



Simon Property Group Reports Record Third Quarter 2018 Results And Raises Full Year 2018 Guidance

October 25, 2018

INDIANAPOLIS, Oct. 25, 2018 /PRNewswire/ -- Simon, a global leader in premier shopping, dining and entertainment destinations, today reported results for the quarter ended September 30, 2018.



Results for the Quarter

- Net income attributable to common stockholders was \$556.3 million, or \$1.80 per diluted share, as compared to \$513.8 million, or \$1.65 per diluted share, in the prior year period.
- Funds from Operations ("FFO") was \$1.086 billion, or \$3.05 per diluted share, as compared to \$1.035 billion, or \$2.89 per diluted share, in the prior year period, an increase of 5.5% per diluted share.

Results for the Nine Months

- Net income attributable to common stockholders was \$1.724 billion, or \$5.57 per diluted share, as compared to \$1.374 billion, or \$4.41 per diluted share, in the prior year period.
- FFO was \$3.173 billion, or \$8.90 per diluted share, as compared to \$2.905 billion, or \$8.09 per diluted share, in the prior year period, a 10.0% increase per diluted share.

"We produced another excellent quarter highlighted by strong financial and operational performance, the very successful openings of Denver Premium Outlets and the expansion of Shisui Premium Outlets, and another increase to our full-year 2018 guidance," said David Simon, Chairman and CEO.

U.S. Malls and Premium Outlets Operating Statistics

- Reported retailer sales per square foot for the trailing 12-months ended September 30, 2018 was \$650, an increase of 4.5%.
- Occupancy was 95.5% at September 30, 2018.
- Base minimum rent per square foot was \$53.88 at September 30, 2018, an increase of 2.8% compared to the prior year period.
- Leasing spread per square foot for the trailing 12-months ended September 30, 2018 was \$7.59, an increase of 13.9%.

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

Total portfolio NOI growth for the nine months ended September 30, 2018 was 4.1%. 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 nine months ended September 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 8.1% increase year-over-year. The dividend will be payable on November 30, 2018 to shareholders of record on November 16, 2018. The Company will pay \$7.90 per share in common stock dividends in 2018, a 10.5% increase year-over-year.

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 December 31, 2018 to shareholders of record on December 17, 2018.

Development Activity

On September 27, 2018, we opened Denver Premium Outlets (Thornton, CO), a 330,000 square-foot LEED-certified center featuring a dynamic mix of merchandise, amenities and experiences. Simon owns 100% of this center.

During the quarter, the 68,000 square-foot, phase three expansion of Shisui Premium Outlets opened featuring new fashion and sports brands, in vogue cafes and an outdoor garden area. Simon owns 40% of this center.

Construction continues on three new international development projects including:

- Queretaro Premium Outlets (Queretaro, Mexico); scheduled to open in spring 2019. Simon owns a 50% interest in this project.
- Malaga Designer Outlet (Malaga, Spain); scheduled to open in summer 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, The Shops at Riverside (Hackensack, NJ) and Southdale Center (Edina (Minneapolis), MN).

During the third quarter, construction started on significant expansion projects at Paju Premium Outlets (Seoul, South Korea) and Tosu Premium Outlets (Kyushu, Japan).

Subsequent to quarter end, construction started on a transformative mixed-use redevelopment at Phipps Plaza. The dynamic, reimagined development is headlined by the arrival of Nobu Hotel and Restaurant Atlanta, along with a 90,000 square-foot Life Time healthy living and entertainment destination and a unique, curated dining experience. A 13-story,

350,000 square-foot Class A office building, One Phipps Plaza, is yet another element of the redevelopment.

Financing Activity

During the first nine months of 2018, the Company closed on 13 mortgage loans totaling approximately \$3.0 billion, (U.S. dollar equivalent), of which Simon's share is approximately \$1.3 billion. The weighted average interest rate and weighted average term on these loans is 3.83% and 8.4 years, respectively.

As of September 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.

2018 Guidance

The Company currently estimates net income to be within a range of \$7.50 to \$7.54 per diluted share for the year ending December 31, 2018 and that FFO will be within a range of \$12.09 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

	Low	High
	<u>End</u>	<u>End</u>
Estimated net income attributable to common stockholders per diluted share	\$7.50	\$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	\$12.09	\$12.13

Conference Call

Simon will hold a conference call to discuss the quarterly financial results today at 8:30 a.m. Eastern Time, Thursday, October 25, 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 November 1, 2018. To access the audio replay, dial 1-855-859-2056 (international 404-537-3406) passcode 5597981.

Supplemental Materials and Website

Supplemental information on our third 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, if any, of the United Kingdom's exit from 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 September 30,**

**For the Nine Months
Ended September 30,**

	2018	2017	2018	2017
REVENUE:				
Minimum rent	\$ 864,514	\$ 861,184	\$ 2,581,792	\$ 2,559,535
Overage rent	39,601	36,634	104,533	94,601
Tenant reimbursements	385,543	386,713	1,138,855	1,146,156
Management fees and other revenues	28,784	28,946	85,506	90,860
Other income	90,563	90,161	286,491	219,796
Total revenue	1,409,005	1,403,638	4,197,177	4,110,948
EXPENSES:				
Property operating	119,021	118,807	335,420	330,226
Depreciation and amortization	316,175	317,037	953,309	950,265
Real estate taxes	119,315	111,953	344,950	332,027
Repairs and maintenance	23,632	25,352	73,507	72,654
Advertising and promotion	36,688	36,006	107,979	108,450
Provision for credit losses	4,984	2,895	13,915	10,765
Home and regional office costs	32,714	31,451	106,093	110,906
General and administrative	12,172	13,014	35,713	40,089
Other	26,913	57,055	69,293	102,678
Total operating expenses	691,614	713,570	2,040,179	2,058,060
OPERATING INCOME	717,391	690,068	2,156,998	2,052,888
Interest expense	(199,469)	(199,032)	(611,585)	(604,408)
Loss on extinguishment of debt	-	-	-	(128,618)
Income and other taxes	(10,118)	(14,511)	(26,475)	(16,981)
Income from unconsolidated entities	134,408	116,110	325,263	277,212
Gain upon acquisition of controlling interests, sale or disposal of, or recovery on, assets and interests in unconsolidated entities and impairment, net	-	-	144,949	4,989
CONSOLIDATED NET INCOME	642,212	592,635	1,989,150	1,585,082
Net income attributable to noncontrolling interests	85,111	78,018	262,722	209,070
Preferred dividends	834	834	2,503	2,503
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 556,267	\$ 513,783	\$ 1,723,925	\$ 1,373,509
BASIC AND DILUTED EARNINGS PER COMMON SHARE:				
Net income attributable to common stockholders	\$ 1.80	\$ 1.65	\$ 5.57	\$ 4.41

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

	September 30, 2018	December 31, 2017
ASSETS:		
Investment properties, at cost	\$ 36,943,299	\$ 36,393,464
Less - accumulated depreciation	12,638,409	11,935,949
	24,304,890	24,457,515
Cash and cash equivalents	695,718	1,482,309
Tenant receivables and accrued revenue, net	722,730	742,672
Investment in unconsolidated entities, at equity	2,281,688	2,266,483
Investment in Klépierre, at equity	1,776,655	1,934,676
Deferred costs and other assets	1,298,012	1,373,983
Total assets	\$ 31,079,693	\$ 32,257,638
LIABILITIES:		
Mortgages and unsecured indebtedness	\$ 23,678,264	\$ 24,632,463
Accounts payable, accrued expenses, intangibles, and deferred revenues	1,268,099	1,269,190
Cash distributions and losses in unconsolidated entities, at equity	1,534,550	1,406,378
Other liabilities	503,342	520,363
Total liabilities	26,984,255	27,828,394
Commitments and contingencies		
Limited partners' preferred interest in the Operating Partnership and noncontrolling redeemable interests in properties	197,937	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	42,830	43,077
Common stock, \$0.0001 par value, 511,990,000 shares authorized, 320,411,571 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	9,736,720	9,614,748
Accumulated deficit	(4,896,754)	(4,782,173)
Accumulated other comprehensive loss	(118,593)	(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	<u>3,383,616</u>	<u>3,686,168</u>
Noncontrolling interests	<u>513,885</u>	<u>552,596</u>
Total equity	<u>3,897,501</u>	<u>4,238,764</u>
Total liabilities and equity	<u>\$ 31,079,693</u>	<u>\$ 32,257,638</u>

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
REVENUE:				
Minimum rent	\$ 483,685	\$ 466,601	\$ 1,443,617	\$ 1,383,361
Overage rent	52,417	52,560	163,144	150,376
Tenant reimbursements	222,153	215,774	666,068	644,020
Other income	73,259	74,208	232,747	210,287
Total revenue	<u>831,514</u>	<u>809,143</u>	<u>2,505,576</u>	<u>2,388,044</u>
OPERATING EXPENSES:				
Property operating	151,873	145,288	437,718	410,301
Depreciation and amortization	161,964	156,682	488,098	469,884
Real estate taxes	60,654	54,668	197,497	185,228
Repairs and maintenance	20,035	18,811	63,968	59,512
Advertising and promotion	20,318	19,837	65,425	63,871
Provision for credit losses	1,300	1,063	13,378	7,629
Other	43,916	45,174	143,533	133,558
Total operating expenses	<u>460,060</u>	<u>441,523</u>	<u>1,409,617</u>	<u>1,329,983</u>
OPERATING INCOME	371,454	367,620	1,095,959	1,058,061
Interest expense	(163,855)	(149,746)	(505,540)	(438,393)
Gain on sale or disposal of, or recovery on, assets and interests in unconsolidated entities, net	-	-	25,792	-
NET INCOME	<u>\$ 207,599</u>	<u>\$ 217,874</u>	<u>\$ 616,211</u>	<u>\$ 619,668</u>
Third-Party Investors' Share of Net Income	<u>\$ 101,750</u>	<u>\$ 110,581</u>	<u>\$ 304,174</u>	<u>\$ 314,531</u>
Our Share of Net Income	105,849	107,293	312,037	305,137
Amortization of Excess Investment (A)	(21,526)	(22,608)	(64,447)	(68,045)
Our Share of Gain on Sale or Disposal of, or Recovery on, Assets and Interests in Unconsolidated Entities, net	-	-	(9,672)	-
Income from Unconsolidated Entities (B)	<u>\$ 84,323</u>	<u>\$ 84,685</u>	<u>\$ 237,918</u>	<u>\$ 237,092</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.

Simon Property Group, Inc.
Unaudited Joint Venture Combined Balance Sheets
(Dollars in thousands)

	September 30, 2018	December 31, 2017
Assets:		
Investment properties, at cost	\$ 18,632,287	\$ 18,328,747
Less - accumulated depreciation	<u>6,672,267</u>	<u>6,371,363</u>
	11,960,020	11,957,384
Cash and cash equivalents	1,013,153	956,084
Tenant receivables and accrued revenue, net	403,315	403,125
Deferred costs and other assets	<u>395,144</u>	<u>355,585</u>
Total assets	<u>\$ 13,771,632</u>	<u>\$ 13,672,178</u>

Liabilities and Partners' Deficit:

Mortgages	\$ 15,231,476	\$ 14,784,310
Accounts payable, accrued expenses, intangibles, and deferred revenue	903,599	1,033,674
Other liabilities	351,116	365,857
Total liabilities	<u>16,486,191</u>	<u>16,183,841</u>
Preferred units	67,450	67,450
Partners' deficit	<u>(2,782,009)</u>	<u>(2,579,113)</u>
Total liabilities and partners' deficit	<u>\$ 13,771,632</u>	<u>\$ 13,672,178</u>

Our Share of:

Partners' deficit	\$ (1,204,237)	\$ (1,144,620)
Add: Excess Investment (A)	1,614,277	1,733,063
Our net Investment in unconsolidated entities, at equity	<u>\$ 410,040</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 September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Consolidated Net Income (D)	\$ 642,212	\$ 592,635	\$ 1,989,150	\$ 1,585,082
Adjustments to Arrive at FFO:				
Depreciation and amortization from consolidated properties	313,245	313,194	944,615	939,468
Our share of depreciation and amortization from unconsolidated entities, including Klépierre and HBS	131,573	134,998	403,777	401,692
Gain upon acquisition of controlling interests, sale or disposal of, or recovery on, assets and interests in unconsolidated entities and impairment, net	-	-	(144,949)	(4,989)
Unrealized change in fair value of equity instruments	5,452	-	(1,212)	-
Net (income) loss attributable to noncontrolling interest holders in properties	(497)	550	(684)	721
Noncontrolling interests portion of depreciation and amortization	(4,380)	(4,605)	(13,564)	(12,821)
Preferred distributions and dividends	(1,313)	(1,313)	(3,939)	(3,939)
FFO of the Operating Partnership (E)	<u>\$ 1,086,292</u>	<u>\$ 1,035,459</u>	<u>\$ 3,173,194</u>	<u>\$ 2,905,214</u>
Diluted net income per share to diluted FFO per share reconciliation:				
Diluted net income per share	\$ 1.80	\$ 1.65	\$ 5.57	\$ 4.41
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	1.23	1.24	3.74	3.69
Gain upon acquisition of controlling interests, sale or disposal of, or recovery on, assets and interests in unconsolidated entities and impairment, net	-	-	(0.41)	(0.01)
Unrealized change in fair value of equity instruments	0.02	-	-	-
Diluted FFO per share (F)	<u>\$ 3.05</u>	<u>\$ 2.89</u>	<u>\$ 8.90</u>	<u>\$ 8.09</u>

Details for per share calculations:

FFO of the Operating Partnership (E)	\$ 1,086,292	\$ 1,035,459	\$ 3,173,194	\$ 2,905,214
Diluted FFO allocable to unitholders	(142,710)	(136,632)	(416,694)	(382,660)
Diluted FFO allocable to common stockholders (G)	<u>\$ 943,582</u>	<u>\$ 898,827</u>	<u>\$ 2,756,500</u>	<u>\$ 2,522,554</u>
Basic and Diluted weighted average shares outstanding	309,294	310,853	309,740	311,740
Weighted average limited partnership units outstanding	46,779	47,263	46,822	47,290
Basic and Diluted weighted average shares and units outstanding	<u>356,073</u>	<u>358,116</u>	<u>356,562</u>	<u>359,030</u>
Basic and Diluted FFO per Share (F)	\$ 3.05	\$ 2.89	\$ 8.90	\$ 8.09
Percent Change	5.5%		10.0%	

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 Footnote 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 \$1.2 million and \$2.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$3.9 million and \$10.1 million for the nine months ended September 30, 2018 and 2017, respectively.

- Straight-line adjustments increased income by \$6.8 million and \$11.8 million for the three months ended September 30, 2018 and 2017, respectively, and \$21.8 million and \$27.1 million for the nine months ended September 30, 2018 and 2017, respectively.

- Amortization of fair market value of leases from acquisitions increased income by \$0.6 million and \$1.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$3.0 million and \$4.6 million for the nine months ended September 30, 2018 and 2017, respectively.

(E) Includes a loss on the extinguishment of debt of \$128.6 million for the nine months ended September 30, 2017.

(F) Includes Basic and Diluted FFO per share related to a loss on the extinguishment of debt of \$0.36 for the nine months ended September 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 nine months ended September 30, 2017.

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SOURCE Simon

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