



COMPANY UPDATE/ESTIMATE CHANGES

**Key Metrics**

HCN - NYSE - as of 11/6/17	\$68.00
Price Target	NA
52-Week Range	\$59.39 - \$78.17
Shares Outstanding (mm)	369.4
Market Cap. (\$mm)	\$25,119.2
1-Mo. Average Daily Volume	1,761,780
Institutional Ownership	85.0%
Debt/Total Capital Sep-17	29.0%
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	5.12%
Est. Fixed Charge Coverage	3.7 X

Normalized

**FFO Per share**

	2016	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$1.13	--	\$1.05 A	\$1.11	\$1.08
2Q	\$1.15	--	\$1.06 A	\$1.12	\$1.10
3Q	\$1.16	--	\$1.08 A	\$1.13	\$1.12
4Q	\$1.10	\$1.11	\$1.07	\$1.16	\$1.14
Year	\$4.55	\$4.29	\$4.26	\$4.51	\$4.44
P/E	14.9x	*	16.0x	*	15.3x

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	--	\$1,062.3 A	\$1,118.5	\$1,116.0
2Q	\$ 1,076.7	--	\$1,058.6 A	\$1,140.1	\$1,136.1
3Q	\$ 1,071.8	--	\$1,091.5 A	\$1,164.3	\$1,158.9
4Q	\$ 1,073.0	\$1,100.6	\$1,097.3	\$1,189.6	\$1,186.1
Year	\$4,275.8	\$4,302.5	\$4,309.7	\$4,612.4	\$4,597.1

*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

**Third Quarter a Little Under Our Expectations**

**Investment Highlights**

- HCN reported normalized Q3 FFO of \$1.08 a share, a penny below our estimate, and three cents above the consensus. HCN increased its 2017 normalized FFO guidance range from \$4.15-\$4.25 to \$4.19-\$4.25 a share. We are reducing our estimate slightly, although it is still above that range, at \$4.26 a share, with the difference being our anticipating some additional investment activity.
- HCN shares have largely performed in line with the group as a whole recently, and remain at a premium valuation to its peers. While HCN is off of its highs of earlier this year, it remains above our preferred buying range. While management is doing a great job in our opinion, we are not going to suggest buying, or even holding the stock unless the price is right, especially as we see potential pressure on the group in a rising rate environment. Beyond that, with earnings coming down, the shares are unlikely to have positive momentum.
- Management increased its expectations for divestitures for the remainder of the year, assuming another \$1 billion of assets will be sold. This will result in some additional dilution, although good cost control is offsetting that to some degree.
- We are retaining our rating on HCN at Underperform at this point. While we like the company, its product mix, long-term track record and management team, valuation remains an issue. We need to see the price come down to more attractive levels before we can recommend purchase in spite of sector leading fundamentals.

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

**Third Quarter Review**

Total revenue was \$1,091.5 million versus \$1,079.1 million, a 1.1% increase due to recent investment, offset by divestitures. Rental income of \$362.9 million was off 13.8% (please see income statement on page 3), which we believe was a function of recent property dispositions. Resident fee and service income increased 11.5% to \$702.4 million, from acquisitions and fee increases.

Property operating expenses increased to \$524.0 million compared to \$473.7 million, up 10.6%. General and administrative expense fell 18.8% to \$29.9 million. Interest expense was down 5.5%, falling to \$122.6 million from \$129.7 million. Depreciation expense rose 5.5% to \$230.1 million versus \$218.1 million. The company had no transaction costs this quarter and \$19.8 million in the year ago period. We note that there was \$100 million in various charges this year, and a \$162.4 million gain on debt extinguishment last year. After preferred dividends of \$11.7 million this year and \$16.4 million last year, Q3 net income available to common shareholders was \$74.0 million versus \$334.9 million. EPS were \$0.20 versus \$0.93 on 2.6% more common shares outstanding.

Ongoing funds from operations (FFO) on a normalized basis, which exclude real estate gains as well as other non-recurring items, were \$399.8 million compared to \$420.8 million in last year's third quarter, a 5.0% decline. FFO per diluted share on a normalized basis were \$1.08 versus \$1.16.

HCN has seen its debt move down a little since year end, as some debt has been retired through asset sales and equity issuance. Debt stood at approximately \$11.4 billion in total (please see balance sheet on page 4) at the end of the third quarter compared to \$12.3 billion at the end of the year. The company's debt to total market capitalization ratio was 29.0% at the end of the quarter. HCN has \$104.1 million in debt maturing in the remainder of 2017 and only \$788.3 million due in 2018, 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 and remains in a strong position to grow its portfolio.

**Other 3rd Quarter Activity**

**Investment Activity** – HCN announced \$381 million in gross investment in Q3, with ongoing capital spending and development and some smaller purchases and JVs (amount to just over \$300 million) and \$7 million in loans. The acquisitions and JVs were expected to yield 6.5%, while the development fundings were anticipated to yield 7.9% and the loans 7.8%. The company also placed three development projects into service that are expected to amount to \$48 million at an anticipated stabilized yield of 8.4%. Management also sold/retired assets worth \$84 million at yields in excess of 8% with the resulting dilution included in our estimates.

**Capital Markets Activity** – During the quarter, HCN did not undertake any capital markets activity other than extinguishing \$15 million in secured debt during the quarter.

**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 '16 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.

**Quarterly Income Statement**

(in thousands)	3Q 2017	3Q 2016	% Change
Rental Income	\$362,880	\$421,152	-13.8%
Resident fees and Services	\$702,380	\$630,017	11.5%
Interest Income	20,187	25,080	-19.5%
Interest and Other Income	6,036	2,884	109.3%
<b>Total Revenue</b>	<b>1,091,483</b>	<b>1,079,133</b>	<b>1.1%</b>
Property Operating Expense	523,997	473,680	10.6%
Transaction Costs	0	19,842	-100.0%
General and Administrative Expenses	29,913	36,828	-18.8%
<b>EBITDA</b>	<b>537,573</b>	<b>548,783</b>	<b>-2.0%</b>
Interest Expense	122,578	129,699	-5.5%
Income Tax	669	(305)	-319.3%
Depreciation Expense	230,138	218,061	5.5%
<b>Income (Loss) Before Discontinued Operations and Other Items</b>	<b>184,188</b>	<b>201,328</b>	<b>-8.5%</b>
Discontinued Operations (including gain on sale of assets)	0	0	
Realized loss/gain on assets	1,622	(9,705)	
Income from JVs	3,408	(3,479)	
Loss/Gain on extinguishment of debt	0	162,351	
Other	(99,919)	2,516	
Minority Interest	(3,580)	(1,749)	104.7%
Preferred Stock Dividends	(11,676)	(16,352)	-28.6%
<b>Net Income (Loss)</b>	<b>\$74,043</b>	<b>\$334,910</b>	<b>-77.9%</b>
Net EPS (diluted)	\$0.20	\$0.93	-78.5%
Avg. Shares Outstanding (diluted)	370,740	361,237	2.6%

<b>Funds From Operations</b>	3Q 2017	3Q 2016	
Net Income	\$74,043	\$334,910	-77.9%
Depreciation Expense	230,138	218,061	5.5%
Other (adding/subtracting one-time items)	95,633	(132,199)	
<b>Normalized Funds From Operations</b>	<b>\$399,814</b>	<b>\$420,772</b>	<b>-5.0%</b>
<b>Normalized FFO Per Share (diluted)</b>	<b>\$1.08</b>	<b>\$1.16</b>	<b>-7.4%</b>

Source: Company reports.

**Consolidated Balance Sheet**

(in thousands)	30-Sep-17	31-Dec-16
<b>Real Estate Assets</b>		
Land	\$2,806,586	\$2,591,071
Buildings and Improvements (net of Depreciation)	\$21,183,946	\$20,402,659
Properties held for sale	\$70,995	\$1,044,859
Acquired Lease Intangibles	\$1,492,279	\$1,402,884
Construction in Progress	\$344,742	\$506,091
Mortgage Loans Receivable, net	491,444	616,065
<b>Total Net Real Estate Investments</b>	<b>26,389,992</b>	<b>26,563,629</b>
Cash and Cash Equivalents	236,247	419,378
Deferred Loan expense	0	0
Goodwill	68,321	68,321
Equity Investments	407,507	457,138
Restricted Cash	59,064	187,842
Receivables and other	1,019,248	1,168,876
<b>Total Assets</b>	<b>\$28,180,379</b>	<b>\$28,865,184</b>
Bank Borrowings	\$420,000	\$645,000
Senior unsecured notes	8,315,395	8,161,619
Secured debt	2,713,513	3,477,699
Capital Lease Obligations	72,684	73,927
Accrued expenses and other liabilities	1,027,375	827,034
<b>Total Liabilities</b>	<b>\$12,548,967</b>	<b>\$13,185,279</b>
Minority Interest	\$901,487	\$873,512
Preferred stock	718,503	1,006,250
Common Stock	371,012	363,071
Capital in Excess of Par Value	17,564,805	16,999,691
Cumulative net income	5,416,427	4,803,575
Treasury stock	(62,363)	(54,741)
Accumulated Other income	(141,240)	(169,531)
Other equity	1,127	3,059
Cumulative Distributions	(9,138,346)	(8,144,981)
<b>Total Shareholders' Equity</b>	<b>15,631,412</b>	<b>15,679,905</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$28,180,379</b>	<b>\$28,865,184</b>

<b>Balance Sheet Ratio Analysis</b>	30-Sep-17	31-Dec-16
Net R/E Investments / Total Debt	43.4%	46.2%
Debt to Equity	73.2%	78.3%
Debt as % of Total Assets	40.6%	42.6%
Shareholders' Equity as % of Total Assets	55.5%	54.3%

Source: Company reports.

**Conference Call Discussion**

Management spent a significant amount of time discussing the operational metrics of the portfolio, noting the continued strength in the company's same store occupancy growth in spite of a marked decline in occupancy, especially in the senior housing operating (SHOP) portfolio, which saw a 170 basis point decline on a same store basis. Increased rent was the driving force here, more than offsetting the decline in occupancy. They also noted that while the total SHOP portfolio experienced a 4.1% increase in same store NOI, the domestic increase was lower at 3.7%. Management increased the bottom end of same store NOI guidance on the strength of the SHOP portfolio. Like other REITs HCN noted the higher labor costs, although management did note some moderation here with the increase dropping from 4.1% in the previous quarter to 3.6% in the third quarter. Management also anticipates closing on an additional \$1 billion in property divestments during Q4, pushing total dispositions to \$2.4 billion for the year, with most of those divestitures expected to be triple net senior housing properties.

In looking at the investment environment/activity, management noted that cap rates for the A class senior housing properties that management is targeting, are in the 6% range, while cap rates for B class properties are only 25 basis points higher, not enough in management's opinion to make it worthwhile moving down the quality spectrum. Management is anticipating \$73 million in conversions coming on line over the next couple of quarters with an expected cash return of 9.3% on the investments, offsetting some of the dilution from the divestitures.

Despite the impact of the dilution, management pushed up the bottom end of its 2017 normalized FFO guidance four cents to \$4.19 to \$4.25 a share. We are fine-tuning our number, but remain above the range at \$4.26, with the expectation of some offsetting purchases during the quarter. We are assuming additional divestitures into 2018. Management pushed down its 2017 annual general and administrative expense expectations to below \$130 million, with that reduction offsetting some of the dilution. Fixed charge coverage continues to be strong at nearly 3.7 times.

Strategically, as always management discussed its relation-based business plan, under which it has established strategic relationships with certain preferred operators and noted the addition of a new partner, Sagora Senior Living, which had formerly been a triple net tenant and was moving into the company's SHOP portfolio with an investment from HCN. They discussed the overall strength of these relationships and how they have been additive to the company's bottom line and noted that 95% of investments this year had been with existing partners.

**Fundamentals**

Property fundamentals continue to be above management guidance. Every property category showed solid same-store NOI growth during the quarter. Occupancy however, has been weak, with the company's senior housing operating portfolio occupancy at 87.7%, down from 90.8% in the year earlier period. Even on a same store basis, it has declined from 91.1% to 89.4%. Occupancy at the company's medical office property portfolio was at 94.8% with same store down 30 basis points. Coverage for the portfolio as a whole was 1.35-to-1. Same store net operating income (NOI) growth has also been strong, with the entire portfolio up 3.4%. The senior housing operating portfolio same-store cash NOI growth was up a surprising 4.1% for the quarter due to higher rent, while the triple net portfolio experienced 3.0% improvement, medical office 2.4%, and the skilled nursing portfolio improved 3.1%.

**Q4 and 2018 Outlook**

Following the call and discussions with management, we are lowering our 2017 FFO per share estimate to \$4.26 a share, which compares to the consensus number of \$4.23 a share and is a 6.4% decline from 2016. The major reason for the reduction is the miss in Q3 and the larger amount of divestitures that have higher returns than the properties that will replace them, which will be dilutive to cash flow. Our number is a penny above the high end of guidance, as we are assuming a modest level of accretive purchases will be made during the current quarter. The divestitures that the company has made have taken a toll on near term results, and it will be a while before we see year over year positive comps. We are anticipating a lower

level of acquisitions and investment activity in the near term and a continued stream of divestitures as the company fine-tunes its portfolio. With that in mind, we are assuming a near term compression in results, followed by year-over-year earnings growth. Our Q4 estimate is now \$1.07 a share, down four cents. We are fine-tuning our 2018 FFO estimate down to \$4.44, which remains above the consensus number of \$4.37 a share, again on the higher level of divestitures.

### **Valuation**

Using our \$4.26 a share estimate for 2017, HCN shares are trading at 16.0 times current year FFO. This is a slightly expensive valuation, in our opinion, and at a premium to the peer group, which currently is trading at 15.5 times (please see the table below). While HCN shares don't look cheap on a price basis, 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.

Health Care REITs	Symbol	Closing Price	Current	2018E			2-Year Average		Price / FFO	
		11/6/2017	Dividend	Yield	Payout Ratio	2017E	2018E	Growth Rate	2017E	2018E
National Health Investors	NHI	\$78.33	\$3.80	4.9%	69.3%	\$5.28	\$5.48	6.1%	14.8x	14.3x
LTC Properties	LTC	\$47.19	\$2.28	4.8%	69.7%	\$3.07	\$3.27	3.4%	15.4x	14.4x
Healthcare Realty	HR	\$32.67	\$1.20	3.7%	71.0%	\$1.56	\$1.69	1.8%	20.9x	19.3x
HCP, Inc.	HCP	\$26.84	\$1.48	5.5%	74.4%	\$1.96	\$1.99	-14.8%	13.7x	13.5x
Ventas, Inc.	VTR	\$64.09	\$3.10	4.8%	71.1%	\$4.17	\$4.36	2.7%	15.4x	14.7x
<b>Health Care Sector Average</b>		<b>\$49.82</b>	<b>\$2.37</b>	<b>4.8%</b>	<b>70.6%</b>	<b>\$3.21</b>	<b>\$3.36</b>	<b>1.1%</b>	<b>15.5x</b>	<b>14.8x</b>
Welltower, Inc.	HCN	\$68.00	\$3.48	5.1%	78.4%	\$4.26	\$4.44	-1.2%	16.0x	15.3x

Note: LTC, VTR and NHI are rated Neutral, HR is rated Underperform by Hilliard Lyons.

Source: NAREIT, Baseline and Hilliard Lyons' estimates.

**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.

### **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		2017		2018E				Year			
	Year	Year	Q1	Q2	Q3	Q4	Year	Year	Q1	Q2		Q3	Q4	
Revenues:	\$1,508,949	\$1,648,815	\$399,372	\$399,372	\$422,628	\$421,152	\$389,372	\$1,648,815	\$362,880	\$362,880	\$370,325	\$377,930	\$390,375	\$1,502,321
Rental income	\$84,141	\$87,963	\$23,688	\$23,688	\$24,007	\$25,080	\$23,688	\$87,963	\$20,187	\$20,187	\$19,627	\$19,585	\$19,544	\$78,422
Interest income	\$2,188,031	\$2,504,731	\$602,149	\$652,345	\$615,220	\$630,017	\$657,345	\$2,504,731	\$677,040	\$702,320	\$741,170	\$755,405	\$770,097	\$2,983,389
Resident fees and Services	\$18,706	\$29,652	4,050	7,916	14,802	2,884	7,916	\$29,652	5,062	6,036	4,988	5,962	6,039	\$22,949
Other	\$3,859,827	\$4,281,161	\$1,047,050	\$1,076,857	\$1,079,133	\$1,076,321	\$4,281,161	\$1,062,298	\$1,068,602	\$1,091,483	\$1,136,120	\$1,156,881	\$1,186,053	\$4,597,092
Expenses	\$492,168	\$521,345	\$132,960	\$126,360	\$132,326	\$129,689	\$521,345	\$118,597	\$116,231	\$122,578	\$121,470	\$124,676	\$129,015	\$495,389
Interest Expense	826,239	901,242	228,696	226,669	228,696	218,061	901,242	228,276	224,847	230,138	237,685	240,583	244,171	957,917
Depreciation & Amort.	1,622,256	1,876,983	449,636	458,832	473,680	494,835	1,876,983	510,169	501,855	523,987	555,730	568,442	579,113	2,251,963
Property operating expense	(1,544)	(1,544)	-	-	-	-	-	11,675	12,258	-	-	-	-	-
Other	69,537	8,906	8,208	5,157	19,842	9,704	8,906	31,356	5,515	-	-	-	-	47,000
Loss/Gain on debt extinguishment	-	42,911	-	-	-	-	42,911	1,224	-	-	-	-	-	-
Loss on derivatives	-	10,215	-	-	-	-	10,215	-	-	-	-	-	-	-
Transaction costs	-	155,240	-	-	-	-	155,240	-	-	-	-	-	-	-
Provision for loan loss	147,416	\$3,199,393	45,691	39,914	36,828	32,807	\$3,199,393	31,101	32,632	29,913	32,371	126,017	34,386	132,925
General & Administrative	\$2,946,480	\$3,199,393	\$865,191	\$862,798	\$878,110	\$827,947	\$3,199,393	\$832,398	\$893,338	\$906,626	\$922,183	\$979,991	\$998,095	\$3,895,206
Total Expenses	\$660,434	\$747,115	\$213,659	\$201,023	\$150,374	\$150,374	\$747,115	\$129,900	\$165,264	\$184,857	\$178,584	\$178,890	\$187,358	\$711,886
Income from Operations	(\$148)	(\$2,539)	(\$153)	(\$1,749)	(\$1,749)	(\$1,749)	(\$2,539)	(\$823)	(\$3,332)	(\$3,580)	(\$1,542)	(\$1,624)	(\$1,701)	(\$6,677)
Minority interests	\$27,425	(\$2,829)	(\$3,820)	(\$1,959)	(\$3,479)	(\$3,479)	(\$2,829)	(\$2,310)	(\$3,978)	(\$3,408)	(\$3,107)	(\$3,501)	(\$3,298)	(\$12,665)
Equity income from unconsolidated JVs	\$30,328	\$190,111	\$0	\$200,165	\$0	\$0	\$190,111	(\$2,245)	\$0	(\$669)	\$0	\$0	\$0	\$0
Oper. income from discontinued ops.	\$1,268	(\$20,046)	\$24	(\$3,194)	(\$7,189)	(\$13,187)	(\$20,046)	(\$24,082)	\$42,155	\$1,622	\$0	\$0	\$0	\$0
Income taxes	\$113,755	\$0	\$113,755	\$162,351	\$0	\$0	\$113,755	\$227,018	\$200,109	\$85,719	\$170,201	\$783,047	\$182,359	\$692,544
Other	\$5,184,843	\$65,409	\$65,409	\$65,409	\$65,409	\$65,409	\$65,409	\$14,379	\$11,680	\$11,676	\$11,676	\$11,676	\$11,676	\$46,704
(Loss)/Gain on sale of assets	\$49,434	\$918,346	\$818,346	\$818,346	\$818,346	\$818,346	\$818,346	\$312,639	\$188,429	\$74,043	\$158,525	\$733,636	\$70,683	\$64,840
Net Income for common	\$49,434	\$918,346	\$818,346	\$818,346	\$818,346	\$818,346	\$818,346	\$312,639	\$188,429	\$74,043	\$158,525	\$733,636	\$70,683	\$64,840
Per share bef. Extra	\$0.46	\$8.44	\$8.44	\$8.44	\$8.44	\$8.44	\$8.44	\$0.46	\$0.46	\$0.46	\$0.46	\$0.46	\$0.46	\$8.44
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
Net (loss) income per share	\$0.46	\$8.44	\$8.44	\$8.44	\$8.44	\$8.44	\$8.44	\$0.46	\$0.46	\$0.46	\$0.46	\$0.46	\$0.46	\$8.44
Quarterly dividend rate	\$3.18	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30	\$3.18	\$3.18	\$3.18	\$3.18	\$3.18	\$3.18	\$3.18
Shs Outstanding (diluted)	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500

**Table 5. Funds From Operations Calculation**

	2015		2016		2017		2018E				Year			
	Year	Year	Q1	Q2	Q3	Q4	Year	Year	Q1	Q2		Q3	Q4	
Net income for common shareholders	\$618,346	\$618,346	\$148,989	\$195,474	\$334,910	\$334,910	\$335,776	\$618,346	\$188,429	\$74,043	\$158,525	\$733,636	\$70,683	\$64,840
Add Back:														
Depreciation	844,130	826,239	228,696	226,669	218,061	227,916	826,239	228,276	224,847	230,138	237,685	240,583	244,171	957,917
JV Adjustment	37,454	44,509	7,951	(3,539)	11,251	5,091	20,754	6,891	7,310	9,989	1,958	26,148	1,945	9,429
Other	56,563	(113,665)	8,208	(2,539)	18,901	35,660	60,230	79,480	12,544	87,266	-	179,290	12,000	47,000
Non-recurring	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deduct:														
Gain/loss on sales of real estate	(\$43,241)	(\$43,241)	\$7,172	(\$1,530)	(\$162,351)	(\$200,165)	(\$149,567)	(\$244,092)	(\$42,155)	(\$1,622)	\$0	(\$287,869)	\$0	\$0
FFO Available for common	\$1,272,554	\$1,532,188	\$400,996	\$414,435	\$420,772	\$407,544	\$1,532,188	\$383,194	\$390,975	\$399,814	\$397,433	\$1,571,416	\$428,869	\$1,660,187
Diluted FFO available for common	\$1,269,862	\$1,532,188	\$400,996	\$414,435	\$420,772	\$407,544	\$1,532,188	\$383,194	\$390,975	\$399,814	\$397,433	\$1,571,416	\$428,869	\$1,660,187
Basic FFO per share	\$4.13	\$4.96	\$1.33	\$1.35	\$1.37	\$1.33	\$4.96	\$1.33	\$1.33	\$1.33	\$1.33	\$5.11	\$1.33	\$5.11
Diluted FFO per share	\$4.13	\$4.96	\$1.33	\$1.35	\$1.37	\$1.33	\$4.96	\$1.33	\$1.33	\$1.33	\$1.33	\$5.11	\$1.33	\$5.11
Shares, basic	306,363,500	307,713,500	306,363,500	306,363,500	306,363,500	306,363,500	306,363,500	306,363,500	306,363,500	306,363,500	306,363,500	306,363,500	306,363,500	306,363,500
Shares, diluted	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500	307,713,500

**Table 6. Funds Available for Distribution Calculation**

	2015		2016		2017		2018E				Year			
	Year	Year	Q1	Q2	Q3	Q4	Year	Year	Q1	Q2		Q3	Q4	
FFO Available for common	\$1,272,554	\$1,532,188	\$400,996	\$414,435	\$420,772	\$407,544	\$1,532,188	\$383,194	\$390,975	\$399,814	\$397,433	\$1,571,416	\$428,869	\$1,660,187
Less:														
Recurring real estate CAPX	\$4,800	\$63,000	\$1,200	\$1,200	\$1,200	\$1,200	\$63,000	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$48,000
Debt adjustments	(\$60,000)	(\$60,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$60,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$60,000)
Other	\$1,091,354	\$1,414,988	\$375,196	\$388,635	\$394,972	\$375,744	\$1,414,988	\$357,394	\$365,175	\$374,014	\$371,633	\$1,468,216	\$403,069	\$1,556,987
Funds Available for distribution	\$1,272,554	\$1,414,988	\$375,196	\$388,635	\$394,972	\$375,744	\$1,414,988	\$357,394	\$365,175	\$374,014	\$371,633	\$1,468,216	\$403,069	\$1,556,987
Per share	\$3.56	\$4.60	\$1.06	\$1.09	\$1.10	\$1.04	\$4.60	\$1.06	\$1.06	\$1.06	\$1.06	\$5.11	\$1.06	\$5.11

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.

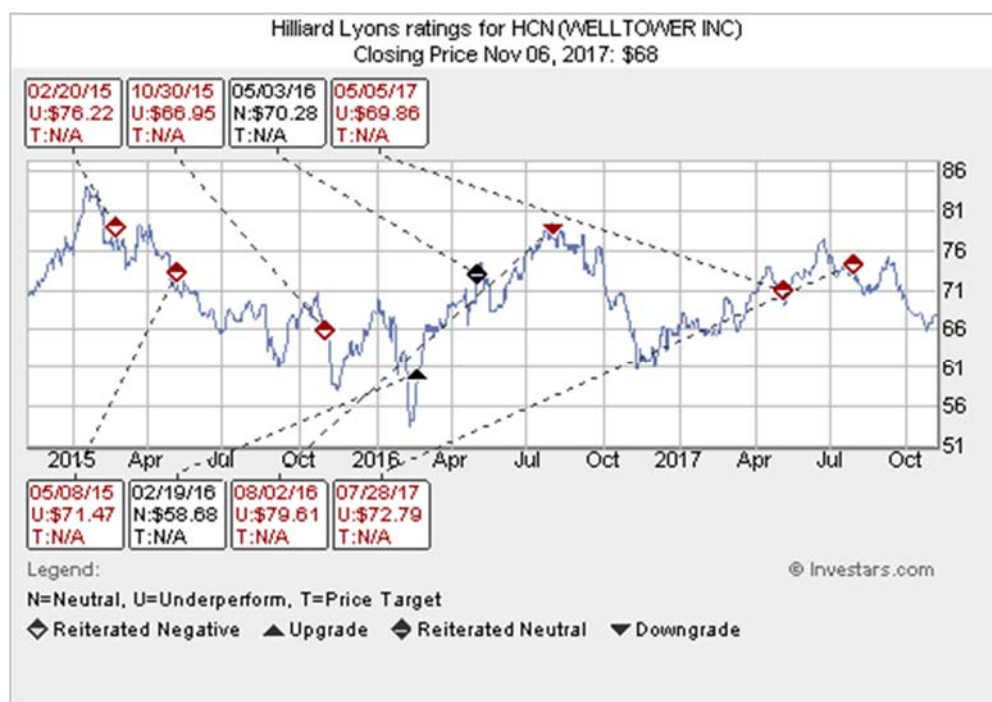
### Suitability Ratings

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



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
<b>Rating</b>				
<b>Buy</b>	39	32%	8%	92%
<b>Hold/Neutral</b>	74	60%	9%	91%
<b>Sell</b>	8	7%	0%	100%
<b>Restriction</b>	2	2%	100%	0%

*As of 5 October 2017*

### Other Disclosures

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