

W. P. Carey Inc.
Form 10-Q
November 03, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-13779

W. P. Carey Inc.

(Exact name of registrant as specified in its charter)

Maryland

45-4549771

(State of incorporation)

(I.R.S. Employer Identification No.)

50 Rockefeller Plaza

New York, New York

10020

(Address of principal executive offices) (Zip Code)

Investor Relations (212) 492-8920

(212) 492-1100

(Registrant's telephone numbers, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

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Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Registrant has 106,909,474 shares of common stock, \$0.001 par value, outstanding at October 27, 2017.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, or this Report, including Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this Report, contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will likely result,” and similar expressions. These forward-looking statements include, but are not limited to, statements regarding: capital markets; tenant credit quality; the general economic outlook; our expected range of Adjusted funds from operations, or AFFO; our corporate strategy; our capital structure; our portfolio lease terms; our international exposure and acquisition volume, including the effects of the United Kingdom’s decision to exit the European Union; our expectations about tenant bankruptcies and interest coverage; statements regarding estimated or future economic performance and results, including our underlying assumptions, occupancy rate, credit ratings, and possible new acquisitions and dispositions by us and our investment management programs; the Managed Programs discussed herein, including their earnings; statements that we make regarding our ability to remain qualified for taxation as a real estate investment trust, or REIT; the impact of recently issued accounting pronouncements; the amount and timing of any future dividends; our existing or future leverage and debt service obligations; our ability to sell shares under our “at the market” program and the use of proceeds from that program; our estimated future growth; our projected assets under management; our future capital expenditure levels; our future financing transactions; and our plans to fund our future liquidity needs. These statements are based on the current expectations of our management. It is important to note that our actual results could be materially different from those projected in such forward-looking statements. There are a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on our business, financial condition, liquidity, results of operations, AFFO, and prospects. You should exercise caution in relying on forward-looking statements as they involve known and unknown risks, uncertainties, and other factors that may materially affect our future results, performance, achievements or transactions. Information on factors that could impact actual results and cause them to differ from what is anticipated in the forward-looking statements contained herein is included in this Report as well as in our other filings with the Securities and Exchange Commission, or the SEC, including but not limited to those described in Item 1A. Risk Factors in our Annual Report on Form 10-K for the

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year ended December 31, 2016, as filed with the SEC on February 24, 2017, or the 2016 Annual Report. Moreover, because we operate in a very competitive and rapidly changing environment, new risks are likely to emerge from time to time. Given these risks and uncertainties, potential investors are cautioned not to place undue reliance on these forward-looking statements as a prediction of future results, which speak only as of the date of this Report, unless noted otherwise. Except as required by federal securities laws and the rules and regulations of the SEC, we do not undertake to revise or update any forward-looking statements.

All references to “Notes” throughout the document refer to the footnotes to the consolidated financial statements of the registrant in Part I, Item 1. Financial Statements (Unaudited).

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

W. P. CAREY INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share and per share amounts)

	September 30, 2017	December 31, 2016
Assets		
Investments in real estate:		
Land, buildings and improvements	\$5,429,239	\$5,285,837
Net investments in direct financing leases	717,184	684,059
In-place lease and other intangible assets	1,204,770	1,172,238
Above-market rent intangible assets	639,140	632,383
Assets held for sale	10,596	26,247
Investments in real estate	8,000,929	7,800,764
Accumulated depreciation and amortization	(1,249,024)	(1,018,864)
Net investments in real estate	6,751,905	6,781,900
Equity investments in the Managed Programs and real estate	327,598	298,893
Cash and cash equivalents	169,770	155,482
Due from affiliates	154,336	299,610
Other assets, net	287,481	282,149
Goodwill	643,321	635,920
Total assets	\$8,334,411	\$8,453,954
Liabilities and Equity		
Debt:		
Unsecured senior notes, net	\$2,455,383	\$1,807,200
Unsecured term loans, net	382,191	249,978
Unsecured revolving credit facility	224,213	676,715
Non-recourse mortgages, net	1,253,051	1,706,921
Debt, net	4,314,838	4,440,814
Accounts payable, accrued expenses and other liabilities	255,911	266,917
Below-market rent and other intangible liabilities, net	116,980	122,203
Deferred income taxes	86,581	90,825
Distributions payable	109,187	107,090
Total liabilities	4,883,497	5,027,849
Redeemable noncontrolling interest	965	965
Commitments and contingencies (Note 11)		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 450,000,000 shares authorized; 106,897,515 and 106,294,162 shares, respectively, issued and outstanding	107	106
Additional paid-in capital	4,429,240	4,399,961
Distributions in excess of accumulated earnings	(1,017,901)	(894,137)
Deferred compensation obligation	46,711	50,222
Accumulated other comprehensive loss	(229,581)	(254,485)
Total stockholders' equity	3,228,576	3,301,667
Noncontrolling interests	221,373	123,473
Total equity	3,449,949	3,425,140

Total liabilities and equity	\$8,334,411	\$8,453,954
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See Notes to Consolidated Financial Statements.

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W. P. CAREY INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Owned Real Estate:				
Lease revenues	\$161,511	\$163,786	\$475,547	\$506,358
Operating property revenues	8,449	8,524	23,652	23,696
Reimbursable tenant costs	5,397	6,537	15,940	19,237
Lease termination income and other	1,227	1,224	4,234	34,603
	176,584	180,071	519,373	583,894
Investment Management:				
Asset management revenue	17,938	15,978	53,271	45,596
Structuring revenue	9,817	12,301	27,981	30,990
Reimbursable costs from affiliates	6,211	14,540	45,390	46,372
Dealer manager fees	105	1,835	4,430	5,379
Other advisory revenue	99	522	896	522
	34,170	45,176	131,968	128,859
	210,754	225,247	651,341	712,753
Operating Expenses				
Depreciation and amortization	64,040	62,802	189,319	213,835
General and administrative	17,236	15,733	53,189	58,122
Reimbursable tenant and affiliate costs	11,608	21,077	61,330	65,609
Property expenses, excluding reimbursable tenant costs	10,556	10,193	31,196	38,475
Subadvisor fees	5,206	4,842	11,598	10,010
Stock-based compensation expense	4,635	4,356	14,649	14,964
Restructuring and other compensation	1,356	—	9,074	11,925
Dealer manager fees and expenses	462	3,028	6,544	9,000
Other expenses	65	—	1,138	5,359
Impairment charges	—	14,441	—	49,870
	115,164	136,472	378,037	477,169
Other Income and Expenses				
Interest expense	(41,182)	(44,349)	(125,374)	(139,496)
Equity in earnings of equity method investments in the Managed Programs and real estate	16,318	16,803	47,820	48,243
Other income and (expenses)	(4,569)	5,101	(4,969)	9,398
	(29,433)	(22,445)	(82,523)	(81,855)
Income before income taxes and gain on sale of real estate	66,157	66,330	190,781	153,729
(Provision for) benefit from income taxes	(1,760)	(3,154)	(2,903)	4,538
Income before gain on sale of real estate	64,397	63,176	187,878	158,267
Gain on sale of real estate, net of tax	19,257	49,126	22,732	68,070
Net Income	83,654	112,302	210,610	226,337
Net income attributable to noncontrolling interests	(3,376)	(1,359)	(8,530)	(6,294)
Net Income Attributable to W. P. Carey	\$80,278	\$110,943	\$202,080	\$220,043
Basic Earnings Per Share	\$0.74	\$1.03	\$1.87	\$2.06
Diluted Earnings Per Share	\$0.74	\$1.03	\$1.87	\$2.05

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Weighted-Average Shares Outstanding

Basic	108,019,292	107,221,668	107,751,672	106,493,145
Diluted	108,143,694	107,468,029	107,947,490	106,853,174

Distributions Declared Per Share	\$1.0050	\$0.9850	\$3.0000	\$2.9392
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See Notes to Consolidated Financial Statements.

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W. P. CAREY INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net Income	\$83,654	\$112,302	\$210,610	\$226,337
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments	28,979	(11,824)	71,686	(41,999)
Realized and unrealized loss on derivative instruments	(10,270)	(3,093)	(32,574)	(5,999)
Change in unrealized gain (loss) on marketable securities	66	(7)	(260)	(3)
	18,775	(14,924)	38,852	(48,001)
Comprehensive Income	102,429	97,378	249,462	178,336
Amounts Attributable to Noncontrolling Interests				
Net income	(3,376)	(1,359)	(8,530)	(6,294)
Foreign currency translation adjustments	(4,716)	(218)	(13,961)	(1,051)
Realized and unrealized loss on derivative instruments	8	17	13	17
Comprehensive income attributable to noncontrolling interests	(8,084)	(1,560)	(22,478)	(7,328)
Comprehensive Income Attributable to W. P. Carey	\$94,345	\$95,818	\$226,984	\$171,008

See Notes to Consolidated Financial Statements.

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W. P. CAREY INC.

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

Nine Months Ended September 30, 2017 and 2016

(in thousands, except share and per share amounts)

	W. P. Carey Stockholders			Distributions in Excess of Accumulated Earnings	Deferred Compensation Obligation	Accumulated Other Comprehensive Loss	Total W. P. Carey Stockholders Interests	Noncontrolling Interests	Total
	Common Stock \$0.001 Par Value Shares	Additional Paid-in Capital	Amount						
Balance at January 1, 2017	106,294,162	\$106	\$4,399,961	\$(894,137)	\$50,222	\$(254,485)	\$3,301,667	\$123,473	\$3,425,140
Shares issued under “at-the-market” offering, net Contributions from noncontrolling interests	345,253	1	22,856				22,857		22,857
Acquisition of noncontrolling interest			(1,845)				(1,845)	1,845	—
Shares issued upon delivery of vested restricted share awards	219,540	—	(9,678)				(9,678)		(9,678)
Shares issued upon exercise of stock options and purchases under employee share purchase plan	38,560	—	(1,595)				(1,595)		(1,595)
Delivery of deferred vested shares, net			3,734		(3,734)		—		—
Amortization of stock-based compensation expense			14,649				14,649		14,649
Distributions to noncontrolling interests							—	(16,910)	(16,910)
Distributions declared (\$3.0000 per share)			1,158	(325,844)	223		(324,463)		(324,463)
Net income				202,080			202,080	8,530	210,610

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Other comprehensive income:									
Foreign currency translation adjustments					57,725	57,725	13,961	71,686	
Realized and unrealized loss on derivative instruments					(32,561)	(32,561)	(13)	(32,574)	
Change in unrealized loss on marketable securities					(260)	(260)		(260)	
Balance at									
September 30, 2017	106,897,515	\$107	\$4,429,240	\$(1,017,901)	\$46,711	\$(229,581)	\$3,228,576	\$221,373	\$3,449,949

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W. P. CAREY INC.

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

(Continued)

Nine Months Ended September 30, 2017 and 2016

(in thousands, except share and per share amounts)