Healthcare Real Estate Investment Trusts
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COMPANY UPDATE/ESTIMATE CHANGE

Key Metrics		
HCN - NYSE - as of 2/21/17		$66.94
Price Target		NA
52-Week Range	$59.16 -	$80.19
Shares Outstanding (mm)		364.4
Market Cap. ($mm)		$24,392.9
1-Mo. Average Daily Volume		1,761,780
Institutional Ownership		85.0%
Debt/Total Capital	Dec-16	31.1%
Est 3-year FFO Growth Rate		4.0%
Est 3-year Dividend Growth Rate		3.5%
Book Value		$ 38.29
Dividend		$ 3.48
Dividend Yield		5.20%
Est. Fixed Charge Coverage		3.4 X

FFO Per share

	2015	Prior 2016	Current 2016	Prior 2017E	Current 2017E
1Q	$1.04	--	$1.13	$1.03	$1.05
2Q	$1.09	--	$1.15	$1.08	$1.09
3Q	$1.12	--	$1.16	$1.09	$1.10
4Q	$1.13	--	$1.10	$1.10	$1.10
Year	$4.38		$4.55	$4.30	$4.34
P/E	15.3x		14.7x	*	15.4x

Quarters may not add to annual figure due to rounding

Revenue ($mm)

	2015	Prior 2016	Current 2016	Prior 2017E	Current 2017E
1Q	$894.2	--	$1,047.1	$1,048.6	$1,059.5
2Q	$957.2	--	$1,076.7	$1,068.8	$1,070.2
3Q	$979.0	--	$1,071.8	$1,090.5	$1,088.4
4Q	$995.3	--	$1,073.0	$1,130.3	$1,107.6
Year	$3,825.6		$4,275.8	$4,338.1	$4,325.7

Company Description: *Welltower, headquartered in Toledo, OH, is a real estate investment trust (REIT) that has investments in healthcare facilities located throughout the country, including independent living facilities, assisted and skilled nursing facilities, hospitals, continuing care facilities and medical office buildings, among others.*

Welltower, Inc.

HCN -- NYSE – Underperform-2

Fourth Quarter a Little Worse Than Expected

Investment Highlights

- HCN reported normalized Q4 FFO of $1.10 a share, three cents below our estimate, and a penny above the consensus. HCN initiated a 2017 guidance range of $4.15-$4.25 a share. We are retaining our estimate in light of management's conservative nature and the fact that we are assuming some acquisition activity for the year. As a result, we remain above the range at $4.34 a share, with an increase due to lower general and administrative expense (G&A) guidance.
- HCN shares have dropped in price a bit since the middle of last year, although they remain above the group on a valuation basis, as the group as a whole has also moved down over the period. We worry about the potential performance of the shares over the coming year due to the dilutive impact of the divestitures the company has announced and how that will play out over the coming year. While these divestitures and the re-positioning of the portfolio may be positive for the long-term, we do not see the shares trading up in an environment of falling estimates and rising rates. As such, we are retaining our rating on the shares at Underperform at this point. While the portfolio continues to improve, we believe the premium valuation is more than currently reflected in the share price, in our opinion. Having said that, we would look for a potential decline in price around the reduction in estimates to possibly provide an upgrade opportunity in the future.
- We are retaining our rating on HCN at Underperform. We continue to like the company, its product mix, long-term track record and management team, but valuation and the drop in year over year results due to dilution from divestitures gives us pause. As such, we see near term risk on the shares, especially with an environment of investor sentiment around rising rates.

Note Important Disclosures on Pages 9-10.
Note Analyst Certification on Page 9.

Fourth Quarter Review

Total revenue was $1,078.3 million versus $1,029.5 million, a 4.7% increase due to the company's acquisitions and investments. Rental income of $389.4 million was down 5.8% (please see income statement on page 3), which we believe was a function of recent divestitures offset somewhat by rent increases. Resident fee and service income increased 12.4% to $657.3 million, from acquisitions and fee increases.

Property operating expenses increased to $494.8 million compared to $438.7 million, up 12.8%. General and administrative expense fell 11.0% to $32.8 million, from $36.9 million, below our expectations. Interest expense fell 3.6% to $126.4 million from $131.1 million on lower debt levels. Depreciation expense rose 2.3% to $227.9 million. The company had $9.7 million in transaction costs this quarter and $40.5 million in the year ago period. We note that there was a $200.2 million gain on real estate sales this quarter and $31.4 million last year. Finally, the company had various non-recurring charges in both years that are excluded from FFO. After preferred dividends of $16.4 million in both quarters, fourth quarter net income available to common shareholders was $333.0 million versus $132.9 million. EPS were $0.91 versus $0.37 on 2.6% more common shares outstanding in this year's Q4.

Ongoing funds from operations (FFO) on a normalized basis, which exclude real estate gains as well as other non-recurring items, were $401.5 million compared to $402.4 million in last year's fourth quarter, a 0.2% decline. FFO per diluted share on a normalized basis were $1.10 versus $1.13.

HCN's debt level has moved down since year end 2015, as proceeds from recent divestitures have been utilized to reduce debt. The level of debt stood at approximately $12.3 billion in total (please see balance sheet on page 4) at the end of 2016 compared to $12.9 billion at the end of 2015. The company's debt to capital ratio was 31.1% at the end of 2016, as the company has reduced debt while issuing additional equity. HCN has only $500 of debt million due in 2017, none of which should pose a problem, in our opinion, and we expect no liquidity issues for HCN. We note that as with many of its peers, HCN has improved its liquidity and balance sheet position and remains in a strong position to grow its portfolio. Proceeds from asset sales will be used for liquidity in the near term, meaning that additional debt is unlikely over the coming year.

Other 4th Quarter Activity

Investment Activity – During Q4 HCN completed the previously announced purchase of a $1.15 billion seniors housing portfolio in California consisting of 19 properties. The portfolio includes independent living, assisted living and memory care assets. HCN management is transitioning the management of these properties to three of its existing partners. Management did not offer metrics on the purchase, although we believe that the return is likely to be in the mid-6% range. Also during the quarter the company continued its development and expansions activity adding $137 million at an average of 7.5% return on completion and $97 million in loans with an expected return of 9.2%. The company also placed into service seven development projects with a total value of $136 million and a blended stabilized yield of 8.1%. HCN also announced a portfolio repositioning, and as part of that announced the sale of 28 long-term/post-acute facilities to a joint-venture with HCN retaining a 25% interest. Once another 11 properties are sold, which is anticipated to be completed later this year, HCN estimates the value of the joint-venture properties to be $930 million. HCN also announced that it was restructuring loans made to the tenant of these properties, which have a current outstanding balance of $317 million.

Capital Markets Activity – During the quarter, HCN did not do any major financing activity, as they will likely use proceeds from asset sales for investment capital over the coming year. However, the company did raise $14 million under its dividend reinvestment plan and its "at the market" share sale program. We note that the company also got a rating upgrade to BBB+ from one of the major rating agencies during the quarter. Subsequent to quarter end the company announced that it was redeeming its Series J (HCN.J-$25.24) preferred stock at the face value of $25 a share. With a total of 11.5 million shares outstanding, the company will be using $287.5 million to repurchase the shares, likely using the proceeds from recent asset sales to pay for the redemption.

Quarterly Income Statement

(in thousands)	4Q 2016	4Q 2015	% Change
Rental Income	$389,372	$413,446	-5.8%
Resident Fees and Service	$657,345	$584,713	12.4%
Interest Income	23,688	24,191	-2.1%
Interest and Other Income	7,916	7,134	11.0%
Total Revenue	1,078,321	1,029,484	4.7%
Property Operating Expense	494,835	438,738	12.8%
Transaction Costs	9,704	40,547	
General and Administrative Expenses	32,807	36,854	-11.0%
EBITDA	540,975	513,345	5.4%
Interest Expense	126,360	131,097	-3.6%
Income Tax	(16,585)	2,682	-718.4%
Depreciation Expense	227,916	222,809	2.3%
Income (Loss) Before Discontinued Operations and Other Items	203,284	156,757	29.7%
Discontinued Operations (including gain on sale of assets)	200,165	31,385	
Unrealized loss on assets	(13,187)	(35,648)	
Loss/gain on derivatives, other	(8,906)	0	
Loss/Gain on extinquishment of debt	(17,204)	195	
Provision for loan losses	(10,215)	0	
Minority Interest	(4,543)	(3,406)	
Preferred Stock Dividends	(16,352)	(16,352)	
Net Income (Loss)	$333,042	$132,931	150.5%
Net EPS (diluted)	$0.91	$0.37	144.1%
Avg. Shares Outstanding (diluted)	364,369	354,972	2.6%

Funds From Operations	4Q 2016	4Q 2015	
Net Income	$333,042	$132,931	150.5%
Depreciation Expense	227,916	222,809	2.3%
Other (adding/substracting one-time items)	(159,414)	46,615	
Normalized Funds From Operations	**$401,544**	**$402,355**	-0.2%
Normalized FFO Per Share (diluted)	**$1.10**	**$1.13**	-2.8%

Source: Company reports.

Consolidated Balance Sheet

(in thousands)	31-Dec-16	31-Dec-15
Real Estate Assets		
Land	$2,591,071	$2,563,445
Buildings and Improvements (net of Depreciation)	$20,402,659	$21,726,245
Properties held for sale	$1,044,859	$169,950
Acquired Lease Intangibles	$1,402,884	$1,350,585
Construction in Progress	$506,091	$258,968
Mortgage Loans Receivable, net	616,065	819,492
Total Net Real Estate Investments	26,563,629	26,888,685
Cash and Cash Equivalents	419,378	360,908
Deferred Loan expense	0	0
Goodwill	68,321	68,321
Equity Investments	457,138	542,281
Restricted Cash	187,842	61,782
Receivables and other	1,168,876	1,101,868
Total Assets	**$28,865,184**	**$29,023,845**
Bank Borrowings	$645,000	$835,000
Senior unsecured notes	8,161,619	8,548,055
Secured debt	3,477,699	3,509,142
Capital Lease Obligations	73,927	75,489
Accrued expenses and other liabilities	827,034	697,191
Total Liabilities	**$13,185,279**	**$13,664,877**
Minority Interest	$873,512	$768,408
Preferred stock	1,006,250	1,006,250
Common Stock	363,071	354,811
Capital in Excess of Par Value	16,999,691	16,478,300
Cumulative net income	4,803,575	3,725,772
Treasury stock	(54,741)	(44,372)
Accumulated Other income	(169,531)	(88,243)
Other equity	3,059	4,098
Cumulative Distributions	(8,144,981)	(6,846,056)
Total Shareholders' Equity	**15,679,905**	**15,358,968**
Total Liabilities and Shareholders' Equity	**$28,865,184**	**$29,023,845**

Balance Sheet Ratio Analysis	31-Dec-16	31-Dec-15
Net R/E Investments / Total Debt	46.2%	47.9%
Debt to Equity	78.3%	83.9%
Debt as % of Total Assets	42.6%	44.4%
Shareholders' Equity as % of Total Assets	54.3%	52.9%

Source: Company reports.

Conference Call Discussion

HCN management emphasized the change in the company's portfolio and as well as its strategic movement towards closer relationships with partners and movement towards cutting edge patient care. They noted a continued divestiture of public pay assets (most notably skilled nursing assets), while moving towards more private pay assets. They offered the just announced collaboration with Johns Hopkins Medicine as an example of such a partnership. In this case the companies will be exploring a variety of joint initiatives to deliver healthcare more efficiently and effectively. HCN seems to be pushing to go beyond the typical REIT model of owning properties and leasing them out to operators for lease rent. It may offer some advantages that other REITs don't have if it makes their properties more efficient, effective and also attractive to potential residents. Of course, it may also increase risk, depending upon the costs involved in such endeavors. Time will tell whether this strategy is going to be effective, although the market certainly seems to be giving management the benefit of the doubt with the premium valuation at which the shares continue to trade. Of course, there are some risks here, given the additional investment potentially involved. Also, we will have to see if there are additional revenue sources that might be generated here that could impact the company's REIT status, although we don't see any issues here currently.

Management also discussed its recently announced management restructuring, which saw an extension of CEO Tom DeRosa's contract through 2020 and the streamlining of the company's management. This included the elimination of two positions, the Chief Investment Officer and Chief Operating Officer, with the responsibilities of these executives going to existing management team members. Management noted that these moves, along with other various moves will result in a significant decline ($30 million) in general and administrative expenses for 2017, with an expectation for $135 million in G&A cost for 2017.

Management offered 2017 guidance in line with what we had anticipated that they would offer, especially in light of management's typical conservative nature. They typically under promise and over deliver, and we believe they are once again being conservative in their 2017 estimates, which are likely somewhat more nebulous than typical given the level of divestitures ($2 billion) that management is expecting for the year. With the timing of these sales being somewhat uncertain we believe that the range of $4.15 to $4.25 a share is likely to be based on the most conservative assumptions as to when these sales will occur. Management only included acquisitions and investments already being undertaken and announced in guidance and is including property divestitures in guidance. The assumptions on same store NOI growth on the company's property portfolio at 2.0-3.0%.

Management also discussed its continued capital recycling, with $1.8 billion in asset sales last year, with a 9% yield on these sales. Management is anticipating an additional $2 billion in divestitures in 2017 at a yield of 7.6%. They also noted that they had a total of $3.0 billion in investment in 2016, with an initial return of 6.7%. We are anticipating a lower net number in 2017 due to the large amount of divestitures. We note that we are also likely to see continued dilution due to the high yields on properties sold versus those acquired.

Property Fundamentals

Property fundamentals continue to be solid. Every property category showed solid same-store NOI growth during the quarter. Occupancy continues to improve, with the company's senior housing operating portfolio occupancy at an excellent 90.7%. The skilled nursing portfolio's occupancy was 81.5% (same store stabilized), although with recent sales this is becoming a very small part of the company's business. Occupancy at the company's medical office property portfolio was a strong 95.0%. The retention rate was solid at 86.8%. Coverages for the portfolio as a whole was 1.7-to-1 on a gross basis. The senior housing operating portfolio showed same-store cash NOI growth of 1.7% for the year, down from recent trends, while the medical office building showed a 2.1% rise.

Dividend – HCN increased its Q4 2015 dividend (paid in Q1 '16), raising it by three and a half cents a quarter, to a yearly rate of $3.44, or an increase of 4.2%. Management has noted in the past that it would like to reduce its payout ratio, although the increase is coming closer to our expectation to forward FFO growth. As such, the dividend increases in the future may come down slightly on a percentage basis, although the payout ratio on the new dividend is coming in near management's target in the low 70% range, which is slightly above the peer group payout level. In conjunction with the Q3 press release, management noted that it would bump its Q1'17 dividend by a penny to $3.48 annually, a much lower increase than usual, and likely a function of the dilution from the asset sales lowering cash flow. We expect the payout ratio could potentially increase in the near term.

Q1 and 2017 Outlook

Following the call and discussions with management, we are bumping up our recently reduced 2017 FFO per share estimate to $4.34, which compares to the consensus number of $4.31 a share and is a 4.6% decline from 2016. The increase is a function of the lower G&A expense number, which we have actually kept at a little higher number than management is guiding at this point. We are anticipating a lower level of acquisitions and investments for 2017—around $100 million net of divestitures, with the general lack of purchases so far in 2017 and the large amount of asset sales that are anticipated over the coming year. Our Q1 estimate is $1.05 a share. At this point, we are initiating a 2018 FFO estimate at $4.57 a share, which is above the consensus number of $4.50 a share, as we expect investment to pick up late 2017 and into 2018.

Valuation

Using our $4.34 a share estimate for 2017, HCN shares are trading at 15.4 times current year FFO. This is a somewhat expensive valuation, in our opinion, and at a premium to the peer group, which currently is trading at 13.8 times (please see the table below). While HCN shares don't look cheap on valuatiom, HCN remains a favorite company in the group on a fundamental basis, were there not an issue with valuation. The strong relationships that HCN has developed with its operator partners should support above group acquisition activity and provide for modest FFO growth beyond the dilution from the divestiture transactions, which could support a premium valuation. However, with valuation of the group as a whole not exactly compelling, we would continue to underweight HCN. Due to its long tenure in the business and the relationships that it has engendered, the company tends to have one of the best and most diversified acquisition pipelines in the group. We note that it is purely valuation that is an issue for us and we would upgrade these shares should they drop back into what we consider a more reasonable valuation with no change in fundamentals, although we will be looking closely at the new strategic direction that management has outlined and any additional potential risk that results.

Health Care REITs		**Closing Price**	**Current**		**2017E**			**2-Year Average**	**Price / FFO**	
Ranked By Market Cap.	**Symbol**	**2/21/2017**	**Dividend**	**Yield**	**Payout Ratio**	**2016**	**2017E**	**Growth Rate**	**2016**	**2017E**
National Health Investors	NHI	$74.53	$3.60	4.8%	69.2%	$4.87	$5.20	5.5%	15.3x	14.3x
LTC Properties	LTC	$46.89	$2.28	4.9%	71.3%	$3.06	$3.20	6.9%	15.3x	14.7x
Healthcare Realty	HR	$31.40	$1.20	3.8%	70.6%	$1.63	$1.70	3.1%	19.3x	18.5x
Omega Healthcare Investors	OHI	$31.94	$2.44	7.6%	69.3%	$3.41	$3.52	6.9%	9.4x	9.1x
Ventas, Inc.	VTR	$62.80	$2.92	4.6%	68.5%	$4.13	$4.26	-2.4%	15.2x	14.7x
Health Care Sector Average		**$49.51**	**$2.49**	**5.0%**	**69.6%**	**$3.42**	**$3.58**	**3.7%**	**14.5x**	**13.8x**
Welltower, Inc.	HCN	$66.94	$3.44	5.1%	79.3%	$4.57	$4.34	-0.5%	14.6x	15.4x

Note: OHI is rated Buy, VTR and NHI are rated Neutral, LTC and HR are rated Underperform by Hilliard Lyons. Source: NAREIT, Baseline and Hilliard Lyons' estimates.

2016 numbers are estimates for LTC.

Rating – Our rating on HCN remains Underperform. While we really like HCN and believe management has done an excellent job in improving its portfolio and overall growth, the current price is just a little too dear for us to be positive on these quality shares. In general, we will only recommend purchase of a company if valuation metrics are attractive, and we are not going to hesitate to keep our Underperform rating on shares when we believe investors should consider taking profits. Due to the relatively high valuation, we believe investors could consider taking profits at current prices, in spite of our very positive opinion of the company on an operational basis and management in general. We also see risk to the share price with lower year over year numbers and an environment where investors are expecting higher rates. Having said that, should the stock trade lower, it could engender a potential upgrade opportunity,

Suitability

HCN has a suitability rating of 2 on our 1-4 scale. We find the company to have a very strong balance sheet, and its diversified portfolio and strong tenant group and relationships is another positive. Its real estate ownership is also a positive factor, as is the company's geographic and operator diversification. On the other hand, the company has operational exposure through its taxable REIT subsidiary, which is higher risk and is subject to the potential for overbuilding and higher interest rates with a significant portion of the company's investment funded through debt. Also, a decline in the stock price could limit the company's ability to make new investments.

Risks

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.

Table 1. Consolidated Income Statement
In Thousands

	2013	2014			2015					2016					2017E		
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Revenues:																	
Rental income	$1,238,527	$1,405,766	$379,587	$396,626	$409,290	$413,446	$1,598,949	$415,663	$422,628	$421,152	$389,372	$1,648,815	$370,326	$374,185	$383,898	$392,978	$1,521,387
Interest Income	$32,664	$37,667	$16,994	$20,576	$22,380	$24,191	$84,141	$25,188	$24,007	$25,080	$23,688	$97,963	$20,400	$20,060	$19,720	$19,720	$79,900
Resident fees and Services	$1,616,290	$1,892,237	$492,510	$535,553	$545,255	$584,713	$2,158,031	$602,149	$615,220	$630,017	$657,345	$2,504,731	$665,561	$673,880	$682,000	$691,889	$2,713,330
Other	$4,066	$7,875	5,086	4,414	2,072	7,134	$18,706	4,050	14,802	2,884	7,916	$29,652	3,211	2,051	2,798	3,038	$11,098
	$2,891,547	$3,343,545	$894,177	$957,169	$978,997	$1,029,484	$3,859,827	$1,047,050	$1,076,657	$1,079,133	$1,078,321	$4,281,161	$1,059,498	$1,070,176	$1,088,416	$1,107,625	$4,325,714
Expenses																	
Interest Expense	$461,671	$481,040	$121,080	$118,861	$121,130	$131,097	$492,168	$132,960	$132,326	$129,699	$126,360	$521,345	$120,323	$118,817	$122,193	$125,462	$486,794
Depreciation & Amort.	871,898	844,130	188,829	208,802	205,799	222,809	826,239	228,696	226,569	218,061	227,916	901,242	219,799	215,337	218,097	221,639	874,870
Property operating expense	1,208,782	1,403,358	376,461	398,354	408,703	438,738	1,622,256	449,636	458,832	473,680	494,835	1,876,983	497,840	502,040	511,500	520,646	2,032,026
Loan Expense																	
Loss/Gain on debt extinguishment	(909)		-		584	(195)		-			17,204		-				
Loss on derivatives	7,187	(1,544)	-	-	-	-	-	-	-	-	8,906	8,906	-	-	-	-	-
Transaction costs	133,400	69,537	48,554	12,491	9,333	40,547	110,925	8,208	5,157	19,842	9,704	42,911	25,000	25,000	25,000	27,000	102,000
Provision for loan loss	2,110	-	-	-	-	-	-	-	-	-	10,215	10,215	-	-	-	-	-
General & Administrative	108,318	142,944	35,138	38,474	36,950	36,854	147,416	45,691	39,914	36,828	32,807	155,240	42,486	33,711	31,564	33,229	140,989
Total Expenses	$2,792,457	$2,946,480	$770,062	$776,982	$782,499	$869,850	$3,199,393	$865,191	$862,798	$878,110	$927,947	$3,534,046	$905,447	$894,904	$908,353	$927,976	$3,636,680
Income from Operations	$99,090	$397,065	$124,115	$180,187	$196,498	$159,634	$660,434	$181,859	$213,859	$201,023	$150,374	$747,115	$154,051	$175,271	$180,063	$179,649	$689,034
Minority interests	$4,512	($148)	($2,271)	($1,534)	($862)	($133)	($4,800)	($153)	$1,077	($1,749)	($1,714)	($2,539)	($1,719)	($1,813)	($1,758)	($1,892)	($7,182)
Equity income from unconsolidated JVs	($5,931)	($27,425)	($12,648)	($2,952)	($2,631)	($3,273)	($21,504)	($3,820)	($1,959)	($3,479)	($2,829)	($12,087)	($2,696)	($3,067)	($3,331)	($3,324)	($12,418)
Oper. Income from discontinued opers.	($30,338)	$30,328	$0	$190,111	$0	$0	$190,111	$0			$200,165		$0				
Income taxes	($7,490)	$1,268	$304	($7,417)	$3,344	($2,682)	($6,451)	$1,725	$513	$305	$16,585	$19,128	$300	$300	$300	$300	$1,200
Other			$43,026	($29,470)	$2,046	($35,648)	($20,046)	$24	($3,194)	($7,189)	($13,187)						
(Loss)/Gain on sale of assets	$85,208	$113,755	$54,625	$0	$0	$31,385	$86,010	($14,314)	$1,530	$162,351	$0	$149,567	$0	$0	$0	$0	$0
Income Bef. Preferred div	$145,051	$514,843	$207,151	$328,925	$198,395	$149,283	$883,754	$165,321	$211,826	$351,262	$349,394	$901,184	$149,936	$170,691	$175,274	$174,733	$670,634
Preferred dividends	$66,337	$65,409	$16,352	$16,352	$16,352	$16,352	$65,408	$16,352	$16,352	$16,352	$16,352	$65,408	$15,350	$11,677	$11,677	$11,677	$50,381
Net Income for common	$78,714	$449,434	$190,799	$312,573	$182,043	$132,931	$818,346	$148,969	$195,474	$334,910	$333,042	$835,776	$134,586	$159,014	$163,597	$163,056	$620,253
Per share bef. Extra	$0.28	$1.46	$0.56	$0.89	$0.52	$0.37	$2.34	$0.42	$0.54	$0.93	$0.91	$2.32	$0.37	$0.43	$0.43	$0.43	$1.65
Extraordinary item	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Net (loss) income per share	$0.28	$1.46	$0.56	$0.89	$0.52	$0.37	$2.34	$0.42	$0.54	$0.93	$0.91	$2.32	$0.37	$0.43	$0.43	$0.43	$1.65
Quarterly dividend rate	$3.06	$3.18	$0.83	$0.83	$0.83	$0.83	$3.30	$0.86	$0.86	$0.86	$0.86	$3.44	$0.90	$0.90	$0.90	$0.90	$3.60
Shs Outstanding (diluted)	278,555,750	307,713,500	337,812,000	351,366,000	353,107,000	354,972,000	349,314,250	356,051,000	358,891,000	361,237,000	364,369,000	360,137,000	368,215,154	372,490,154	376,990,154	381,940,154	374,908,904

Table 5. Funds From Operations Calculation

					2015					2016					2017E		
In Thousands	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Net income for common shareholders	$78,714	$449,434	$190,799	$312,573	$182,043	$132,931	$818,346	$148,969	$195,474	$334,910	$333,042	$835,776	$134,586	$159,014	$163,597	$163,056	$620,253
Add Back:																	
Depreciation	871,898	844,130	188,829	208,802	205,799	222,809	826,239	228,696	226,569	218,061	227,916	901,242	219,799	215,337	218,097	221,639	874,870
JV Adjustment	20,469	37,454	5,413	19,791	11,151	8,154	44,509	7,951	(3,539)	11,251	5,091	20,754	6,891	7,021	6,151	8,015	28,078
Other	165,972	56,563	(35,378)	(157,466)	9,333	69,846	(113,665)	8,208	(2,539)	18,901	35,660	60,230	25,000	25,000	25,000	27,000	102,000
Non-recurring																	
Deduct:																	
Gain/loss on sales of real estate	($85,208)	($115,027)	$0	$0	($11,856)	($31,385)	($43,241)	$7,172	($1,530)	($162,351)	($200,165)	($149,567)	$0	$0	$0	$0	$0
FFO Available for common	$1,051,845	$1,272,554	$349,663	$383,700	$396,470	$402,355	$1,532,188	$400,996	$414,435	$420,772	$401,544	$1,668,435	$386,276	$406,372	$412,844	$419,710	$1,625,202
Diluted FFO available for common	$1,061,971	$1,269,862	$349,663	$383,700	$396,470	$402,355	$1,532,188	$400,996	$414,435	$420,772	$401,544	$1,637,747	$386,276	$406,372	$412,844	$419,710	$1,625,202
Basic FFO per share	$3.79	$4.15	$1.04	$1.10	$1.13	$1.14	$4.40	$1.13	$1.16	$1.17	$1.11	$4.65	$1.05	$1.10	$1.10	$1.10	$4.35
Diluted FFO per share	$3.80	$4.13	$1.04	$1.09	$1.12	$1.13	$4.38	$1.13	$1.15	$1.16	$1.10	$4.55	$1.05	$1.09	$1.10	$1.10	$4.34
Shares, basic	277,828,000	306,363,500	336,462,000	350,016,000	351,757,000	353,622,000	347,964,250	354,501,000	356,646,000	359,887,000	363,019,000	358,513,250	366,665,154	370,940,154	375,440,154	380,390,154	373,358,904
Shares, diluted	279,178,000	307,713,500	337,812,000	351,366,000	353,107,000	354,972,000	349,314,250	355,851,000	358,891,000	361,237,000	364,369,000	360,087,000	368,015,154	372,290,154	376,790,154	381,740,154	374,708,904

Table 6. Funds Available for Distribution Calculation

FFO Available for common	$1,051,845	$1,272,554	$349,663	$383,700	$396,470	$402,355	$1,532,188	$400,996	$414,435	$420,772	$401,544	$1,668,435	$386,276	$406,372	$412,844	$419,710	$1,625,202
Less:																	
Recurring real estate CAPX	($48,174)	($126,000)	($15,000)	($15,500)	($16,000)	($16,500)	($63,000)	($12,000)	($12,000)	($12,000)	($12,000)	($48,000)	($12,000)	($12,000)	($12,000)	($12,000)	($48,000)
Debt adjustments	$4,837	$4,800	$1,200	$1,200	$1,200	$1,200	$4,800	$1,200	$1,200	$1,200	$1,200	$4,800	$1,200	$1,200	$1,200	$1,200	$4,800
Other	($59,000)	($60,000)	($15,000)	($15,000)	($15,000)	($15,000)	($60,000)	($15,000)	($15,000)	($15,000)	($15,000)	($60,000)	($15,000)	($15,000)	($15,000)	($15,000)	($60,000)
Funds available for distribution	$949,508	$1,091,354	$320,863	$354,400	$366,670	$372,055	$1,413,988	$375,196	$388,635	$394,972	$375,744	$1,565,235	$360,476	$380,572	$387,044	$393,910	$1,522,002
Per share	$3.42	$3.56	$0.95	$1.01	$1.04	$1.05	$4.06	$1.06	$1.09	$1.10	$1.04	$4.37	$0.98	$1.03	$1.03	$1.04	$4.08

Source: Company reports and Hilliard Lyons estimates

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, generally 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

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

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