HILLIARD LYONS

Healthcare Real Estate Investment Trusts
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COMPANY UPDATE/ESTIMATE CHANGE

Key Metrics

CCP - NYSE - as of 5/8/17		$28.12
2-3 Year Price Target		N/A
52-Week Range	$22.70 -	$31.56
Shares Outstanding (mm)		83.8
Market Cap. ($mm)		$2,356.5
1-Mo. Average Daily Volume		1,535,570
Institutional Ownership		95.0%
Debt/Total Capital	Mar-17	40.4%
Est 3-year FFO Growth Rate		5.0%
Est 3-year Dividend Growth Rate		1.0%
Book Value		$ 14.71
Dividend		$ 2.28
Dividend Yield		8.11%
Est. Fixed Charge Coverage		4.5 X

FFO Per share

	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$0.80	--	$0.68	A	--	--
2Q	$0.79	$0.72	--		--	--
3Q	$0.75	$0.74	--		--	--
4Q	$0.71	$0.77	--		--	--
Year	$3.04	$2.93		*		
P/E	8.8x					

*-May not add up due to rounding, not restated.

Revenue ($mm)

	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$84.5	--	$81.7	A	--	--
2Q	$85.7	$83.1	--		--	--
3Q	$87.3	$85.3	--		--	--
4Q	$83.8	$87.6	--		--	--
Year	$341.3	$339.1				

Company Description: *Care Capital Properties, Inc., headquartered in Chicago, IL, is a real estate investment trust (REIT) that has investments in healthcare facilities, specifically skilled nursing facilities, located throughout the country, leasing them to operator tenants through triple net leases. Currently, the company owns 345 properties with nearly 40,000 beds.*

Care Capital Properties, Inc.

CCP -- NYSE – Neutral-3

Q1 Earnings Update

Investment Highlights

- CCP reported Q1 normalized FFO of $0.68 a share, compared to $0.80 a share normalized in the year earlier period, and below our and the consensus estimate of $0.70 a share.
- CCP shares are going to trade in line with shares of Sabra Health Care REIT (SBRA, $25.31) due to the stock swap deal with SBRA. This is illustrated with today's market action, as SBRA is down and CCP is following it lower. Should investors wish to continue to hold CCP, they have to want to hold SBRA. We do not follow SBRA at this time.
- SBRA raised its dividend 2.4% in conjunction with its earnings release, but even with the increase, CCP's existing yield at over 8.5% (intra-day) is well above the yield CCP holders will get once the deal is complete (7.2% intra-day). As such, CCP holders will see a reduction in yield once the deal is complete.
- Our rating remains Neutral.
- We will continue to follow CCP until the deal closes, and should it fall through will once again offer normal coverage. However, with fundamentals no longer affecting the investment story here, we are not going to offer forward earnings/revenue estimates for CCP. The deal is expected to close in Q3 and be a tax-free transaction.

Note Important Disclosures on Page 5-6.
Note Analyst Certification on Page 5.

First Quarter Review

Total revenue was $81.7 million versus $84.5 million, a 3.3% decline as a result of recent divestitures offset by normal rental bumps. Rental income of $78.2 million was down 3.8% (please see income statement on page 3). Income from direct financing leases was up 64.6% to $1.9 million.

General and administrative expense was up 9.1% to $8.7 million from $8.0 million. Interest expense stood at $15.2 million from $10.1 million in the year earlier period, as debt rose. Depreciation expense fell 9.8% to $24.9 million versus $28.6 million, due to asset sales. The company also recognized non-recurring expenses during the quarter, mainly a $32.2 million gain on sale of assets, which compared to a $5.5 million impairment in the year earlier. The company also recognized $0.2 million in acquisition costs in the current quarter versus $1.2 million last year. First quarter net income available to common shareholders was $29.8 million versus $37.2 million. The per share net income this quarter was $0.36 versus $0.44 on flat common shares outstanding.

Ongoing funds from operations (FFO) on a normalized basis, which exclude real estate gains as well as other non-recurring and non-cash items, were $56.9 million compared to $66.6 million in last year's first quarter, a 14.5% decline. FFO per diluted share were $0.68 versus $0.80.

Other 1st Quarter Activity

Investment/Capital Markets Activity – CCP announced no major acquisitions during the quarter, although just after the end of Q1 it announced the purchase of six behavioral health hospitals for $400 million. This purchase acts to diversify the company's portfolio to some degree away from its core skilled nursing (SNF) properties. CCP also agreed to fund $50 million in capital expenditures to finance expansion and improvements on the portfolio. The GAAP yield expected on the purchase is 8.7%, while the rent payments are expected to be covered 1.5 times. This transaction is anticipated to add thirteen cents to the company's bottom line FFO annually.

Dividend – CCP offers investors a quarterly dividend payment of $0.57 a share, or $2.28 a share on an annual basis. At this level, CCP has a payout ratio (based on our previous 2017 estimate) slightly above the industry average, at 77.8%. We note that SBRA just increased its dividend, but we cannot be sure that the combined company will do the same as the strategy of the combined company may change.

Quarterly Income Statement

(in thousands)	1Q 2017	1Q 2016	% Change
Rental Income	$78,221	$81,351	-3.8%
Real estate service fee income	1,226	1,705	
Income from direct financing leases and loans	1,946	1,182	64.6%
Interest and Other Income	323	305	
Total Revenue	81,716	84,543	-3.3%
Other	913	851	
Acquisition costs	197	1,160	-83.0%
General, adminstrative and professional fees	8,729	8,001	9.1%
EBITDA	71,877	74,531	-3.6%
Interest Expense	15,185	10,067	
Depreciation Expense	24,896	28,641	-13.1%
Income (Loss) Before Discontinued Operations and Other Items	31,796	35,823	-11.2%
Discontinued Operations (including gain on sale of assets)	32,245	(120)	
Income tax expense	(239)	(421)	
Minority Interest	(8)	(17)	
Impairment on real estate assets	0	(5,499)	
Other	1,115	0	
Net Income (Loss)	$64,909	$29,766	118.1%
Net EPS (diluted)	$0.77	$0.35	120.0%
Avg. Shares Outstanding (diluted)	83,799	83,620	0.2%

Funds From Operations	1Q 2017	1Q 2016	
Net Income	$64,909	$29,766	118.1%
Depreciation Expense	24,669	28,419	-13.2%
Other (adding/substracting one-time items)	(32,638)	8,425	
Normalized Funds From Operations	**$56,940**	**$66,610**	-14.5%
Normalized FFO Per Share (diluted)	**$0.68**	**$0.80**	-15.0%

Source: Company reports.

Further Discussion

Due to the takeover of CCP by SBRA the company cancelled its earnings conference call. We are going to suspend our estimates, as they are really no longer germane to the investment thesis here, which is now dependent upon the stock price of SBRA, a company that we do not follow. While the combined company will include the results of both companies and certain synergies that should arise from the combination, we are uncomfortable with modelling such a combination as our estimates would only include a part of that equation (our CCP model) and not SBRA's portion.

While we believe that there was a potential positive investment story in a standalone CCP, obviously management believed that the synergies of the combined company added more value than CCP staying as a standalone entity. Either way, we do not feel comfortable retaining a positive rating on CCP in light of the fundamental thesis on which we based our rating going away. While we believe that there is upside in the standalone CCP, we can't say that for the combined company due to our lack of in-depth knowledge of SBRA. As such, our previous rating change to Neutral is appropriate, in our opinion. Investors who wish to hold the shares of CCP to gain the ongoing dividend and attain shares of SBRA when the deal is consummated have to be willing to shoulder the risk of the deal falling through, which while we believe unlikely, is possible, as well as taking on the operational risk on of SBRA. Investors not wishing to take these risks may want to exit their positions.

Suitability
CCP has a suitability rating of 3 on our 1-4 scale. We find the company to have a reasonably strong balance sheet in relation to its peers, and the triple net structure of most of its leases limit its property risk. Its real estate ownership is also a positive factor. On the other hand, the company is excessively exposed to the skilled nursing sector, with the bulk of its operator revenue paid by Medicare and Medicaid adding risk due to potential political issues and it is a reasonably new company having recently been spun-off from Ventas (VTR-$63.53). We note that with the risk around closing the SBRA deal, while the above issues impact our suitability rating on the standalone operating company, additional risk is added around the potential collapse of the SBRA deal. We are not changing our suitability on this risk, however, because we see little price risk from current levels should the deal fall through.

Risks

There are a number of risks in owning CCP shares and REITs as an investment group. REITs in general need access to debt capital to grow, if such debt capital is unavailable, the company may have difficulty in growing. The company's dividend is attractive to shareholders, and REITs in general have seen their prices rise with the decline in overall interest rates. Should rates rise, that could hurt CCP's share price. Because of their thirst for debt, changes in interest rates can also impact a REIT's cash flow and ability to make accretive acquisitions. CCP's dependence upon the long-term care sector of the health care real estate group could create issues due to government payments being the de-facto source for much of its tenants' rents. With changes for reimbursements on a year to year basis from the Center for Medicare and Medicaid Services, there will be a negative impact on its tenant base if rates are reduced or not increased as much as expected or needed, which in turn could have a negative impact on CCP. It is always possible that the company could make a poor acquisition in the future or not realize synergies from prior acquisitions. The company is a newly public company and if management does not live up to expectations and falters in the public company setting that would obviously hurt the share price. Texas represents a significant amount of CCP's revenue at nearly 23% and with the decline in oil prices and the Texas economy having significant business in the area, this could create some risk, although with much of the revenue covered by government payers we see it as limited. In addition, patients may see home health as a more affordable alternative to SNFs which could eventually negatively impact SNFs. Of course were the SBRA deal to fall through, that would likely result in the share price declining, all things being equal.

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 2016 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2016 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, John M. Roberts, 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

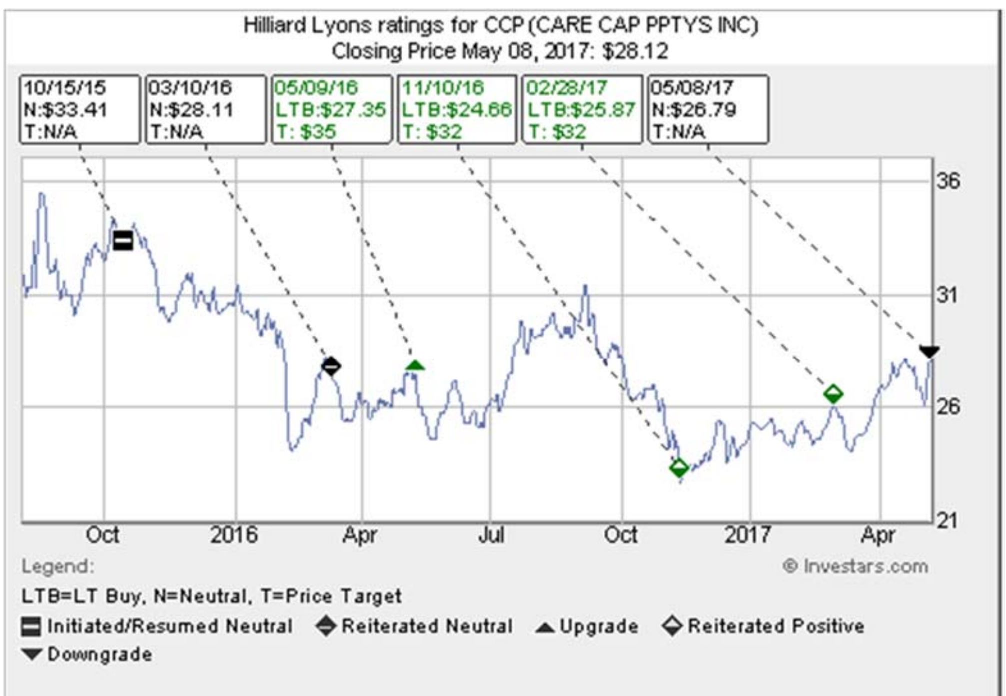
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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 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	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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