



COMPANY UPDATE / ESTIMATE CHANGES / PRICE TARGET CHANGE

Key Metrics

SKT - NYSE (as of 2/13/2018)	\$23.47
Price Target	\$27.50
52-Week Range	\$21.81 - \$34.76
Shares & Units Outstanding (mm)	99
Market Cap. (\$mm)	\$2,316
3-Mo. Average Daily Volume (000)	1,451
Institutional Ownership	NA
Debt/Total Market Cap. (12/17)	43%
Est 3 - Year Dividend Growth Rate	5% - 10%
Annual Dividend	\$1.37
Dividend Yield	5.8%
Interest Coverage Ratio (12/17)	4.46x

FFO Per Share FY 12/31

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$0.55	\$0.58	\$0.60	\$0.58
2Q	\$0.59	\$0.59	\$0.62	\$0.60
3Q	\$0.62	\$0.27	\$0.64	\$0.63
4Q	\$0.61	\$0.68	\$0.65	\$0.63
Year	\$2.36	\$2.12	\$2.51	\$2.45
P/FFO	9.9x	11.1x		9.6x

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

Revenue (\$mm)

	2016	2017	Prior 2018E	Curr. 2018E
1Q	\$111	\$121	\$126	\$122
2Q	\$111	\$120	\$123	\$120
3Q	\$119	\$121	\$127	\$124
4Q	\$125	\$126	\$133	\$126
Year	\$466	\$488	\$508	\$492

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.

REITs

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Tanger Factory Outlet Centers, Inc.

SKT -- NYSE – Buy-- 3

Fourth Quarter Results

- **Tanger reported fourth quarter FFO of \$0.68 per share versus \$0.61 per share in 4Q16.** This was four cents above our estimate and five cents above the consensus. Adjusted FFO per share was \$0.66 versus \$0.61.
- **Occupancy remained strong.** Consolidated occupancy was 97.3% at the end of the fourth quarter.
- **Leasing spreads were up 0.8% in the trailing twelve months ended December 31, 2017.**
- **Tanger is considering several locations for new development projects.**
- **Management initiated 2018 FFO per share guidance of \$2.43 to \$2.49.** (See page three for more details on guidance.) We are lowering our 2018 FFO per share estimate to \$2.45 from \$2.51 previously.
- **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 \$31.00 to \$27.50 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 fourth quarter was \$126.5 million, up 1.5% from \$124.6 million in the year ago period. Base rents, which made up 65.2% of total revenue, increased 1.7%. Expense reimbursements were \$38.0 million versus \$36.7 million and represented 94.7% of total property operating expenses versus 88.0% last year. Same-store NOI (net operating income) declined 0.4%, when including remerchandised centers. The occupancy rate for the consolidated portfolio at the end of the quarter was 97.3%. Leasing spreads were up 0.8% in the trailing twelve months ended December 31, 2017.

Total expenses declined 3.9% in the quarter to \$82.9 million. General and administrative expense declined 10.3%. Depreciation and amortization fell 2.1%. Operating income increased 13.9% in the quarter to \$43.6 million. Interest expense decreased 6.9% to \$15.3 million.

Net income available to common shareholders in the quarter was \$31.2 million versus \$23.8 million in the year ago period. Earnings per share were \$0.33 in the quarter compared to \$0.25 in the year ago period. Funds from operations available to common shareholders were \$67.5 million, or \$0.68 per share, compared to \$60.9 million, or \$0.61 per share, in the year ago period.

Overview

Retail Environment - 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 stable for the rolling twelve months ended December 31, 2017. 4Q17 same center tenant sales were up 1% over 4Q16. During 4Q17 and 1Q18 Tanger executed some short-term renewal leases with some challenged tenants to preserve occupancy. Management believes that once these leases expire they can either sign a lease with the current tenant or a new tenant at a higher rental rate. Tanger is seeing demand from a group of high volume designer and brand name tenants interested in opening new stores. Retail sentiment appears better than it was a year ago and at the time of Tanger's 3Q17 earnings call.

Financials - As of December 31, 2017, Tanger had \$1.8 billion in wholly owned debt and \$175.6 million from its share of joint venture debt. As of December 31, 2017, the company had \$208.1 million outstanding on its unsecured lines of credit. Tanger has \$3.5 million of debt maturing in 2018 and \$92.2 million maturing in 2019. We believe Tanger's balance sheet is in excellent shape.

Subsequent to quarter end, Tanger closed on amendments to its unsecured lines of credit. Borrowing capacity was increased from \$520.0 million to \$600.0 million. The maturity was extended from October 2019 to October 2021, with a one-year extension option. The interest rate spread was reduced slightly.

Share Repurchase Plan - In May 2017, SKT's board authorized the repurchase of up to \$125 million of Tanger's common shares over the next 24 months. In 2017, SKT repurchased 1.9 million common shares at a weighted average price of \$25.80 per share. SKT did not repurchase any shares in 4Q.

Grand Opening - In October 2017, 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 possibly increasing the dividend, paying down debt, and buying back Tanger stock.

Guidance & Estimates - Management initiated 2018 FFO per share guidance of \$2.43 to \$2.49. Guidance assumes same-center NOI growth of (1.0)% to 0.0%, lower average occupancy due to late 2017 store closings and additional store closings in 2018, negative impact from short-term lease renewals and lease modifications, full year lease termination fees of \$1.0 million for the consolidated portfolio, stable tenant sales, average g&a per quarter of between \$11.1 million and \$11.5 million, consolidated portfolio interest expense of \$64.0 million to \$66.0 million, Tanger's share of unconsolidated interest expense of \$6.0 million to \$7.0 million, recurring cap-ex and second generation tenant allowances of \$34 million, and 2018 weighted average diluted common shares of 93.1 million and 98.1 million for earnings per share and FFO per share, respectively. Our 2018 FFO per share estimate is \$2.45.

Quarterly Income Statement

(in thousands, except per share data)	4Q17	4Q16	% Change
Revenues			
Base Rentals	\$82,518	\$81,158	1.7%
Percentage Rentals	3,055	3,750	-18.5%
Expense Reimbursements	38,016	36,697	3.6%
Management, Leasing and Other Services	676	588	15.0%
Other Income	2,222	2,366	-6.1%
Total Revenues	126,487	124,559	1.5%
Expenses			
Property Operating	40,161	41,689	-3.7%
General and Administrative	10,158	11,328	-10.3%
Acquisition Costs			
Abandoned Pre-Development Costs			
Executive Severance			
Depreciation and Amortization	32,569	33,279	-2.1%
Abandoned Due Diligence Costs			
Impairment Charge			
Total Expenses	82,888	86,296	-3.9%
Operating Income	43,599	38,263	13.9%
Interest Expense	15,329	16,469	-6.9%
Casualty Gain			
Gain on Previously Held Interest in Acquired Joint Venture			
Loss on Early Extinguishment of Debt			
Gain on Sale of Real Estate			
Gain on Sale of Assets and Interests in Unconsolidated Entities			
Interest and Other Income	2,041	650	214.0%
Loss on Termination of Derivatives			
Income Before Equity in Earnings (Loss) of Unconsolidated Joint Ventures	30,311	22,444	35.1%
Equity in Earnings (Loss) of Unconsolidated Joint Ventures	3,138	3,192	-1.7%
Discontinued Operations			
Net Income	33,449	25,636	30.5%
Non-controlling Interest in Operating Partnership	(1,689)	(1,278)	
Non-controlling Interest in Other Consolidated Partnerships	(265)	(285)	
Net Income Attributable to Shareholders	31,495	24,073	30.8%
Preferred Share Dividend			
Original Issuance Costs Related to Redeemed Preferred Shares			
Allocation of Earnings to Participating Securities	(302)	(280)	
Net Income Available to Common Shareholders	\$31,193	\$23,793	31.1%
Earnings Per Diluted Share	\$0.33	\$0.25	32.0%
Average Shares Outstanding	93,691	95,455	-1.8%

Funds From Operations	4Q17	4Q16	% Change
Net Income	\$33,449	\$25,636	30.5%
Depreciation and Amortization - Discontinued Operations			
Depreciation and Amortization - Consolidated Properties	31,987	32,653	-2.0%
Depreciation and Amortization - Unconsolidated Joint Ventures	2,886	3,438	-16.1%
Gain on Sale of Assets and Interests in Unconsolidated Entities			
Gain on Previously Held Interest in Acquired Joint Venture			
Impairment Charge - Unconsolidated Joint Ventures			
Gain on Fair Value Measurement of Previously Held Interest in Acquired JV			
Funds From Operations	\$68,322	\$61,727	10.7%
Preferred Share Dividends			
Original Issuance Costs Related to Redeemed Preferred Shares			
FFO Attributable to Noncontrolling Interests in Other Consolidated Partnerships	(265)	(286)	
Allocation to Participating Securities	(597)	(520)	
Funds From Operations Available to Common Shareholders	\$67,460	\$60,921	10.7%
FFO Per Share (diluted)	\$0.68	\$0.61	11.5%
Average Shares and Units Outstanding	98,714	100,508	-1.8%

Source: Company report

Condensed Balance Sheet

(in thousands)	12/31/2015	12/31/2016	12/31/2017
Assets:			
Rental Property			
Land	\$240,267	\$272,153	\$279,978
Buildings, Improvements and Fixtures	2,249,417	2,647,477	2,793,638
Construction in Progress	23,533	46,277	14,854
	2,513,217	2,965,907	3,088,470
Accumulated Depreciation	(748,341)	(814,583)	(901,967)
Rental Property, Net	\$1,764,876	\$2,151,324	\$2,186,503
Cash and Cash Equivalents	21,558	12,222	6,101
Restricted Cash	121,306		
Rental Property Held for Sale			
Investments in Unconsolidated Joint Ventures	201,083	128,104	119,436
Deferred Charges, Net	138,971	151,579	132,061
Other Assets	78,913	82,985	96,004
Total Assets	\$2,326,707	\$2,526,214	\$2,540,105
Liabilities, Minority Interest and Shareholders' Equity:			
Senior, Unsecured Notes	794,253	1,135,309	1,134,755
Senior, Unsecured Bridge Loan			
Unsecured Term Loan, Net of Discount	267,419	322,410	322,975
Mortgage Payable	311,834	172,145	99,761
Unsecured Lines of Credit	190,300	58,002	206,160
Total Debt	1,563,806	1,687,866	1,763,651
Construction Trade Payables			
Accounts Payable and Accrued Expenses	97,396	78,143	90,416
Deferred Financing Obligation	28,388		
Other Liabilities	31,085	54,764	73,736
Total Liabilities	\$1,720,675	\$1,820,773	\$1,927,803
Commitments			
Noncontrolling Redeemable Interest in Other Consolidated Partnerships			
Shareholders' Equity			
Preferred Shares			
Common Shares	959	961	946
Paid in Capital	806,379	820,251	784,782
Distributions in Excess of Earnings	(195,486)	(122,701)	(184,865)
Accumulated Other Comprehensive Loss	(36,715)	(28,295)	(19,285)
Total Shareholders' Equity	\$575,137	\$670,216	\$581,578
Non-controlling Interest	30,895	35,225	30,724
Total Equity	\$606,032	\$705,441	\$612,302
Total Liabilities, Minority Interest and Equity	\$2,326,707	\$2,526,214	\$2,540,105

Balance Sheet Ratio Analysis	12/31/2015	12/31/2016	12/31/2017
Net Rental Property / Total Debt	112.9%	127.5%	124.0%
Debt to Equity	271.9%	251.8%	303.3%
Debt to Total Market Capitalization	32.0%	32.0%	42.6%
Debt as % of Total Assets	67.2%	66.8%	69.4%
Shareholders' Equity as % of Total Assets	24.7%	26.5%	22.9%

Previous numbers have not been restated.

Source: Company reports and S&P Global Market Intelligence

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 typically performs well in many different economic environments. We believe Tanger's shares should trade at an 11.0x multiple applied to our 2019 FFO per share estimate of \$2.50, resulting in a \$27.50 target price. We note that the multiple we use is down from our previous multiple of 12.5x due to our view that the negative retail narrative may continue to put pressure on valuations in the near term, despite our positive long-term outlook on Tanger's fundamentals and balance sheet. We rate Tanger Buy.

Retail REITs	Symbol	Price		Yield	2017 Payout Ratio	FFO Per Share			2-Year Estd. Avg. Growth	18/17E Growth Rate	Price/FFO	
		2/13/2018	Dividend			2016	2017E/A	2018E			2017E/A	2018E
Simon Property Group Inc.	SPG	\$155.49	\$7.80	5.0%	69.6%	\$10.49	\$11.20	\$12.22	8.2%	9.1%	13.9x	12.7x
Kimco Realty Corp.	KIM	\$14.34	\$1.12	7.8%	72.3%	\$1.31	\$1.55	\$1.51	7.6%	-2.6%	9.3x	9.5x
Macerich Co.	MAC	\$60.83	\$2.96	4.9%	79.4%	\$5.08	\$3.73	\$4.00	-10.6%	7.2%	16.3x	15.2x
Taubman Centers Inc.	TCO	\$58.94	\$2.50	4.2%	71.2%	\$2.87	\$3.51	\$3.78	15.9%	7.7%	16.8x	15.6x
Federal Realty Investment Trust	FRT	\$110.26	\$4.00	3.6%	69.7%	\$5.01	\$5.74	\$6.18	11.7%	7.7%	19.2x	17.8x
Group Average		\$79.97	\$3.68	5.1%	72.4%	\$4.95	\$5.15	\$5.54	6.6%	5.8%	15.1x	14.2x
S&P 500	.SPX	2,662.94	\$50.33	1.9%	38.4%	\$117.75	\$131.00	\$145.29	11.7%	10.9%	20.3x	18.3x
Tanger Factory Outlet Centers	SKT	\$23.47	\$1.37	5.8%	64.6%	\$2.36	\$2.12	\$2.45	1.9%	15.6%	11.1x	9.6x

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'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: 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.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as

dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2017 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2017 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

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.

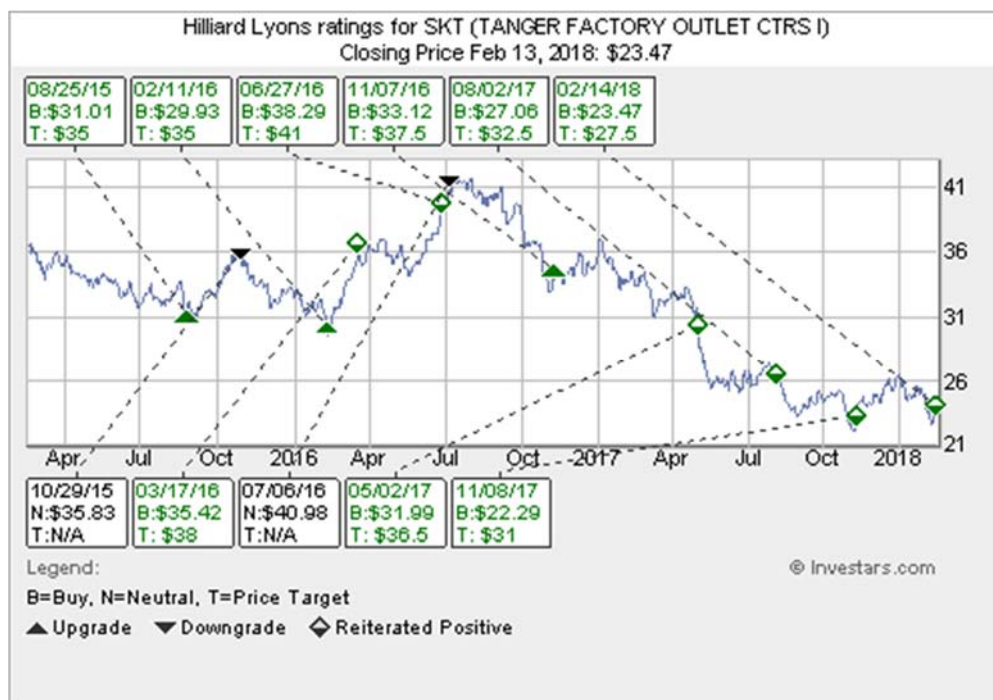
Suitability Ratings

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



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 7 February 2018

Other Disclosures

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