Healthcare Real Estate Investment Trusts
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COMPANY UPDATE/ESTIMATE CHANGE

Key Metrics

HCP - NYSE - as of 2/12/18		$22.85
2-3 Year Price Target		N/A
52-Week Range	$22.22 -	$33.67
Shares Outstanding (mm)		469.2
Market Cap. ($mm)		$10,721.2
1-Mo. Average Daily Volume		2,793,140
Institutional Ownership		95.3%
Debt/Total Capital	Dec-17	39.9%
Est 3-year FFO Growth Rate		4.5%
Est 3-year Dividend Growth Rate		1.0%
Dividend		$ 1.48
Dividend Yield		6.48%
Est. Fixed Charge Coverage		3.5 X

FFO

	2016		2017	Prior 2018E	Current 2018E	
1Q	$0.69	--	$0.51	$0.49	$0.46	
2Q	$0.74	--	$0.48	$0.49	$0.45	
3Q	$0.72	--	$0.48	$0.49	$0.45	
4Q	$0.59	--	$0.48	$0.52	$0.45	
Year	$2.74		$1.95	$1.99	$1.81	*
P/E	8.3x		11.7x		12.6x	

*-May not add due to rounding

Revenue ($mm)

	2016		2017	Prior 2018E	Current 2018E
1Q	$640.8	--	$492.2	$463.0	$443.0
2Q	$662.2	--	$458.9	$472.8	$443.5
3Q	$654.3	--	$454.0	$482.1	$447.1
4Q	$540.0	--	$443.3	$492.2	$458.7
Year	$2,457.3		$1,848.4	$1,910.1	$1,792.3

Revenue numbers not restated.

Company Description: *HCP, Inc., formerly known as Health Care Property Investors, Inc., headquartered in Long Beach, CA, is a real estate investment trust (REIT) that has investments in assisted living, medical office buildings, laboratory facilities and other healthcare facilities located throughout the country.*

HCP, Inc.

HCP -- NYSE – Neutral-3

Fourth Quarter Conference Call Highlights

Investment Highlights

- Following HCP's conference call we are fine-tuning our expectation for net acquisitions and investments to a negative $300 million, with all of the additional divestiture activity discussed in our earlier report knocking our numbers down, and with divestitures coming first and having higher cap rates, thus being more negative than acquisitions are additive. Also, we are increasing our G&A expense assumption based on the increase in Q4 numbers there and actually taking a more negative stance than management around the senior housing operating business, where we expect to see deterioration in rental rate. Combined with fine-tuning other line items, our 2018 FFO estimate is now $1.81 a share. This number is in the middle of management guidance, but we note our estimate includes investments above that which management is guiding, and excluding those would be at the bottom end of the management range.
- The REIT group has seen a significant sell-off recently on Fed rate increases and an expectation for higher yields, in our opinion. We expect the group to remain weak in relation to the market on these issues in the near term. However, we envision that the market may overshoot, offering opportunities for investors with longer investment horizons. We expect that valuations for the group may prove to be attractive later in the year.
- While HCP's quarter generally measured up to expectations, guidance was not constructive to a higher stock price. While some non-recurring items are negatively impacting same store net operating income (SSNOI) growth, problems at the senior housing operating portfolio are likely to continue to weigh on results. While the share price looks attractive on an asset basis, the negative comps and uncertainty in the operating portfolio are likely to keep a lid on share price gains, in our view. Add in the pressure from higher rates, and we don't see a reason to purchase HCP shares. As such, we are retaining our Neutral rating and suitability rating of 3 waiting for a better opportunity

Note Important Disclosures on Pages 6-7.
Note Analyst Certification on Page 6.

Conference Call Discussion

On the positive side, HCP management discussed strong results at its life science portfolio, where the company is expanding its business, including the Boston purchases made in Q4. They noted that the portfolio saw a 5.1% increase in SSNOI in Q4 and continues to see strong leasing activity. This area now makes up about a quarter of the company's NOI. Also, management noted that there is significant opportunity in the company's medical office building portfolio, where they see significant development opportunities over the coming five years with returns in the 9-12% area. Management noted it continued focus on three core areas, senior housing, medical office and lab space. However, they also noted that due to a problem with a loan (the Tandem loan, on which the company recognized a $84 million impairment charge in Q4), they may once again have exposure to the skilled nursing area, if they are forced to foreclose on the loan. One positive data point on the senior housing operating portfolio was an 80 basis point improvement in occupancy. We expect that to reverse this year though, due to the bad flu season, operator transitions and increased competition due to heavier building.

When the company completes the sale of the remaining Brookfield (BKD-$9.50) properties, which is expected to be sometime in the second half of the year, management expects to initially use this capital to further reduce debt. As a result of this pay down, management will have no maturities due until 2019. We expect the capital raised from the sales to eventually be used to add new investments.

Operating fundamentals for the year were reasonable, especially in light of the negative contribution from the operating portfolio, with same store NOI up about 3.4%, at the high end of guidance. Looking forward into 2018 management is looking for same store NOI growth of 0.25% - 1.75%. These numbers are below recent levels, but management noted that there were several non-recurring items that would be impacting 2018 results and without these the mid-point for SSNOI growth would be in the 2% area. We note, however, that the weak results at the operating portfolio once again drives down results.

Looking forward, management offered a guidance range of $1.77-$1.83 a share for normalized 2018 FFO. This is down from the 2017 number of $1.95 a share, a function of the ongoing sale of the BKD properties and other assets. These issues will continue to weigh on reported FFO going forward, and if the company does not undertake the degree of investment that we are estimating, we will likely see a shortfall to our estimate. On future investment, management noted that with its shares trading at a sharp discount to NAV they would likely be limiting the amount of investment undertaken to reduce the potential negative impact to value that the issuance of stock would cause. In fact, management mentioned share buybacks as a possible strategy if the stock price stayed low for a long enough time.

First Quarter and 2018 Outlook

As noted earlier, we are reducing our estimate for 2018 FFO to $1.81 a share, within the current guidance range for normalized earnings, and compares to the consensus of $1.83 for the year. We feel comfortable with our estimate as while we anticipate HCP will make some acquisitions, negative fundamentals at the senior housing operating portfolio and dilution from asset sales more than offset those purchases. We are assuming a net negative $300 million in new investments for the full year, with more dilution early in the year. Our 1Q FFO estimate is now $0.46 a share. This compares to the consensus estimate for the first quarter of $0.46 a share. At this point we are introducing a 2019 FFO estimate of $1.89 a share, which compares to the consensus number of $1.85 a share.

Valuation

Using our $1.81 a share estimate for 2018, HCP shares are trading at 12.6 times current year FFO. This is in line with the peer group, and now sits a little below the historic trading range over the last decade-plus with worries about interest rates driving share prices down. The peer group now trades at 12.7 times. However, we would benchmark HCP more towards the other two large healthcare REITs, Ventas and Welltower, Inc., which trade at 12.3 and 12.8 times current year FFO with the average of two companies at 12.55 times. With the shares trading in line with the peer group, the likelihood of near term pressure on

FFO with the divestitures and issues in the operating properties, as well as negative comps we do not expect the shares to see positive momentum any time soon.

Health Care REITs	Symbol	Closing Price 2/12/2018	Current Dividend	Yield	2017E Payout Ratio	2017E	2018E	2-Year Average Growth Rate	Price / FFO 2017E	Price / FFO 2018E
Welltower, Inc.	HCN	$54.27	$3.48	6.4%	81.9%	$4.29	$4.25	-3.4%	12.7x	12.8x
National Health Investors	NHI	$64.20	$3.80	5.9%	69.3%	$5.28	$5.48	6.1%	12.2x	11.7x
Healtchare Realty Corp.	HR	$28.31	$1.20	4.2%	71.0%	$1.56	$1.69	1.8%	18.1x	16.8x
Ventas, Inc.	VTR	$50.46	$3.10	6.1%	75.6%	$4.16	$4.10	-0.4%	12.1x	12.3x
LTC Properties, Inc.	LTC	$37.89	$2.28	6.0%	69.7%	$3.07	$3.27	3.4%	12.3x	11.6x
Health Care Sector Average		**$49.31**	**$2.90**	**5.9%**	**74.6%**	**$3.82**	**$3.88**	**1.1%**	**12.9x**	**12.7x**
HCP, Inc.	HCP	$22.85	$1.48	6.5%	81.8%	$1.95	$1.81	-18.7%	11.7x	12.6x

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

HCP and VTR 2017 FFO numbers are actuals.

Rating

At this point we are holding our rating on HCP at Neutral. While the lower price makes HCP shares more attractive on a valuation basis than they have been in some time, all of the issues are unlikely to present the type of price appreciation that we would need to place a positive rating on the shares. As such, we believe investors should stay on the sidelines and wait for a more attractive entry point.

Suitability

HCP has a suitability rating of 3 on our 1-4 scale. In 2016 we reduced our rating from 2 on all of the uncertainty around the spin-off of skilled nursing assets, and believe the issues with the operating property assets further supports that rating. While we find the company to have a strong balance sheet and its real estate ownership is also a positive factor, as is the company's property type, geographic and operator diversification, as well as the company's portfolio size, among the largest in the group, the earlier issues create some uncertainty. The company does have a strong management bench, but until there is a decision on a new CEO uncertainty will remain. Also, the company is exposed to operating risk through its taxable REIT subsidiary and could see some volatility around this operating ownership beyond the typical real estate cycles.

Risk Factors

There are a number of risks in owning HCP 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 very attractive to shareholders and HCP, as well as REITs in general, will see their prices rise and fall with the change in overall interest rates. Should rates rise, that could hurt HCP'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. The company has exposure to a variety of classes of healthcare-related real estate, such as senior housing and medical office buildings that can have boom and bust cycles that can impact values and rates and potentially negatively impact their values and cash flow generating ability. It is always possible that the company could make a poor acquisition in the future, which could have a negative impact. Its move into operating assets could also have a negative impact if operating issues arise at any of its owned and operated properties. Changes in the Affordable Care Act could also pose problems. Labor issues with the company's tenants could create profit pressures, and thus lower rental coverage.

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 2017 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2017 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

	2014	2015			2016					2017					2018E		
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Revenues:																	
Rental and other revenue	$1,174,256	$1,144,482	$297,194	$299,076	$297,178	$286,968	$1,180,416	$286,218	$263,820	$266,109	$255,006	$1,071,153	$254,353	$253,770	$255,889	$265,003	$1,029,016
Tenant recoveries	$110,688	$126,485	$31,737	$33,930	$35,195	$34,565	$135,427	$33,675	$35,259	$36,860	$36,702	$142,496	$36,245	$36,162	$36,464	$37,763	$146,635
Income from direct financing leases	$663,070	$633,835	$127,968	$132,100	$170,752	$14,789	$445,609	$13,712	$13,564	$13,240	$13,701	$54,217	$13,852	$14,004	$14,158	$14,314	$56,328
Resident fees and services	$241,965	$525,453	$165,763	$164,202	$130,663	$186,118	$646,746	$140,232	$125,416	$126,040	$132,587	$524,275	$133,634	$134,690	$135,754	$136,827	$540,905
Investment management fee income	$1,809	$1,873	$91	$81	$0	$0	$172	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Interest & other	$74,491	$112,184	18,029	32,787	20,482	17,510	$88,808	18,331	20,869	11,774	5,263	$56,237	4,891	4,872	4,861	4,798	$19,422
	$2,266,279	$2,544,312	$640,782	$662,176	$654,270	$539,950	$2,497,178	$492,168	$458,928	$454,023	$443,259	$1,848,378	$442,976	$443,499	$447,126	$458,705	$1,792,306
Expenses																	
Interest Expense	$439,742	$479,596	$122,062	$121,333	$117,860	$103,148	$464,403	$86,718	$77,788	$71,328	$71,882	$307,716	$73,371	$71,491	$70,589	$71,606	$287,058
Depreciation & Amort.	459,995	510,785	141,322	141,386	142,874	146,927	572,509	136,554	130,751	130,588	136,833	534,726	134,037	131,757	129,777	130,497	526,067
Operating expense	388,369	618,334	176,955	180,125	188,747	195,648	741,475	159,081	153,163	155,338	198,669	666,251	144,331	150,723	154,699	168,769	618,522
Impairment Charge, Other	-	1,429,019	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition Expenses		21,797	2,475	14,527	17,568	3,760	38,330	1,057	867	580	5,459	7,963	1,000	1,000	1,000	1,000	4,000
General & Administrative	95,551	97,575	25,499	22,793	34,787	20,600	103,679	22,478	21,286	23,523	21,485	88,772	19,934	19,070	21,909	20,642	81,555
Total Expenses	$1,383,657	$3,157,106	$468,313	$480,164	$501,836	$470,083	$1,920,396	$405,888	$383,855	$381,357	$434,328	$1,605,428	$372,674	$374,041	$377,974	$392,513	$1,517,202
Income from Operations	$882,622	($612,794)	$172,469	$182,012	$152,434	$69,867	$576,782	$86,280	$75,073	$72,666	$8,931	$242,950	$70,302	$69,457	$69,152	$66,192	$275,104
Minority interests	($16,795)	$13,810	($3,983)	($3,125)	($3,115)	($2,860)	($13,083)	($3,802)	($2,818)	($2,068)	($1,374)	($10,062)	($2,004)	($1,980)	($1,971)	($1,886)	($7,840)
Equity income from unconsolidated JVs	$49,570	$33,916	($908)	($1,409)	$160	$15,388	$13,231	$3,269	$240	$1,062	$6,330	$10,901	$1,587	$1,458	$1,798	$2,105	$6,948
Oper. Income from discontinued opers.	$33,034	$0			$1,445	$26,847	$0	$0	$412	$5,182	$33,789	$39,383					$0
Income taxes	($250)	$9,011	($53,038)	$2,003	$0	($3,372)	($54,407)	$6,162	$2,987	$5,481	($13,297)	$1,333	$4,500	$4,500	$4,500	$4,500	$18,000
Gain on extinguishment of debt	$0	$0					$0					$0					$0
Other income	($28,385)			$2,280		($47,430)		$51,208	($56,611)	($90,111)	($93,677)	($189,191)					
Participating securities share	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(Loss)/Gain on sale of assets	$0	$0	$1,222	$119,614	$0	$0	$120,836	$317,258	$0	$0	$0	$317,258	$0	$0	$0	$0	$0
Income Bef. Preferred div	$919,796	($556,057)	$115,762	$301,375	$150,924	$58,440	$643,359	$460,375	$19,283	($7,788)	($59,298)	$412,572	$74,386	$73,436	$73,479	$70,911	$292,211
Preferred dividends	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Income for common	$919,796	($556,057)	$115,762	$301,375	$150,924	$58,440	$643,359	$460,375	$19,283	($7,788)	($59,298)	$412,572	$74,386	$73,436	$73,479	$70,911	$292,211
Per share bef. Extra	$2.00	($1.20)	$0.25	$0.64	$0.32	$0.12	$1.37	$0.97	$0.04	($0.02)	($0.13)	$0.88	$0.16	$0.16	$0.16	$0.15	$0.62
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	$2.00	($1.20)	$0.25	$0.64	$0.32	$0.12	$1.37	$0.97	$0.04	($0.02)	($0.13)	$0.88	$0.16	$0.16	$0.16	$0.15	$0.62
Quarterly dividend rate	$2.18	$2.26	$0.58	$0.58	$0.37	$0.37	$1.89	$0.37	$0.37	$0.37	$0.38	$1.49	$0.38	$0.38	$0.38	$0.39	$1.53
Shs Outstanding (diluted)	458,788,750	464,461,250	466,262,000	471,425,000	467,835,000	468,210,000	468,433,000	475,173,000	468,839,000	468,975,000	469,229,000	470,554,000	469,679,000	470,129,000	470,579,000	471,029,000	470,354,000

* - Does not add up due to inter-year changes

Table 5. Funds From Operations Calculation

	2014 Year	2015 Year	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2017 Year	2018E Q1	2018E Q2	2018E Q3	2018E Q4	2018E Year
Net income for common shareholders	$919,796	($556,057)	$115,762	$301,375	$150,924	$58,440	$643,359	$460,375	$19,283	($7,788)	($59,298)	$412,572	$74,386	$73,436	$73,479	$70,911	$292,211
Add Back:																	
Depreciation	459,995	527,801	144,284	144,360	145,374	147,416	572,509	136,554	133,098	145,628	147,401	562,681	141,537	139,257	137,277	137,997	526,067
JV Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	26,084	1,512,924	2,475	25,258	17,568	72,659	117,960	(36,622)	74,127	89,929	137,407	264,841	1,000	1,000	1,000	1,000	4,000
Non-recurring/misc.	-	-	$0	$0	$0	$0	-	$0	$0	$0	$0	-	$0	$0	$0	$0	-
Deduct:																	
Gain/loss on sales of real estate	$0	$0	$62,842	($119,614)	$0	$0	($56,772)	($317,258)	$0	$0	$0	($317,258)	$0	$0	$0	$0	$0
FFO Available for common	$1,410,644	$1,484,668	$325,363	$351,379	$313,866	$278,515	$1,277,056	$243,049	$226,508	$227,769	$225,510	$922,836	$216,923	$213,693	$211,756	$209,908	$822,279
Diluted FFO available for common	$1,410,644	$1,480,173	$325,363	$351,379	$313,866	$278,515	$1,269,123	$243,049	$226,508	$227,769	$225,510	$922,836	$216,923	$213,693	$211,756	$209,908	$852,279
Basic FFO per share	$3.04	$3.17	$0.70	$0.75	$0.67	$0.60	$2.72	$0.51	$0.48	$0.49	$0.48	$1.97	$0.46	$0.46	$0.45	$0.45	$1.82
Diluted FFO per share	$3.04	$3.16	$0.69	$0.74	$0.67	$0.59	$2.71	$0.51	$0.48	$0.48	$0.48	$1.95	$0.46	$0.45	$0.45	$0.45	$1.81
Shares, basic	463,470,750	467,652,250	464,912,000	470,075,000	466,485,000	466,860,000	467,083,000	473,823,000	467,489,000	467,625,000	467,879,000	469,204,000	468,329,000	468,779,000	469,229,000	469,679,000	469,004,000
Shares, diluted	464,820,750	469,002,250	466,262,000	471,425,000	467,835,000	468,210,000	468,433,000	475,173,000	468,839,000	468,975,000	469,229,000	471,500,000	469,679,000	470,129,000	470,579,000	471,029,000	470,354,000

Table 6. Funds Available for Distribution Calculation

	2014 Year	2015 Year	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2017 Year	2018E Q1	2018E Q2	2018E Q3	2018E Q4	2018E Year
FFO Available for common	$1,410,644	$1,484,668	$325,363	$351,379	$313,866	$278,515	$1,277,056	$243,049	$226,508	$227,769	$225,510	$922,836	$216,923	$213,693	$211,756	$209,908	$822,279
Less:																	
Recurring real estate CAPX	($53,974)	($60,185)	($15,394)	($15,402)	($15,414)	($14,616)	($60,825)	($13,761)	($13,893)	($13,816)	($14,050)	($55,519)	($13,875)	($13,575)	($13,462)	($13,725)	($54,636)
Straight-line adjustment (ACR)	($56,000)	($56,000)	($14,000)	($14,000)	($14,000)	($14,000)	($56,000)	($14,000)	($14,000)	($14,000)	($14,000)	($56,000)	($14,000)	($14,000)	($14,000)	($14,000)	($56,000)
Non-real estate depreciation, other	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Funds available for distribution	$1,300,670	$1,368,483	$295,969	$321,977	$284,452	$249,899	$1,160,231	$215,288	$198,615	$199,953	$197,460	$811,317	$189,048	$186,118	$184,294	$182,183	$711,642
Per share	$2.81	$2.93	$0.64	$0.68	$0.61	$0.54	$2.48	$0.45	$0.42	$0.43	$0.42	$1.73	$0.40	$0.40	$0.39	$0.39	$1.52

Source: Company reports and Hilliard Lyons estimates

Additional information is available upon request.

Analyst Certification

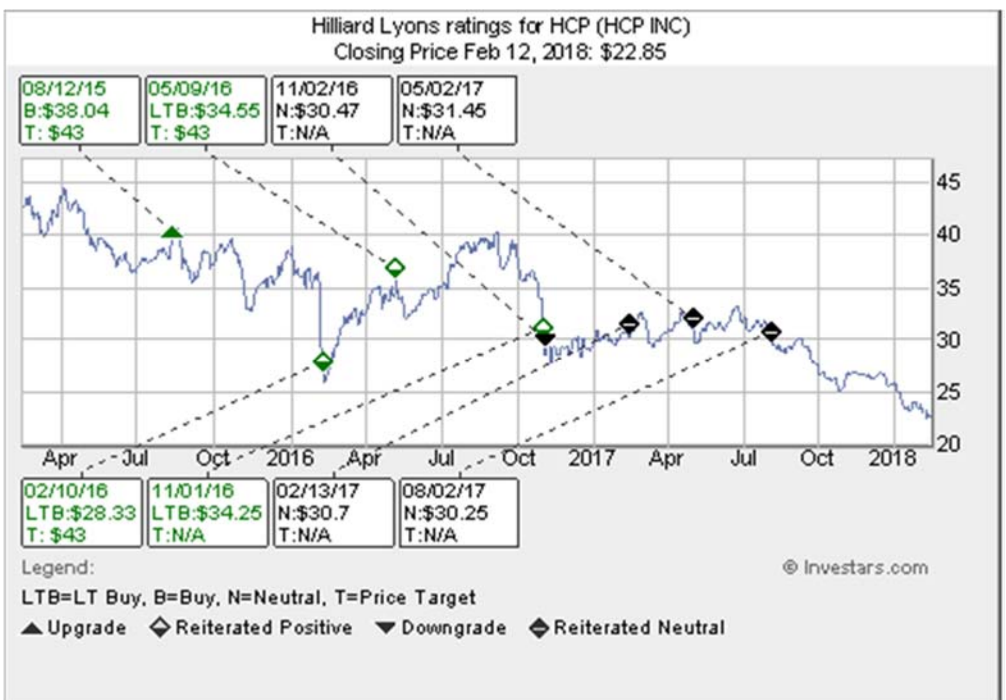
I, John M. Roberts, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing 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 base.



Rating	Hilliard Lyons Recommended Issues # of Stocks Covered	 % of Stocks Covered	Investment Banking Provided in Past 12 Mo. Banking	 No Banking
Buy	31	28%	10%	90%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 7 February 2018

Other Disclosures

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