



Simon Property Group Reports Record Second Quarter 2018 Results And Raises Quarterly Dividend And Full Year 2018 Guidance

July 30, 2018

INDIANAPOLIS, July 30, 2018 /PRNewswire/ -- Simon, a global leader in premier shopping, dining and entertainment destinations, today reported results for the quarter ended June 30, 2018.



Results for the Quarter

- Net income attributable to common stockholders was \$547.0 million, or \$1.77 per diluted share, as compared to \$382.0 million, or \$1.23 per diluted share, in the prior year period. Results for the second quarter 2017 included a charge of \$0.36 per diluted share related to the early redemption of certain senior notes of Simon Property Group, L.P.
- Funds from Operations ("FFO") was \$1.061 billion, or \$2.98 per diluted share, as compared to \$884.7 million, or \$2.47 per diluted share, in the prior year period, a 20.6% increase. FFO in the second quarter 2017 includes the aforementioned charge related to the redemption of certain of our senior notes.

Results for the Six Months

- Net income attributable to common stockholders was \$1.168 billion, or \$3.77 per diluted share, as compared to \$859.7 million, or \$2.75 per diluted share, in the prior year period. Results for the six months ended 2018 include net gains of \$144.9 million, or \$0.41 per diluted share, primarily related to disposition activity. Results for the six months ended 2017 include the \$0.36 per diluted share charge on the extinguishment of debt.
- FFO was \$2.087 billion, or \$5.85 per diluted share, as compared to \$1.870 billion, or \$5.20 per diluted share, in the prior year period, a 12.5% increase. FFO for the six months ended 2017 includes the aforementioned charge on the extinguishment of debt.

"This was an excellent quarter for our Company, with strong financial and operational performance and the successful opening of our fourth outlet center in Canada," said David Simon, Chairman and Chief Executive Officer. "Based upon our results to date and expectations for the remainder of 2018, today, we raised our quarterly dividend and are again increasing our full-year 2018 guidance."

U.S. Malls and Premium Outlets Operating Statistics

- Reported retailer sales per square foot for the trailing 12-months ended June 30, 2018 was \$646, an increase of 4.6%.
- Occupancy was 94.7% at June 30, 2018.
- Base minimum rent per square foot was \$53.84 at June 30, 2018, an increase of 3.3% compared to the prior year period.
- Leasing spread per square foot for the trailing 12-months ended June 30, 2018 was \$7.32, an increase of 10.7%.

Portfolio Net Operating Income ("NOI") and Comparable Property NOI

Total portfolio NOI growth for the six months ended June 30, 2018 was 4.5%. Total portfolio NOI includes comparable property NOI, NOI from new development, redevelopment, expansion and acquisitions, NOI from international properties and our share of NOI from investments. Comparable property NOI growth for the six months ended June 30, 2018 was 2.3%.

Dividends

Today, Simon's Board of Directors declared a quarterly common stock dividend of \$2.00 per share. This is an 11.1% increase year-over-year. The dividend will be payable on August 31, 2018 to shareholders of record on August 17, 2018.

Simon's Board of Directors also declared the quarterly dividend on its 8 3/8% Series J Cumulative Redeemable Preferred Stock (NYSE: SPGPrJ) of \$1.046875 per share, payable on September 28, 2018 to shareholders of record on September 14, 2018.

Development Activity

On May 2, 2018, Premium Outlet Collection Edmonton International Airport (Edmonton, Alberta, Canada) opened with 424,000 square feet of high-quality, name brand stores. Simon owns a 50% interest in this center.

Construction continues on four new development projects including:

- Denver Premium Outlets (Thornton, Colorado); scheduled to open in September 2018. Simon owns 100% of this project.
- Queretaro Premium Outlets (Queretaro, Mexico); scheduled to open in December 2018. Simon owns a 50% interest in this project.
- Malaga Designer Outlet (Malaga, Spain); scheduled to open in spring 2019. Simon owns a 46% interest in this project.

- Cannock Designer Outlet (Cannock, United Kingdom); scheduled to open in spring 2020. Simon owns a 20% interest in this project.

Construction also continues on significant redevelopment and expansion projects at other properties including Town Center at Boca Raton, Toronto Premium Outlets and Southdale Center (Edina (Minneapolis), MN).

At quarter-end, redevelopment and expansion projects, including the addition of new anchors, were underway at properties in the U.S., Canada, Europe and Asia.

During the second quarter, construction started on significant expansion projects at Vancouver Designer Outlet (Vancouver, British Columbia, Canada) and Ashford Designer Outlet (Kent, United Kingdom).

Financing Activity

During the first six months of 2018, the Company closed on eight mortgage loans totaling approximately \$2.4 billion, (U.S. dollar equivalent), of which Simon's share is approximately \$850 million. The weighted average interest rate and weighted average term on these loans is 3.98% and 8.9 years, respectively.

As of June 30, 2018, Simon had more than \$7.0 billion of liquidity consisting of cash on hand, including its share of joint venture cash, and available capacity under its revolving credit facilities.

Common Stock Repurchase Program

During the quarter ended June 30, 2018, the Company repurchased 514,659 shares of its common stock.

2018 Guidance

The Company currently estimates net income to be within a range of \$7.46 to \$7.54 per diluted share for the year ending December 31, 2018 and that FFO will be within a range of \$12.05 to \$12.13 per diluted share.

The following table provides the reconciliation for the expected range of estimated net income attributable to common stockholders per diluted share to estimated FFO per diluted share:

For the year ending December 31, 2018

	<u>Low End</u>	<u>High End</u>
Estimated net income attributable to common stockholders per diluted share	\$7.46	\$7.54
Depreciation and amortization including Simon's share of unconsolidated entities	5.00	5.00
Gain upon acquisition of controlling interests, sale or disposal of, or recovery on, assets and interests in unconsolidated entities and impairment, net	<u>(0.41)</u>	<u>(0.41)</u>
Estimated FFO per diluted share	<u>\$12.05</u>	<u>\$12.13</u>

Conference Call

Simon will hold a conference call to discuss the quarterly financial results today at 8:30 a.m. Eastern Time, Monday, July 30, 2018. A live webcast of the conference call will be accessible in listen-only mode at investors.simon.com. An audio replay of the conference call will be available until August 6, 2018. To access the audio replay, dial 1-855-859-2056 (international 404-537-3406) passcode 5187818.

Supplemental Materials and Website

Supplemental information on our second quarter 2018 performance is available at investors.simon.com. This information has also been furnished to the SEC in a current report on Form 8-K.

We routinely post important information online on our investor relations website, investors.simon.com. We use this website, press releases, SEC filings, quarterly conference calls, presentations and webcasts to disclose material, non-public information in accordance with Regulation FD. We encourage members of the investment community to monitor these distribution channels for material disclosures. Any information accessed through our website is not incorporated by reference into, and is not a part of, this document.

Non-GAAP Financial Measures

This press release includes FFO, FFO per share, portfolio net operating income growth and comparable property net operating income growth, which are financial performance measures not defined by generally accepted accounting principles in the United States ("GAAP"). Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures are included in this press release and in Simon's supplemental information for the quarter. FFO and comparable property net operating income growth are financial performance measures widely used in the REIT industry. Our definitions of these non-GAAP measures may not be the same as similar measures reported by other REITs.

Forward-Looking Statements

Certain statements made in this press release may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although the Company believes the expectations reflected in any forward-looking statements are based on reasonable assumptions, the Company can give no assurance that its expectations will be attained, and it is possible that the Company's actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks, uncertainties and other factors. Such factors include, but are not limited to: changes in economic and market conditions that may adversely affect the general retail environment; the potential loss of anchor stores or major tenants; the inability to collect rent due to the bankruptcy or insolvency of tenants or otherwise; decreases in market rental rates; the intensely competitive market environment in the retail industry; the inability to lease newly developed properties and renew leases and relet space at existing properties on favorable terms; risks related to international activities, including, without limitation, the impact of the United Kingdom's vote to leave the European Union; changes to applicable laws or regulations or the interpretation thereof; risks associated with the acquisition, development, redevelopment, expansion, leasing and management of properties; general risks related to real estate investments, including the illiquidity of real estate investments; the impact of our substantial indebtedness on our future operations; any disruption in the financial markets that may adversely affect our ability to access capital for growth and satisfy our ongoing debt service requirements; any change in our credit rating; changes in market rates of interest and foreign exchange rates for foreign currencies; changes in the value of our investments in foreign entities; our ability to hedge interest rate and currency risk; our continued ability to maintain our status as a REIT; changes in tax laws or regulations that result in adverse tax consequences; risks relating to our joint venture properties; environmental liabilities; changes in insurance costs, the availability of comprehensive insurance coverage; security breaches that could compromise our information technology or infrastructure; natural disasters; the potential for terrorist activities; and the loss of key management personnel. The Company discusses these and other risks and uncertainties under the heading "Risk Factors" in its annual and quarterly periodic reports filed with the SEC. The Company may update that discussion in its periodic reports, but except as required by law, the Company undertakes no duty or obligation to update or revise these forward-looking statements, whether as a result of new information, future developments, or otherwise.

About Simon

Simon is a global leader in the ownership of premier shopping, dining, entertainment and mixed-use destinations and an S&P 100 company (Simon Property Group, NYSE: SPG). Our properties across North America, Europe and Asia provide community gathering places for millions of people every day and generate billions in annual sales. For more information, visit simon.com.

Simon Property Group, Inc.
Unaudited Consolidated Statements of Operations
(Dollars in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUE:				
Minimum rent	\$ 857,106	\$ 851,552	\$1,717,277	\$1,698,350
Overage rent	31,942	29,764	64,932	57,967
Tenant reimbursements	372,949	380,527	753,312	759,442
Management fees and other revenues	28,541	31,367	56,722	61,914
Other income	97,820	68,338	195,929	129,638
Total revenue	1,388,358	1,361,548	2,788,172	2,707,311
EXPENSES:				
Property operating	102,951	107,371	216,400	211,419
Depreciation and amortization	320,198	322,396	637,134	633,228
Real estate taxes	111,449	113,415	225,635	220,073
Repairs and maintenance	22,191	21,700	49,875	47,301
Advertising and promotion	36,491	36,496	71,291	72,444
Provision for credit losses	3,299	2,659	8,931	7,870
Home and regional office costs	32,316	36,476	73,380	79,455
General and administrative	10,913	13,074	23,542	27,075
Other	10,875	21,812	42,377	45,627
Total operating expenses	650,683	675,399	1,348,565	1,344,492
OPERATING INCOME	737,675	686,149	1,439,607	1,362,819
Interest expense	(206,624)	(207,174)	(412,115)	(405,373)
Loss on extinguishment of debt	-	(128,618)	-	(128,618)
Income and other taxes	(10,137)	(5,990)	(16,357)	(2,470)
Income from unconsolidated entities	100,828	92,017	190,854	161,101
Gain upon acquisition of controlling interests, sale or disposal of, or recovery on, assets and interests in unconsolidated entities and impairment, net	9,672	4,989	144,949	4,989
CONSOLIDATED NET INCOME	631,414	441,373	1,346,938	992,448
Net income attributable to noncontrolling interests	83,576	58,549	177,611	131,053
Preferred dividends	834	834	1,669	1,669
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 547,004	\$ 381,990	\$ 1,167,658	\$ 859,726
BASIC AND DILUTED EARNINGS PER COMMON SHARE:				
Net income attributable to common stockholders	\$ 1.77	\$ 1.23	\$ 3.77	\$ 2.75

Simon Property Group, Inc.
Unaudited Consolidated Balance Sheets
(Dollars in thousands, except share amounts)

	June 30, 2018	December 31, 2017
ASSETS:		
Investment properties, at cost	\$ 36,429,603	\$ 36,393,464
Less - accumulated depreciation	12,354,966	11,935,949
	24,074,637	24,457,515
Cash and cash equivalents	714,247	1,482,309
Tenant receivables and accrued revenue, net	681,551	742,672
Investment in unconsolidated entities, at equity	2,302,833	2,266,483
Investment in Klépierre, at equity	1,772,155	1,934,676
Deferred costs and other assets	1,297,717	1,373,983
Total assets	\$ 30,843,140	\$ 32,257,638
LIABILITIES:		
Mortgages and unsecured indebtedness	\$ 23,505,002	\$ 24,632,463
Accounts payable, accrued expenses, intangibles, and deferred revenues	1,230,775	1,269,190
Cash distributions and losses in unconsolidated entities, at equity	1,531,136	1,406,378
Other liabilities	499,598	520,363
Total liabilities	26,766,511	27,828,394

Commitments and contingencies		
Limited partners' preferred interest in the Operating Partnership and noncontrolling redeemable interests in properties	198,001	190,480
EQUITY:		
Stockholders' Equity		
Capital stock (850,000,000 total shares authorized, \$ 0.0001 par value, 238,000,000 shares of excess common stock, 100,000,000 authorized shares of preferred stock):		
Series J 8 3/8% cumulative redeemable preferred stock, 1,000,000 shares authorized, 796,948 issued and outstanding with a liquidation value of \$39,847	42,912	43,077
Common stock, \$ 0.0001 par value, 511,990,000 shares authorized, 320,324,839 and 320,322,774 issued and outstanding, respectively	32	32
Class B common stock, \$ 0.0001 par value, 10,000 shares authorized, 8,000 issued and outstanding	-	-
Capital in excess of par value	9,657,810	9,614,748
Accumulated deficit	(4,833,826)	(4,782,173)
Accumulated other comprehensive loss	(115,285)	(110,453)
Common stock held in treasury, at cost, 11,115,156 and 9,163,920 shares, respectively	(1,380,619)	(1,079,063)
Total stockholders' equity	3,371,024	3,686,168
Noncontrolling interests	507,604	552,596
Total equity	3,878,628	4,238,764
Total liabilities and equity	\$ 30,843,140	\$ 32,257,638

Simon Property Group, Inc.
Unaudited Joint Venture Combined Statements of Operations
(Dollars in thousands)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
REVENUE:				
Minimum rent	\$ 483,976	\$ 465,705	\$ 959,931	\$ 916,760
Overage rent	51,067	46,447	110,728	97,816
Tenant reimbursements	220,426	212,465	443,916	428,246
Other income	78,378	71,753	159,487	136,079
Total revenue	<u>833,847</u>	<u>796,370</u>	<u>1,674,062</u>	<u>1,578,901</u>
OPERATING EXPENSES:				
Property operating	139,553	132,028	285,845	265,013
Depreciation and amortization	166,299	159,748	326,134	313,202
Real estate taxes	68,576	63,977	136,843	130,560
Repairs and maintenance	20,736	20,471	43,933	40,701
Advertising and promotion	20,884	21,836	45,108	44,034
Provision for credit losses	5,577	2,789	12,078	6,566
Other	49,885	45,030	99,617	88,384
Total operating expenses	<u>471,510</u>	<u>445,879</u>	<u>949,558</u>	<u>888,460</u>
OPERATING INCOME	362,337	350,491	724,504	690,441
Interest expense	(190,751)	(146,440)	(341,684)	(288,647)
Gain on sale or disposal of, or recovery on, assets and interests in unconsolidated entities, net	25,792	-	25,792	-
NET INCOME	<u>\$ 197,378</u>	<u>\$ 204,051</u>	<u>\$ 408,612</u>	<u>\$ 401,794</u>
Third-Party Investors' Share of Net Income	<u>\$ 96,240</u>	<u>\$ 104,265</u>	<u>\$ 202,424</u>	<u>\$ 203,950</u>
Our Share of Net Income	101,138	99,786	206,188	197,844
Amortization of Excess Investment (A)	(21,395)	(22,979)	(42,921)	(45,436)
Our Share of Gain on Sale or Disposal of, or Recovery on, Assets and Interests in Unconsolidated Entities, net	(9,672)	-	(9,672)	-
Income from Unconsolidated Entities (B)	<u>\$ 70,071</u>	<u>\$ 76,807</u>	<u>\$ 153,595</u>	<u>\$ 152,408</u>

Note: The above financial presentation does not include any information related to our investments in Klépierre S.A. ("Klépierre") and HBS Global Properties ("HBS"). For additional information, see footnote B.

(Dollars in thousands)

	June 30, 2018	December 31, 2017
Assets:		
Investment properties, at cost	\$ 18,580,295	\$ 18,328,747
Less - accumulated depreciation	<u>6,618,858</u>	<u>6,371,363</u>
	11,961,437	11,957,384
Cash and cash equivalents	970,605	956,084
Tenant receivables and accrued revenue, net	386,980	403,125
Deferred costs and other assets	<u>389,710</u>	<u>355,585</u>
Total assets	<u>\$ 13,708,732</u>	<u>\$ 13,672,178</u>
Liabilities and Partners' Deficit:		
Mortgages	\$ 15,252,252	\$ 14,784,310
Accounts payable, accrued expenses, intangibles, and deferred revenue	859,475	1,033,674
Other liabilities	<u>386,151</u>	<u>365,857</u>
Total liabilities	16,497,878	16,183,841
Preferred units	67,450	67,450
Partners' deficit	<u>(2,856,596)</u>	<u>(2,579,113)</u>
Total liabilities and partners' deficit	<u>\$ 13,708,732</u>	<u>\$ 13,672,178</u>
Our Share of:		
Partners' deficit	\$ (1,240,838)	\$ (1,144,620)
Add: Excess Investment (A)	<u>1,693,800</u>	<u>1,733,063</u>
Our net Investment in unconsolidated entities, at equity	<u>\$ 452,962</u>	<u>\$ 588,443</u>

Note: The above financial presentation does not include any information related to our investments in Klépierre and HBS Global Properties. For additional information, see footnote B.

Simon Property Group, Inc.
Unaudited Reconciliation of Non-GAAP Financial Measures (C)
(Amounts in thousands, except per share amounts)

Reconciliation of Consolidated Net Income to FFO

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Consolidated Net Income (D)	\$ 631,414	\$ 441,373	\$ 1,346,938	\$ 992,448
Adjustments to Arrive at FFO:				
Depreciation and amortization from consolidated properties	317,364	318,585	631,370	626,273
Our share of depreciation and amortization from unconsolidated entities, including Klépierre and HBS	137,279	135,476	272,204	266,694
Gain upon acquisition of controlling interests, sale or disposal of, or recovery on, assets and interests in unconsolidated entities and impairment, net	(9,672)	(4,989)	(144,949)	(4,989)
Unrealized change in fair value of equity instruments	(9,692)	-	(6,664)	-
Net (income) loss attributable to noncontrolling interest holders in properties	(279)	(74)	(186)	170
Noncontrolling interests portion of depreciation and amortization	(4,537)	(4,315)	(9,185)	(8,215)
Preferred distributions and dividends	(1,313)	(1,313)	(2,626)	(2,626)
FFO of the Operating Partnership (E)	<u>\$ 1,060,564</u>	<u>\$ 884,743</u>	<u>\$ 2,086,902</u>	<u>\$ 1,869,755</u>
Diluted net income per share to diluted FFO per share reconciliation:				
Diluted net income per share	\$ 1.77	\$ 1.23	\$ 3.77	\$ 2.75
Depreciation and amortization from consolidated properties and our share of depreciation and amortization from unconsolidated entities, including Klépierre and HBS, net of noncontrolling interests portion of depreciation and amortization	1.27	1.25	2.51	2.46
Gain upon acquisition of controlling interests, sale or disposal of, or recovery on, assets and interests in unconsolidated entities and impairment, net	(0.03)	(0.01)	(0.41)	(0.01)
Unrealized change in fair value of equity instruments	(0.03)	-	(0.02)	-
Diluted FFO per share (F)	<u>\$ 2.98</u>	<u>\$ 2.47</u>	<u>\$ 5.85</u>	<u>\$ 5.20</u>

Details for per share calculations:

FFO of the Operating Partnership (E)	\$ 1,060,564	\$ 884,743	\$ 2,086,902	\$ 1,869,755
Diluted FFO allocable to unitholders	(139,426)	(116,599)	(273,985)	(246,028)
Diluted FFO allocable to common stockholders (G)	\$ 921,138	\$ 768,144	\$ 1,812,917	\$ 1,623,727
Basic and Diluted weighted average shares outstanding	309,355	311,579	309,966	312,191
Weighted average limited partnership units outstanding	46,827	47,287	46,845	47,304
Basic and Diluted weighted average shares and units outstanding	356,182	358,866	356,811	359,495
Basic and Diluted FFO per Share (F)	\$ 2.98	\$ 2.47	\$ 5.85	\$ 5.20
Percent Change	20.6%		12.5%	

Simon Property Group, Inc.
Footnotes to Unaudited Financial Information

Notes:

- (A) Excess investment represents the unamortized difference of our investment over equity in the underlying net assets of the related partnerships and joint ventures shown therein. The Company generally amortizes excess investment over the life of the related properties.
- (B) The Unaudited Joint Venture Combined Statements of Operations do not include any operations or our share of net income or excess investment amortization related to our investments in Klépierre and HBS Global Properties. Amounts included in Footnotes D below exclude our share of related activity for our investments in Klépierre and HBS Global Properties. For further information on Klépierre, reference should be made to financial information in Klépierre's public filings and additional discussion and analysis in our Form 10-Q.
- (C) This report contains measures of financial or operating performance that are not specifically defined by GAAP, including FFO and FFO per share. FFO is a performance measure that is standard in the REIT business. We believe FFO provides investors with additional information concerning our operating performance and a basis to compare our performance with those of other REITs. We also use these measures internally to monitor the operating performance of our portfolio. Our computation of these non-GAAP measures may not be the same as similar measures reported by other REITs.

We determine FFO based upon the definition set forth by the National Association of Real Estate Investment Trusts ("NAREIT"). We determine FFO to be our share of consolidated net income computed in accordance with GAAP, excluding real estate related depreciation and amortization, excluding gains and losses from extraordinary items, excluding gains and losses from the sale, disposal or property insurance recoveries of, or any impairment related to, previously depreciated retail operating properties, plus the allocable portion of FFO of unconsolidated joint ventures based upon economic ownership interest, and all determined on a consistent basis in accordance with GAAP.

We have adopted NAREIT's clarification of the definition of FFO that requires it to include the effects of nonrecurring items not classified as extraordinary, cumulative effect of accounting changes, or a gain or loss resulting from the sale, disposal or property insurance recoveries of, or any impairment relating to, previously depreciated retail operating properties. We include in FFO gains and losses realized from the sale of land, outlot buildings, equity instruments, and investment holdings of non-retail real estate. However, you should understand that FFO does not represent cash flow from operations as defined by GAAP, should not be considered as an alternative to net income determined in accordance with GAAP as a measure of operating performance, and is not an alternative to cash flows as a measure of liquidity.

- (D) Includes our share of:
- Gains on land sales of \$1.4 million and \$5.0 million for the three months ended June 30, 2018 and 2017, respectively, and \$2.7 million and \$7.7 million for the six months ended June 30, 2018 and 2017, respectively.
 - Straight-line adjustments increased income by \$6.4 million and \$5.1 million for the three months ended June 30, 2018 and 2017, respectively, and \$15.0 million and \$15.3 million for the six months ended June 30, 2018 and 2017, respectively.
 - Amortization of fair market value of leases from acquisitions increased income by \$1.0 million and \$1.5 million for the three months ended June 30, 2018 and 2017, respectively, and \$2.4 million and \$3.2 million for the six months ended June 30, 2018 and 2017, respectively.
- (E) Includes a loss on the extinguishment of debt of \$128.6 million for the three and six months ended June 30, 2017.
- (F) Includes Basic and Diluted FFO per share related to a loss on the extinguishment of debt of \$0.36 for the three and six months ended June 30, 2017.
- (G) Includes Diluted FFO allocable to common stockholders related to a loss on the extinguishment of debt of \$111.7 million for the three and six months ended June 30, 2017.

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SOURCE Simon

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