



COMPANY UPDATE/ESTIMATE CHANGE

Key Metrics

HCN - NYSE - as of 5/4/17	\$69.86
Price Target	NA
52-Week Range	\$59.39 - \$80.19
Shares Outstanding (mm)	364.4
Market Cap. (\$mm)	\$25,457.0
1-Mo. Average Daily Volume	1,761,780
Institutional Ownership	85.0%
Debt/Total Capital Mar-17	28.8%
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	4.98%
Est. Fixed Charge Coverage	3.4 X

FFO Per share

	2016	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$1.13	\$1.05	\$1.05	A --	\$1.12
2Q	\$1.15	\$1.09	\$1.08	--	\$1.12
3Q	\$1.16	\$1.10	\$1.09	--	\$1.15
4Q	\$1.10	\$1.10	\$1.12	--	\$1.17
Year	\$4.55	\$4.34	\$4.34	\$4.57	\$4.55
P/E	15.4x		16.1x	*	15.4x

Quarters may not add to annual figure due to rounding

Revenue (\$mm)

	2016	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$1,047.1	\$1,059.5	\$1,062.3	A --	\$1,125.8
2Q	\$1,076.7	\$1,070.2	\$1,073.4	--	\$1,148.7
3Q	\$1,071.8	\$1,088.4	\$1,090.1	--	\$1,173.0
4Q	\$1,073.0	\$1,107.6	\$1,110.6	--	\$1,197.1
Year	\$4,275.8	\$4,325.7	\$4,366.5		\$4,644.6

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.

Healthcare Real Estate Investment Trusts

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Welltower, Inc.

HCN -- NYSE – Underperform-2

First Quarter Earnings Highlights

Investment Highlights

- HCN reported normalized Q1 FFO of \$1.05 a share, equal to our estimate and a penny above the consensus. This compares to \$1.13 in the year ago period. HCN retained its normalized 2017 FFO guidance at \$4.15-\$4.25 a share. Following the first quarter meeting our estimate, we are retaining our number at \$4.34 a share with expectation for some accretive investments not included in guidance occurring as the year progresses. This compares to the consensus of \$4.24. We remain above company guidance, although we still believe that management guidance and consensus will slowly move up as the year progresses and investments are made.
- While HCN's share price has moved down a bit with the recent back up in Treasury rates, we still see the shares as trading above what we consider fair value. Despite the solid operating metrics and the elimination of some of the company's riskier assets, we worry about an eventual turnaround in yields to place pressure on the income-oriented securities as the Fed continues to push rates higher, albeit at a slower pace than the market is currently anticipating. While we have always been very constructive on HCN due to strong management, an attractive portfolio and solid operating strategy, valuation remains above what we find attractive.
- We are retaining our Underperform rating on HCN at this time. We like the company, its property mix, long-term track record and management team, but we believe valuation remains high. As such, we continue to suggest under weighting HCN shares while awaiting a more attractive price point on these high quality shares.

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

First Quarter Review

Total revenue was \$1,062.3 million versus \$1,047.1 million, a 1.5% increase with recent divestment activity somewhat offsetting rent increases from rollover activity. Rental income of \$367.1 million was off 11.7% (please see income statement on page 3), which we believe was a function of recent property divestments. There was a solid increase in resident fee and service income, which increased 11.3% to \$670.3 million due to continued purchase of the owned and operated properties.

Property operating expenses increased to \$510.2 million compared to \$449.6 million, up 13.5%, slightly above the increase in associated revenue. General and administrative expense dropped 31.9% to \$31.1 million from \$45.7 million, well below our expectations. Interest expense was down 10.8% at \$118.6 million versus \$133.0 million, on debt off 12.4%. Depreciation expense fell 0.2% to \$228.3 million versus \$228.7 million. The company had no transaction costs this year and \$8.2 million in the year ago period. There were a variety of non-recurring gains/losses this year, increasing earnings by nearly \$140 million this year and subtracting nearly \$35 million last year. Preferred dividends were \$14.4 million this year and \$16.4 million last year, resulting in first quarter net income available to common shareholders of \$312.6 million versus \$149.0 million. EPS were \$0.86 versus \$0.42 on 2.4% more common shares outstanding in this year's Q1.

Ongoing funds from operations (FFO) on a normalized basis, which exclude real estate gains as well as other non-recurring items, were \$383.2 million compared to \$401.0 million in last year's first quarter, a 4.4% decline. Normalized FFO per diluted share were \$1.05 versus \$1.13.

HCN has reduced its overall debt level as the company utilized proceeds from asset sales to pay off some of its debt. The level of debt stood at \$11.38 billion in total (please see balance sheet on page 4) at the end of the first quarter compared to \$12.28 billion at the end of 2016 and \$12.99 billion in the year ago period. The company's debt to enterprise value ratio was 28.8% at the end of the quarter. HCN has \$244.7 million in debt maturing in the remainder of 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 should be in a strong position to grow its portfolio as cap rates rise, especially as the company sells non-core assets at low rates to raise capital for future purchases.

Other 1st Quarter Activity

Investment Activity – During the first quarter HCN undertook \$104 million in acquisitions and joint-ventures, with the remainder of its investments being development activity and loans. Total spending for the quarter was \$217 million, with the acquisitions/JVs providing a 6.4% blended yield, the \$102 million in development expected to provide a 7.5% yield and the \$11 million in loans offering a 8.0% yield. Another \$186 million in development were placed in service during the quarter with a blended yield expected at 7.0%. The company also disposed of \$1.1 million in assets at a yield of just under 7%. We note that virtually all of these investments were with existing partners of the company.

Capital Markets Activity – During the quarter, HCN retired its 6.5% Series J preferred stock at par plus accrued and unpaid dividends. The company used proceeds from recent asset sales to fund the \$287.5 million to retire the issue. Proceeds for asset sales were also used to pay-off \$806 million in secured debt with an average yield of 5.6%. The company also issued \$112 million in equity under its dividend reinvestment and at the market stock sale plans.

Quarterly Income Statement

(in thousands)	1Q 2017	1Q 2016	% Change
Rental Income	\$367,141	\$415,663	-11.7%
Resident Fees and Services	\$670,337	\$602,149	11.3%
Interest Income	20,748	25,188	-17.6%
Interest and Other Income	4,072	4,050	0.5%
Total Revenue	1,062,298	1,047,050	1.5%
Property Operating Expense	510,169	449,636	13.5%
Transaction Costs	0	8,208	
Other Expenses	11,675	0	
General and Administrative Expenses	31,101	45,691	-31.9%
EBITDA	509,353	543,515	-6.3%
Interest Expense	118,597	132,960	-10.8%
Income Tax	2,245	(1,725)	
Depreciation Expense	228,276	228,696	-0.2%
Income (Loss) Before Discontinued Operations and Other Items	160,235	183,584	-12.7%
Discontinued Operations (including gain on sale of assets)	244,092	0	
Realized/unrealized loss on assets	(11,031)	(14,314)	
Income from JVs	(23,106)	(3,820)	
Unrealized loss on derivatives	(1,224)	0	
Loss on extinguishment of debt	(31,356)	24	
Minority Interest	(823)	(153)	
Preferred Stock Dividends *	(24,148)	(16,352)	
Net Income (Loss)	\$312,639	\$148,969	109.9%
Net EPS (diluted)	\$0.86	\$0.42	104.9%
Avg. Shares Outstanding (diluted)	364,652	356,051	2.4%

Funds From Operations	1Q 2017	1Q 2016	
Net Income	\$312,639	\$148,969	109.9%
Depreciation Expense	228,276	228,696	-0.2%
Other (adding/subtracting one-time items)	(157,721)	23,301	
Normalized Funds From Operations	\$383,194	\$400,966	-4.4%
Normalized FFO Per Share (diluted)	\$1.05	\$1.13	-7.1%

*-Includes preferred retirement charge

Source: Company reports.

Consolidated Balance Sheet

(in thousands)	31-Mar-17	31-Dec-16
Real Estate Assets		
Land	\$2,650,473	\$2,591,071
Buildings and Improvements (net of Depreciation)	\$20,595,312	\$20,402,659
Properties held for sale	\$178,260	\$1,044,859
Acquired Lease Intangibles	\$1,421,277	\$1,402,884
Construction in Progress	\$390,180	\$506,091
Mortgage Loans Receivable, net	567,884	616,065
Total Net Real Estate Investments	25,803,386	26,563,629
Cash and Cash Equivalents	380,360	419,378
Deferred Loan expense	0	0
Goodwill	68,321	68,321
Equity Investments	416,110	457,138
Restricted Cash	42,777	187,842
Receivables and other	1,056,323	1,168,876
Total Assets	\$27,767,277	\$28,865,184
Bank Borrowings	\$522,000	\$645,000
Senior unsecured notes	8,188,928	8,161,619
Secured debt	2,669,787	3,477,699
Capital Lease Obligations	73,470	73,927
Accrued expenses and other liabilities	817,411	827,034
Total Liabilities	\$12,271,596	\$13,185,279
Minority Interest	\$859,478	\$873,512
Preferred stock	718,750	1,006,250
Common Stock	365,187	363,071
Capital in Excess of Par Value	17,134,490	16,999,691
Cumulative net income	5,130,593	4,803,575
Treasury stock	(62,306)	(54,741)
Accumulated Other income	(177,200)	(169,531)
Other equity	1,464	3,059
Cumulative Distributions	(8,474,775)	(8,144,981)
Total Shareholders' Equity	15,495,681	15,679,905
Total Liabilities and Shareholders' Equity	\$27,767,277	\$28,865,184

Balance Sheet Ratio Analysis	31-Mar-17	31-Dec-16
Net R/E Investments / Total Debt	44.1%	46.2%
Debt to Equity	73.4%	78.3%
Debt as % of Total Assets	41.0%	42.6%
Shareholders' Equity as % of Total Assets	55.8%	54.3%

Source: Company reports.

Conference Call Discussion

Management noted that all of its investment activity during the quarter was with existing partners. Management seems to be anticipating little near term acquisition activity, with most of it around similar types of development/redevelopment activity due to the low returns on acquisition deals and high prices. The company has approximately \$570 million in development and similar activity, and expects to concentrate on off-market deals due to the high prices of highly marketed offerings. As with other management teams we have talked to, cap rates are currently very aggressive, leading REITs to be sellers of assets, rather than buyers. While they are not saying such, we believe that HCN (as well as the other REITs) will use the current environment to sell off selected, non-core assets at very attractive prices, re-positioning their portfolio, while reducing the leverage on their balance sheets and increasing their capacity to make large acquisitions when the cycle turns and prices decline and become attractive, something that always occurs at some point.

In that vein, management noted that the environment for building, which has led to some over-supply in certain markets, was becoming less attractive, with an increase in debt costs, as well as high labor costs, etc. As a result, starts are already beginning to decline. Will this be the start of the other side of the cycle here? Only time will tell but we suggest staying tuned as we might begin to see some opportunities for the REIT investors if share prices decline as the cycle turns, while offering the REITs with strong balance sheets the opportunity to purchase properties that investors have paid too much for at distress prices.

Management retained its guidance at \$4.15 to \$4.25 a share, which is consistent with the company's Q1 results. The limited amount of acquisition and investment activity undertaken during Q1 is more appropriate with that range, especially with further divestments anticipated in Q2. Our above guidance estimate assumes that we will see a pick-up in acquisition activity in the second half of the year as the cycle begins to occur. Some of the trends that management discussed support this thesis, although if not, we may have to bring our numbers down a bit. Management is anticipating same store NOI growth of 2-3% which is below recent levels, although consistent with the first quarter and in fact indicates some improvement beyond Q1. Given the weakness in the senior housing operating portfolio this is not a surprise.

Property Fundamentals

Property occupancy remains solid, with low competition enabling good retention levels and fundamentals generally exceeding industry benchmarks. The company's senior housing operating portfolio occupancy was strong at 91.0%, up 210 basis points from the year ago number, while on a same store basis this measure was up 90 basis points. Occupancy at the company's medical office property portfolio was a strong 94.8%, down 20 basis points year-over-year, while we saw a 30 basis point decline on a same store basis. The retention rate here was high at 86.9%. Coverages for the portfolio as a whole are 1.19-to-1 after management fees, down 4 basis points. We believe this is a function of labor costs, as with others in the sector. Same store net operating income (NOI) growth was at the lower end of expectations, with the entire portfolio up 2.2%. The senior housing operating portfolio was the main reason for this being near the low end, as NOI was up 0.9%. This is indicative of the volatility of the operating portfolio, as strength here led to a beat in this number last year. Same store NOI growth for the remainder of the property classes was pretty much as expected, with them ranging from a 2.4% increase for the outpatient medical properties to 3.5% at triple net senior housing.

Q2 and 2017 Outlook

We are retaining our 2017 FFO per share estimate at \$4.34 a share. This compares to the consensus number of \$4.24 a share and is a 4.6% decline from 2016 as a result of the asset sales recently completed. We remain outside of the guidance range and above the consensus. While the level of acquisitions and investments for Q1 and so far in Q2 was below our estimates, we are expecting the company to catch up for the remainder of the year. Our number for full year investment is \$1.1 billion, net of divestitures, the reason for our estimate being above guidance, which includes no additional investment. At this point that number, as well as our estimate, looks reasonable. Our Q2 estimate is now \$1.08 a share. We are anticipating that FFO growth will slow slightly going forward. Of course, rising rates will have a negative impact on the company's bottom line in the future. We are fine-tuning our 2018 FFO estimate to \$4.55,

which compares to the consensus number of \$4.44 and assumes \$1.3 billion in net investment during the year.

Valuation

Using our \$4.34 a share estimate for 2017, HCN shares are trading at 16.1 times FFO. This is a somewhat high valuation, in our opinion, and at a premium to the peer group, which currently is trading at 15.0 times (please see the table below). While the shares don't look cheap on a price basis, HCN remains one of our favorite companies in the group on a fundamental basis, were there not the issue with valuation/price. The strong relationships that HCN has developed with its operator partners should support acquisition and investment activity and provide for modest FFO growth even in a difficult environment and could argue for a premium valuation. The company's high quality portfolio and its ability to generate above industry level operating income growth adds to that attractiveness. Having said that, we are not enamored with the current valuation level and believe there are better deals in the group. And while the company's divestiture activity is likely to set the company up for growth over the longer term, especially during the next down cycle when the company's strong balance sheet could provide lots of acquisition capital, in the near term the negative comparisons that will result could place pressure on the stock. We note that our Underperform rating is based purely on valuation and we would upgrade these shares should they drop back into what we consider a more attractive valuation with no change in fundamentals. On the negative side, we continue to note that the company's move into the operation of its tenants increases risk. Investors need to pay close attention to this added risk, and multiples should be adjusted accordingly as these moves increase risk and profit volatility.

Health Care REITs		Closing Price	Current	2018E			2-Year Average		Price / FFO	
Ranked By Market Cap.	Symbol	5/4/2017	Dividend	Yield	Payout Ratio	2017E	2018E	Growth Rate	2017E	2018E
National Health Investors	NHI	\$72.19	\$3.80	5.3%	70.4%	\$5.20	\$5.40	5.3%	13.9x	13.4x
LTC Properties	LTC	\$46.86	\$2.28	4.9%	69.3%	\$3.13	\$3.29	3.7%	15.0x	14.2x
Healthcare Realty	HR	\$31.46	\$1.20	3.8%	68.6%	\$1.64	\$1.75	3.6%	19.2x	18.0x
HCP, Inc.	HCP	\$29.90	\$1.48	4.9%	72.2%	\$1.96	\$2.05	-13.5%	15.3x	14.6x
Ventas, Inc.	VTR	\$62.65	\$3.10	4.9%	69.8%	\$4.24	\$4.44	3.7%	14.8x	14.1x
Health Care Sector Average		\$48.61	\$2.37	4.9%	70.1%	\$3.23	\$3.39	1.5%	15.0x	14.4x
Welltower, Inc.	HCN	\$69.86	\$3.48	5.0%	76.5%	\$4.34	\$4.55	0.0%	16.1x	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.

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 and following the asset sales it is now above the industry average.

Rating – Our rating on HCN remains Underperform. With the share price having moved up since the February lows as the low interest rate environment has pushed income-oriented securities higher and the Fed likely to push rates higher at least once more in 2017, and even more in 2018 there could be pressure on the higher multiple income-oriented securities over the longer term. As such, we would stay away at this point despite the company's solid management team and the fine-tuning of its property portfolio. We generally like the company and its property mix and portfolio, and we will be paying close attention to any potential weakness in the share price for a possible upgrade.

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

	2015		2016		2017E		2018E		Year							
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2		Q3	Q4	Year				
Revenues:																
Rental income	\$1,405,766	\$415,663	\$422,628	\$421,152	\$389,372	\$1,648,815	\$667,141	\$732,320	\$380,397	\$590,728	\$1,510,586	\$592,469	\$402,397	\$412,133	\$421,797	\$1,625,795
Interest income	\$37,667	\$25,188	\$24,007	\$25,060	\$23,688	\$87,963	\$20,748	\$20,355	\$20,010	\$20,010	\$81,123	\$19,208	\$19,354	\$19,276	\$19,198	\$77,037
Resident fees and Services	\$1,892,237	\$602,149	\$615,220	\$630,017	\$657,347	\$2,504,731	\$670,337	\$678,715	\$686,884	\$686,854	\$2,732,800	\$710,704	\$724,829	\$738,749	\$753,118	\$2,927,400
Other	\$7,875	4,050	14,802	2,884	7,916	\$29,652	4,072	2,051	2,998	3,038	\$11,969	3,413	2,151	2,871	2,958	\$11,393
	\$3,343,545	\$1,047,050	\$1,076,657	\$1,079,133	\$1,078,321	\$4,281,161	\$1,062,298	\$1,073,442	\$1,080,099	\$1,110,629	\$4,336,468	\$1,125,794	\$1,148,731	\$1,173,029	\$1,197,071	\$4,644,626
Expenses																
Interest expense	\$481,040	\$132,960	\$132,326	\$129,699	\$126,360	\$521,345	\$118,597	\$114,262	\$115,107	\$116,849	\$464,816	\$119,398	\$121,275	\$124,961	\$129,236	\$494,869
Depreciation & Amort.	844,130	228,696	226,569	218,061	227,916	901,242	228,276	230,464	233,224	236,766	928,731	239,526	241,734	244,632	248,220	974,113
Property operating expense	1,403,358	449,636	458,832	473,680	484,835	1,876,983	510,169	509,376	520,322	524,034	2,063,901	536,581	543,477	555,909	566,345	2,202,312
Other	(1,544)	-	-	-	17,204	8,906	31,356	-	-	-	11,675	-	-	-	-	-
Loss on derivatives	69,537	8,208	5,157	19,842	9,704	42,911	1,224	-	-	-	1,224	-	-	-	-	-
Transaction costs	-	-	-	-	10,215	10,215	-	-	-	-	-	-	-	-	-	-
Provision for loan loss	-	-	-	-	-	-	-	25,000	25,000	27,000	77,000	16,000	21,000	20,000	27,000	84,000
General & Administrative	142,844	45,691	39,914	36,828	32,807	155,240	31,101	39,181	35,428	32,764	138,473	33,999	40,780	36,950	35,912	147,641
Total Expenses	\$2,946,480	\$865,191	\$862,798	\$878,110	\$892,947	\$3,534,046	\$932,398	\$918,283	\$929,082	\$937,413	\$3,717,177	\$945,505	\$968,266	\$982,452	\$1,006,713	\$3,902,936
Income from Operations	\$397,065	\$181,859	\$213,859	\$201,023	\$150,374	\$747,115	\$129,900	\$155,188	\$161,017	\$173,216	\$619,291	\$180,289	\$180,466	\$190,577	\$190,358	\$741,690
Minority interests	(\$148)	(\$153)	\$1,077	(\$1,749)	(\$1,714)	(\$2,539)	(\$823)	(\$1,435)	(\$1,578)	(\$1,653)	(\$5,489)	(\$1,810)	(\$1,542)	(\$1,624)	(\$1,701)	(\$6,677)
Equity income from unconsolidated JVs	(\$27,425)	(\$3,820)	(\$1,959)	(\$3,479)	(\$2,829)	(\$12,087)	(\$23,106)	(\$2,917)	(\$3,027)	(\$3,256)	(\$32,307)	(\$2,759)	(\$3,107)	(\$3,501)	(\$3,298)	(\$12,665)
Oper. Income from discontinued ops.	\$30,328	\$0	\$0	\$0	\$200,165	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income taxes	\$1,268	\$1,725	\$513	\$305	\$16,585	\$19,128	(\$2,245)	\$0	\$0	\$0	(\$2,245)	\$0	\$0	\$0	\$0	\$0
Other	(\$20,046)	\$24	(\$3,194)	(\$7,189)	(\$13,187)	\$0	(\$20,800)	(\$20,800)	(\$20,800)	(\$20,800)	\$0	\$0	\$0	\$0	\$0	\$0
(Loss)/Gain on sale of assets	\$113,755	(\$14,314)	\$1,530	\$162,351	\$0	\$149,567	\$244,092	\$0	\$0	\$0	\$244,092	\$0	\$0	\$0	\$0	\$0
Income Bef. Preferred div	\$883,754	\$165,321	\$211,826	\$351,262	\$349,394	\$901,184	\$327,018	\$150,806	\$156,412	\$168,307	\$902,543	\$175,720	\$175,817	\$185,462	\$185,359	\$722,348
Preferred dividends	\$65,409	\$16,352	\$16,352	\$16,352	\$16,352	\$65,408	\$14,379	\$11,677	\$11,677	\$11,677	\$69,410	\$11,677	\$11,677	\$11,677	\$11,677	\$46,708
Net income for common	\$449,346	\$148,969	\$195,474	\$334,910	\$333,042	\$835,776	\$312,639	\$139,129	\$144,735	\$156,630	\$753,133	\$164,043	\$164,140	\$173,775	\$173,682	\$675,640
Per share bef. Extra	\$1.46	\$0.42	\$0.54	\$0.93	\$0.91	\$2.32	\$0.86	\$0.38	\$0.39	\$0.42	\$2.03	\$0.43	\$0.43	\$0.45	\$0.45	\$1.76
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
Net (loss) income per share	\$1.46	\$0.42	\$0.54	\$0.93	\$0.91	\$2.32	\$0.86	\$0.38	\$0.39	\$0.42	\$2.03	\$0.43	\$0.43	\$0.45	\$0.45	\$1.76
Quarterly dividend rate	\$3.30	\$0.86	\$0.86	\$0.86	\$0.86	\$3.44	\$0.87	\$0.87	\$0.87	\$0.87	\$3.48	\$0.79	\$0.79	\$0.79	\$0.79	\$3.16
Shs Outstanding (diluted)	307,713,500	349,314,250	356,051,000	358,891,000	361,237,000	364,369,000	364,652,000	368,477,000	372,527,000	376,577,000	370,858,250	379,277,000	382,224,500	384,339,500	386,454,500	383,073,875

Table 5. Funds From Operations Calculation

	2015		2016		2017E		2018E		Year							
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2		Q3	Q4	Year				
Net income for common shareholders	\$449,346	\$148,969	\$195,474	\$334,910	\$333,042	\$835,776	\$312,639	\$139,129	\$144,735	\$156,630	\$753,133	\$164,043	\$164,140	\$173,775	\$173,682	\$675,640
Add Back:																
Depreciation	844,130	228,696	226,569	218,061	227,916	901,242	228,276	230,464	233,224	236,766	928,731	239,526	241,734	244,632	248,220	974,113
JV Adjustment	37,454	7,951	(3,539)	11,251	5,091	20,754	6,891	1,579	1,895	1,958	12,323	3,518	1,951	1,945	2,015	9,429
Other	(113,665)	8,208	(2,539)	18,901	35,660	60,230	79,480	25,000	25,000	27,000	156,480	16,000	21,000	20,000	27,000	84,000
Non-recurring	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deduct:																
Gain/loss on sales of real estate	(\$43,241)	\$7,172	(\$1,530)	(\$162,351)	(\$200,165)	(\$149,567)	(\$244,092)	\$0	\$0	\$0	(\$244,092)	\$0	\$0	\$0	\$0	\$0
FFO Available for common	\$1,532,188	\$400,996	\$414,435	\$420,772	\$401,544	\$1,688,435	\$383,194	\$396,173	\$404,854	\$422,354	\$1,606,575	\$423,087	\$428,825	\$440,352	\$450,917	\$1,743,182
Diluted FFO available for common	\$1,532,188	\$400,996	\$414,435	\$420,772	\$401,544	\$1,687,747	\$383,194	\$396,173	\$404,854	\$422,354	\$1,606,575	\$423,087	\$428,825	\$440,352	\$450,917	\$1,743,182
Basic FFO per share	\$4.40	\$1.13	\$1.16	\$1.17	\$1.11	\$4.65	\$1.06	\$1.08	\$1.09	\$1.13	\$4.35	\$1.12	\$1.13	\$1.15	\$1.17	\$4.57
Diluted FFO per share	\$4.13	\$1.13	\$1.15	\$1.16	\$1.10	\$4.55	\$1.05	\$1.08	\$1.09	\$1.12	\$4.34	\$1.12	\$1.12	\$1.15	\$1.17	\$4.55
Shares, basic	306,363,500	354,501,000	356,646,000	359,887,000	363,019,000	358,513,250	363,102,000	366,927,000	370,977,000	375,027,000	369,008,250	377,927,000	380,874,500	382,989,500	385,104,500	381,725,875
Shares, diluted	307,713,500	355,851,000	358,891,000	361,237,000	364,369,000	360,087,000	364,452,000	368,277,000	372,327,000	376,377,000	370,368,250	379,277,000	382,224,500	384,339,500	386,454,500	383,073,875

Table 6. Funds Available for Distribution Calculation

	2015		2016		2017E		2018E		Year							
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2		Q3	Q4	Year				
FFO Available for common	\$1,532,188	\$400,996	\$414,435	\$420,772	\$401,544	\$1,688,435	\$383,194	\$396,173	\$404,854	\$422,354	\$1,606,575	\$423,087	\$428,825	\$440,352	\$450,917	\$1,743,182
Less:																
Recurring real estate CAPX	(\$126,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$48,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$48,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$12,000)	(\$48,000)
Debt adjustments	\$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	(\$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	\$1,091,354	\$375,196	\$388,635	\$394,972	\$375,744	\$1,565,235	\$357,394	\$370,373	\$373,054	\$396,554	\$1,503,375	\$397,287	\$403,025	\$414,552	\$425,117	\$1,659,982
Per share	\$3.56	\$1.06	\$1.09	\$1.10	\$1.04	\$4.37	\$0.96	\$1.01	\$1.02	\$1.06	\$4.07	\$1.05	\$1.06	\$1.08	\$1.10	\$4.30

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, 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.

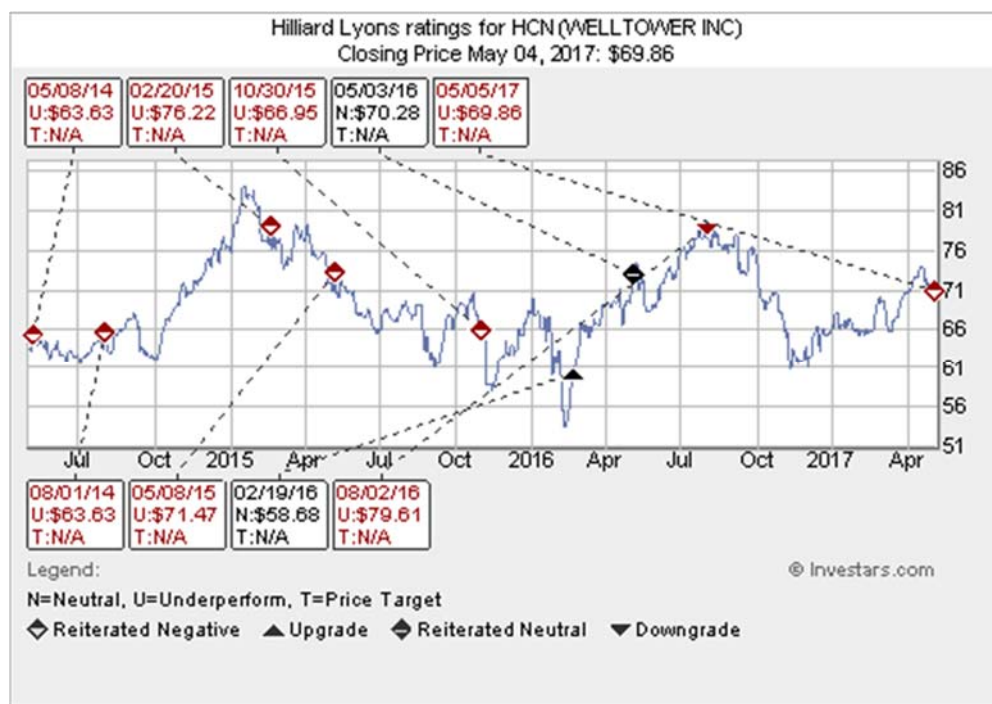
Suitability Ratings

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# 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

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