

V.I.M.COR

Vassalotti Investment Management Corp
901 Lawrence Drive
Duncansville, PA 16635
Phone: 814-693-5093
www.vimcor.com
gary@vimcor.com

Buy Recommendation
Attribute: Yield
Report Date: 04/21/10

Realty Income Corp		52week Price Range	19.51-32.03		Earnings				
Ticker	O & O-E	Dividend:	\$1.72 (O) \$1.6875 (O-E)		FY 2009	Latest 12 Months	FY 2010(E)	FY 2011(E)	
Price:	\$31.43 (O) \$24.87 (O-E)	Current Yield:	5.50% (O) 6.79% (O-E)		EPS	\$0.91	\$0.94	\$0.94	\$1.23
Avg Daily Volume:	\$835,005.00	Note: O is the common, O-E is the preferred series E			PE		33.44x	33.44x	25.55x
12mth Price Target:	\$38.38				Note: The ratios are for the Common. They are NA for the preferred.				

VAL MODEL	P/E Least Growth Rate	<u>EPS COMPOUND GROWTH RATE</u>				
		Past 5 Yrs	Latest Qtr	This Year	Next Year	Next 5 Years
7.00%	NA	0	-17.00%	8.00%	31.00%	0.00%

BASIS OF RECOMMENDATION

The recommended action is to acquire shares of the preferred, O-E. Since reported numbers are based upon the common, this report relates to the common. The common shares are fairly valued at these levels, but do pay a higher dividend. The preferreds represent a more secure method to collect the dividend, and the dividends are cumulative. The preferreds are recommended for their income.

POSITIVES:

- O-E pays a high rate, the dividend is cumulative and must be paid before common dividends are paid.
- The company has a highly diversified client base, property locations, and prefers smaller stand alone buildings, and has a 96% occupancy rate. This rate has been maintained for many years.
- The properties are NOT encumbered by mortgages. Financing is done via preferreds and equity issues, and lines of credit.

NEGATIVES:

- It is a retail REIT.... the retail sector could continue to face hardships.
- The shares can be redeemed in 2011, reducing income potential.
- Common is fairly valued; preferreds do not historically enjoy large capital gains, only dividend income.

Equity Income Properties, Preferred Shares

Company Description

Realty Income Corporation (O) is retail property REIT that began operations in 1994. The company is widely diversified in both customers and geographic region and averages above 96% occupancy rates. Revenue for the trailing twelve months totaled \$3.16mm, with FFO coming in at \$190mm (FY2009) up from \$185.5 (FY2008). (FFO means Funds from Operations and is used by the REIT industry. It is similar to Cash Flow that is reported in other industries).

An important distinction between O and other REITS is that O has no mortgage encumbrances on its properties; therefore, it is under no pressure from banks or the financial markets about its distributions or having to 'fire sell' properties when the market is in a downturn. If that was not a sure sign of conservative management, they also have no off balance sheet financing to come back and bite them.

Property Locations / Types

O is widely diversified in both tenant types and property locations. O's properties consist mainly of one tenant structures, (2,238 out of 2,339 or 99.5%) as opposed to mall REITs and house customers (if possible, the preferred customers) that tend to resist recessionary pressures, such as food stores and clothing stores.

As of 12/31/09 the portfolio consisted of 2,339 retail properties with an occupation rate of 96.8% (ie, only 75 of its properties were unoccupied). These buildings are leased to 118 different clients in 30 separate retail industries, located in 49 states. These tenants are locked in with long term leases, with the average lease life remaining (for O, corporate wide) of 11.2 years.



2,339 Properties located in 49 states (as of 12/31/09)



9

Illustration 1: from the company's analyst information package

Tenant Diversity

The tenants of O's properties are as diverse as the property locations. In the chart below, as taken from the company's most recent 10k filing, you can see the different types of tenants, and the percentage of rental revenue each type represents.

<u>Industry</u>	<u>Number of Properties</u>	<u>Rental Revenue for the Quarter Ended December 31, 2009(1)</u>	<u>Percentage of Rental Revenue</u>
Tenants Providing Services			
Automotive collision services	13	\$ 884	1.1%
Automotive service	236	3,902	4.8
Child care	252	5,665	6.9
Entertainment	8	1,083	1.3
Equipment rental services	2	150	0.2
Financial services	13	188	0.2
Health and fitness	31	4,999	6.1
Private education	11	719	0.9
Theaters	34	7,585	9.3
Other	12	1,465	1.8
	<u>612</u>	<u>26,640</u>	<u>32.6</u>
Tenants Selling Goods and Services			
Automotive parts (with installation)	23	468	0.5
Automotive tire services	154	5,447	6.7
Business services	1	5	*
Convenience stores	584	13,898	17.0
Distribution and office	3	864	1.1
Home improvement	3	111	0.1
Motor vehicle dealerships	17	2,252	2.8
Pet supplies and services	12	702	0.9
Restaurants	637	17,461	21.3
Travel plazas	1	187	0.2
Video rental	27	866	1.1
	<u>1,462</u>	<u>42,261</u>	<u>51.7</u>
Tenants Selling Goods			
Apparel stores	6	902	1.1
Automotive parts	49	884	1.1
Book stores	2	146	0.2
Consumer electronics	9	524	0.6
Crafts and novelties	5	227	0.3

Drug stores	51	3,482	4.3
General merchandise	33	684	0.8
Grocery stores	9	578	0.7
Home furnishings	43	1,101	1.3
Home improvement	29	1,451	1.8
Office supplies	10	788	1.0
Pet supplies	2	40	*
Sporting goods	17	2,087	2.5
	265	12,894	15.7
Totals	2,339	\$ 81,795	100.0%

* Less than 0.1%

Dividend Growth / Stability

Over the past 40 years, O has raised its dividend 56 times, 49 of those times it raised them consecutively resulting in 473 consecutive dividends paid. Of course, this relates to the common stock, not the preferred series E, however, it shows the company's ability to be consistent in good times and bad.

Investment Recommendation

I have copied VIMCOR's valuation, statistical, and buy/sell decision sheets below. These, again, relate to the common shares. I would buy the common on pullbacks... at the current price, it is fully valued and trades at over 30 times earnings, although earnings numbers for REITS can be deceptive. The Buy/Sell sheet gives a buy range for the common at \$19.80-29.09. Given the stability of these dividends, I would extend the range into the "hold" section of the sheet, so a good entry point for the common would be between \$19.80-\$33.75.

As noted before, this report is highlighting the preferred series E shares. I have ranked these as a buy for the following reason:

They are callable at \$25. Therefore, I would not expect the shares to trade very much below this strike price. With the current price of \$24.87 they still yield 6.79%. I don't believe they will be redeemed at the first callable date, in 2011, because this is one of the avenues the company uses to fund its acquisitions. It would need over \$220 mm to redeem them, and it seems to have better uses for that cash at this point in time.

VIMCOR Valuation Model

4/21/2010

RUNDATE 4/21/2010

S&P Price 1,308.10

Data Date 04/16/2010

S&P DIV 23.30 S&P T12 EPS 72.76

S&P YIELI 1.78 SP PE 17.98

TIC	CONAME	PRICE	CUR RE/PE	LOW RE/P	HI REL/P	CUR REL YLD	LOW REL YLD	HI REL YLD	CUR P/BK	LOW P/BK	HI P/BK	CUR P/CF	LOW P/CF	HI P/CF	CUR P/SL	LOW P/SL	HI P/SL	Potential %	Down Price	Potenti al Up Price	%	Expected Change	Est Y/E Bk Val	Est Y/E Cash Fl	T12 EPS	T12 DIV	Potential Price Counters	BETA
O	REALTY INCOME CORI	31.43	1.86	1.22	1.98	3.07	1.00	5.04	2.87	1.67	2.61	0.00	0.00	10.01	6.99	10.67	19.80	-0.37	47.67	0.52	0.07	10.10	0.00	0.94	1.72	4	4	0.95

Expected Change % (total Lis 0.07)

4/21/2010

TIC	COMPANY	ATTRIBEQ ANALYS T	FY EN D	04/16/2010 PRICE	EPS					EPS GROWTH					PE ON 12 MTH	DIV	YIELD	PE/LEAST GROWTH RATE	PRICE/ BOOK	PRICE/ CASH FLOW	TOT RETURN	PRICE RETUR N	
					LAST YR	ENDEDEPS 12MTH	EST THIS YR	EST NEXT YR	ACTUAL PAST 5 YRS	LATES T QTR	EST THIS YR	EST NEXT YR	EST 5 YRS										
O	REALTY INCOMI	5	12	31.43	0.91	12/31/2009	0.94	0.94	1.23	33.44	0.00	-0.17	0.03	0.31	0.00	1.72	5.47 %	0.00	2.87	0.48	0.02		
	No. of Companies:	1.00		31.43	0.91		0.94	0.94	1.23	33.44	0.00	-0.17	0.03	0.31	0.00	1.72	5.47 %	0.00	2.87	0.48	0.02	100.00	% age of Lis
Avg.		1	Companies	30.69	0.91		0.94	0.94	1.23	33.44	0.00	-0.17	0.03	0.31	0.00	1.72	5.60	0.00	2.87	0.48	0.02		

VIMCOR Valuation Buy/Sell Decision

4/21/2010

RUNDATE 4/19/2010**Data Date** 04/16/2010

TIC	CONAME	PRICE	Value Range				Expected Change	Value Range			Decision
			Potential Down Price	%	Potential Up Price	%		Buy Range	Hold Range	Sell Price	
O	REALTY INCOME COR.	31.43	19.80	-0.37	47.67	0.52	0.07	19.80 - 29.09	29.09 - 38.38	38.38	HOLD