028	\$1,103	\$1,099
4Q	\$1,033	\$1,084	\$1,077	\$1,153	\$1,150
Year	\$3,894	\$4,088	\$4,062	\$4,343	\$4,304

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

Simon Property Group, Inc.

SPG - NYSE – Buy - 2

Second Quarter Results

- **Simon reported second quarter FFO of \$2.47 per share versus \$2.63 per share in the year ago period.** Results were slightly above our estimate and the consensus, and were positively impacted by strong releasing spreads. We note that 2Q17 results contained a \$0.36 per diluted share charge related to the extinguishment of debt.
- **Occupancy was down 70 basis points year-over-year at 95.2%.** 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 12.9%.
- **Development Activity.** Simon has redevelopment and expansion plans underway at 25 properties in the U.S. and Canada. Simon's total cost of all development and redevelopment projects under construction at quarter end was \$1.3 billion.
- **Dividend Increase.** In the 2Q17 earnings release, SPG announced a quarterly dividend increase of \$0.05 per share to a new quarterly rate of \$1.80 per share.
- **Management provided 2017 FFO per share guidance of \$11.14 to \$11.22.** Our revised FFO per share estimate is \$11.22, up from \$11.18 previously.
- **We are maintaining our Buy rating.** Our one year price target remains \$196.00.

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

Additional Discussion

Total revenue for the second quarter was \$1.4 billion, up 3.5% from the year ago period (please see page 3). Minimum (base) rent, which made up 62.5% of total revenue, was up 3.6%. Tenant reimbursements, the next largest revenue item, were \$380.5 million versus \$367.1 million and represented an estimated 135.1% versus 134.4% 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 down 70 basis points from 2Q16 at 95.2%. Releasing spreads for the 12 months ended June 30, 2017 rose 12.9%. Comparable NOI (net operating income) increased 4.4% for the three months ended June 30, 2017.

Net income available to common shareholders was \$382.0 million compared to \$455.4 million in the year ago period. Funds from operations were \$2.47 per share, down 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 1.8% on a rolling twelve month basis. Base minimum rent per square foot was up 3.3% y/y and releasing spreads were up 12.9%. 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 lately has been given 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. Management mentioned on the call that they are seeing strong demand for space. SPG is seeing a lot of interest from fitness/wellness, food, cosmetic and mixed-use retailers wanting space. E-tailers continue to expand their bricks and mortar presence. The percentage of new leases signed with apparel retailers is lower than in the past.

Development & Renovation Activity - Simon opened four new outlet centers in the quarter. Simon has one new outlet center 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. and Canada. We expect management will most likely concentrate its new development efforts on outlet centers in the near future.

Share Repurchase - During 2Q17, the company repurchased 1,528,359 common shares.

Financials - In our opinion, Simon's balance sheet is well positioned. The company has \$1.6 billion of debt maturities in 2017 and \$0.9 billion in 2018, including its share of joint venture debt. Debt (including JV debt) to total market capitalization was 34.2% at June 30, 2017. At June 30, 2017 SPG had \$6.5 billion of liquidity.

Guidance and Estimates - Management provided 2017 FFO per share guidance of \$11.14 to \$11.22. Our 2017 FFO per share estimate is \$11.22.

Quarterly Income Statement

(in thousands, except per share amounts)	2Q17	2Q16	% Change
Minimum (Base) Rent	\$851,552	\$822,224	3.6%
Overage Rent	29,764	31,250	-4.8%
Tenant Reimbursements	380,527	367,062	3.7%
Management Fees and Other Revenue	31,367	34,478	-9.0%
Other Income	68,338	60,366	13.2%
Total Revenue	1,361,548	1,315,380	3.5%
Property Operating Expenses	107,371	104,756	2.5%
Real Estate Taxes	113,415	107,505	5.5%
Repairs and Maintenance	21,700	22,842	-5.0%
Advertising and Promotion	36,496	33,172	10.0%
Provision (Reversal) for Credit Losses	2,659	4,944	-46.2%
Home and Regional Office Costs	36,476	40,326	-9.5%
General and Administrative Expenses	13,074	15,125	-13.6%
Impairment Charge			
Transaction Expenses			
Marketable and Non-Marketable Securities Charges and Realized Gains, net			
Other Expenses	21,812	23,889	-8.7%
Depreciation and Amortization Expense	322,396	303,585	6.2%
Total Operating Expenses	675,399	656,144	2.9%
Operating Income	686,149	659,236	4.1%
Interest Expense	(207,174)	(213,995)	
Loss on Extinguishment of Debt	(128,618)		
Income Tax Benefit (Expense) on Taxable REIT Subsidiaries	(5,990)	(7,115)	
Income from Unconsolidated Entities	92,017	84,990	8.3%
Impairment Charge from Investments in Unconsolidated Entities			
Gain Upon Acquisition of Controlling Interest, and on Sale or Disposal of Assets, etc.	4,989	4,209	
Discontinued Operations			
Discontinued Operations Transaction Expenses			
Consolidated Net Income	441,373	527,325	-16.3%
Net Income Attributed to Noncontrolling Interest	58,549	71,102	-17.7%
Preferred Dividends	834	834	0.0%
Net Income	\$381,990	\$455,389	-16.1%
Earnings Per Share	\$1.23	\$1.45	-15.2%
Avg. Shares Outstanding	311,579	313,399	-0.6%

Funds From Operations	2Q17	2Q16	% Change
Consolidated Net Income	\$441,373	\$527,325	-16.3%
Adjustments to Consolidated Net Income to Arrive at FFO:			
Depreciation and Amortization Expense	318,585	300,179	6.1%
Depreciation and Amortization of Unconsolidated Entities	135,476	134,893	0.4%
Impairment Charges of Depreciable Real Estate			
Gain Upon Acquisition of Controlling Interest, on Sale or Disposal of Assets, etc.	(4,989)	(4,209)	
Net Income Attributable to Noncontrolling Interest Holders in Properties	(74)	(565)	
Depreciation and Amortization Attributable to Noncontrolling Interest Holders	(4,315)	(3,439)	
Preferred Distributions and Dividends	(1,313)	(1,313)	
Funds From Operations	\$884,743	\$952,871	-7.1%
FFO Per Share (diluted)	\$2.47	\$2.63	-6.1%
Avg. Shares and Units Outstanding for FFO Calculations	358,866	361,762	-0.8%

Source: Company reports

Condensed Balance Sheet

(in thousands)	12/31/2015	12/31/2016	6/30/2017
Investment Properties, at cost	\$33,463,124	\$35,226,089	\$35,695,397
Less - Accumulated Depreciation	9,915,386	10,865,754	11,378,345
Net Investment in Real Estate	\$23,547,738	\$24,360,335	\$24,317,052
Cash and Cash Equivalents	701,134	560,059	488,614
Tenant Receivables and Accrued Revenue, net	624,605	664,619	640,080
Investment in Unconsolidated Entities, at Equity	2,481,574	2,367,583	2,321,111
Investment in Klepierre at Equity	1,943,363	1,797,394	1,830,484
Deferred Costs and Other Assets	1,352,259	1,353,588	1,368,625
Note Receivable from Related Parties			
Total Assets	\$30,650,673	\$31,103,578	\$30,965,966
Mortgage and Other Indebtedness	\$22,502,173	\$22,977,104	\$23,422,685
Accounts Payable and Accrued Expenses	1,323,801	1,214,022	1,205,267
Cash Distributions and Losses in Partnerships and Joint Ventures	1,368,544	1,359,738	1,370,333
Other Liabilities, Minority Interest and Accrued Dividends	214,249	455,040	492,143
Total Liabilities	\$25,408,767	\$26,005,904	\$26,490,428
Commitments and Contingencies			
Limited Partners' Interest in the Operating Partnership			
Limited Partners' Preferred Interest in the Operating Partnership	25,537	137,762	184,379
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	43,241
Common Stock	31	32	32
Capital in Excess of Par Value	9,384,450	9,523,086	9,587,026
Accumulated Deficit	(4,266,930)	(4,459,387)	(4,731,402)
Other	(252,686)	(114,126)	(103,872)
Common Stock Held in Treasury at Cost	(437,134)	(682,562)	(1,068,310)
Total Stockholders' Equity	\$4,471,464	\$4,310,448	\$3,726,715
Noncontrolling Interest	744,905	649,464	564,444
Total Equity	\$5,216,369	\$4,959,912	\$4,291,159
Total Liabilities and Stockholders' Equity	\$30,650,673	\$31,103,578	\$30,965,966

Balance Sheet Ratio Analysis	12/31/2015	12/31/2016	6/30/2017
Net R/E Investments / Total Debt	104.6%	106.0%	103.8%
Debt to Equity	431.4%	463.3%	545.8%
Debt (including JV debt) to Total Market Capitalization	29.3%	31.6%	34.2%
Debt as % of Total Assets	73.4%	73.9%	75.6%
Shareholders' Equity as % of Total Assets	14.6%	13.9%	12.0%

Previous numbers have not been restated.

Source: Company reports

Valuation

Currently at 13.0x our 2018 FFO per share estimate of \$12.23, 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 16.0x multiple (a discount to the company's median 10 and 5 year historic forward price/FFO multiple to account for the current challenging retail environment) to our 2018 FFO per share estimate of \$12.23. We believe our multiple is conservative.

Regional Mall REITs	Symbol	Price	Current	Yield	Payout Ratio	FFO Per Share			2-Year Exp.	18/17E	Price/FFO	
		7/31/2017	Dividend			2016	2017E	2018E	Avg. Growth	Growth	FY 2017E	FY 2018E
GGP Inc.	GGP	\$22.61	\$0.88	3.9%	57.5%	\$1.57	\$1.53	\$1.65	2.5%	7.8%	14.8x	13.7x
Macerich Company	MAC	\$57.39	\$2.84	4.9%	71.9%	\$5.08	\$3.95	\$4.13	-9.4%	4.6%	14.5x	13.9x
Taubman Centers, Inc.	TCO	\$56.87	\$2.50	4.4%	67.4%	\$2.87	\$3.71	\$4.00	19.7%	7.8%	15.3x	14.2x
CBL & Associates Properties	CBL	\$8.79	\$1.06	12.1%	48.2%	\$2.69	\$2.20	\$2.24	-8.4%	1.8%	4.0x	3.9x
Peer Average		\$36.42	\$1.82	6.3%	61.2%	\$3.05	\$2.85	\$3.01	1.1%	5.5%	12.2x	11.4x
S&P 500	.SPX	2,470.30	\$49.17	2.0%	37.6%	\$117.75	\$130.74	\$139.52	9.2%	6.7%	18.9x	17.7x
Simon Property Group, Inc.	SPG	\$158.50	\$7.00	4.4%	62.4%	\$10.49	\$11.22	\$12.23	8.3%	8.3%	14.1x	13.0x

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, HL Estimates, and Thomson Eikon

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	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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