



### COMPANY UPDATE / ESTIMATE CHANGE

#### Key Metrics

HCP - NYSE - as of 5/1/17	\$31.45
2-3 Year Price Target	N/A
52-Week Range	\$27.61 - \$36.81
Shares Outstanding (mm)	467.9
Market Cap. (\$mm)	\$14,715.5
1-Mo. Average Daily Volume	2,793,140
Institutional Ownership	95.3%
Debt/Total Capital Mar-17	35.4%
Est 3-year FFO Growth Rate	4.5%
Est 3-year Dividend Growth Rate	2.5%
Dividend	\$ 1.48
Dividend Yield	4.71%
Est. Fixed Charge Coverage	4.2 X

#### FFO

	2016	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$0.69	--	\$0.51 A	\$0.51	\$0.51
2Q	\$0.74	\$0.50	\$0.48	\$0.52	\$0.52
3Q	\$0.72	\$0.50	\$0.47	\$0.51	\$0.50
4Q	\$0.59	\$0.51	\$0.49	\$0.53	\$0.52
Year	\$2.74	\$1.99	\$1.96	\$2.07	\$2.05 *
P/E	11.5x		16.0x		15.3x

\*-May not add due to rounding

#### Revenue (\$mm)

	2016	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$640.8	--	\$492.2 A	\$579.10	\$515.90
2Q	\$662.2	\$557.40	\$488.4	\$589.30	\$524.30
3Q	\$654.3	\$567.10	\$498.5	\$598.50	\$535.90
4Q	\$540.0	\$575.90	\$509.1	\$607.40	\$544.90
Year	\$2,457.3	\$2,246.7	\$1,988.2	\$2,374.4	\$2,121.0

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

### First Quarter Conference Call Highlights

#### Investment Highlights

- Management spent a significant amount of time on the conference call discussing the management changes and future expectations for investment.
- They also discussed a lot around the recent pause in acquisition activity, which we see as a function of a difficult acquisition environment and management spending time dealing with the recent sales, rather than new investments. The company has been relatively quiet on the acquisition front so far in 2017, closing no meaningful acquisition and its only meaningful investments being development and redevelopment activity.
- HCP reported a solid quarter, a little better than our expectation. And while management might be expected to increase its guidance, based on the beat versus expectations, it retained its guidance for 2017, as it expects a decline in results for the remainder of the year around the divestiture of the \$1.1 billion property portfolio discussed in our earlier report as well as other dilutive transactions. We worry that management may be reaching a bit for investments given some of the low cap rates, although that is just the current market.
- Our rating on HCP shares remains Neutral. We see more uncertainty than upside at this point, with the changes in management and recent divestitures. The reduction in the dividend and divestiture of assets has pushed down the company's yield and pushed its valuation above the peer group. We are retaining our rating at this point, and would be sitting on the sidelines due to all of the uncertainty we see in the near term, especially around management.

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

**Conference Call Discussion**

Obviously, HCP management spent a lot of time addressing the issues around the future of the company and strategy with all of the recent management changes. Also, all of the changes around the recent real estate divestitures and lack of recent investment raises questions on the future direction of the company in light of the management changes. HCP will be hiring a Chief Investment Officer to replace Justin Hutchens, and until that hire is made an existing employee will fill that role. The company has also seen other management personnel leave, which could create some issues as management loses focus as these positions need to be filled. We certainly believe that some of the lack of acquisition activity to start the year is related to these issues. Management seems to be placing its near-term focus on development and redevelopment activity, which makes sense as these initiatives are already in place and do not require input from a CIO. Until the CIO is hired we are projecting that most of the investment activity will be limited to these types of transactions.

Outside of the discussion on the management changes and update of strategy, management outlined operating fundamentals for the first quarter for the overall portfolio which were relatively good. The company posted a solid same store NOI increase of 4.0%. The company's senior housing operating portfolio experienced some weakness as a heavy flu season and some issues around upgrades resulted in lower occupancy, resulting in only a 2.9% increase in same store NOI and same store occupancy down 60 basis points. Management noted that the life science operations continued to show strong performance with same store NOI growth of 4.7%. The triple net senior housing portfolio reported a strong 5.1% increase in same store NOI, while the medical office property reported same store NOI growth of 4.4% on 92% occupancy and an 84% retention rate. Same store cash NOI expectations for the year is 2.5-3.5%.

Looking forward, management retained its guidance range for normalized FFO at \$1.89-\$1.95 a share for 2017. The range is conservative when compared to the first quarter number, although management is pointing to the dilution from the recent asset sales and divestitures to justify a number well below the first quarter run rate. We are reducing our expectations for full year investment, as investment up to now has not met our expectations. However, we continue to be above the high-end of guidance as a result of our expectations for additional investment.

In laying out development activity expectations, management noted they had an \$800 million development and redevelopment pipeline, with expectations for \$75-\$100 million in investment annually over the next 2-3 years out of this pipeline. The life science and medical office properties portfolio is where most of this activity will occur. Returns on these investments are anticipated to be in the range of 7-9%. Management did not discuss any specific acquisition activity/expectations. However, they did note that they like the senior housing operating properties, as well as medical office and life science buildings, so when acquisition activity does occur we would anticipate it in these areas. On the negative side, the company noted increased competition for its properties, especially in the assisted living area. This is requiring additional investment to keep properties competitive.

**Further Discussion: Management changes**

Losing the company's President and CIO, Justin Hutchens, is somewhat problematic to us. We felt very good about the potential for him to do some positive things at HCP, much as he had done at his previous position. Certainly, losing him creates a hole at HCP around acquisition activity and likely sets the company back in comparison to our expectations. Losing other management personnel also sets off some alarms. We will be keeping an eye on the situation, but certainly this creates more uncertainty at HCP, a company that has seen its share of uncertainty over the past five years or so.

**Second Quarter and 2017 Outlook**

At this point we are fine-tuning our 2017 FFO estimate to \$1.96 a share, which is a penny above the high end of management's guidance, and compares to the consensus of \$1.92 for the year. We feel comfortable with our estimate as we anticipate HCP will continue to make additional investments and acquisitions for the remainder of the year. Our 2Q FFO estimate is \$0.48 a share, and is based on the assumption that the

dilutive impact from the divested assets will hit fully in Q2. This is a penny above the consensus estimate for the quarter. Following that quarter we will see a slow recovery compared to Q1 as new investments are made. Even though we are above guidance, we feel comfortable with our estimates. We are fine-tuning our 2018 FFO estimate to \$2.05 a share as a result of the divestitures and lower investment assumptions and which compares to the consensus number of \$1.99 a share. We are assuming an additional \$500 million of acquisitions and investment in 2017 and \$525 million in 2018. We will be paying close attention to how management undertakes its acquisition activity for signs that might force us to change our expectations going forward.

### **Valuation**

Using our \$1.96 a share estimate for 2017, HCP shares are trading at 16.0 times current year FFO. This is a slight premium to the peer group. While operations are going well, the management uncertainty trumps those positive attributes at this point. With that in mind, one might anticipate that the multiple on the stock could very well be below the overall group due to this uncertainty, although the change in asset mix is a positive and could argue for a higher valuation. A rise in interest rates, which is indicated by the Fed, could also be problematic. Either way, all of this uncertainty makes us nervous despite the solid operating numbers. We will be paying close attention to management to look for anything that would make us more comfortable with the situation. However, with the issues around the management changes we believe our Neutral rating is appropriate at this time.

Health Care REITs	Symbol	Closing Price		Current Dividend	Yield	2017E		2-Year Average Growth Rate	Price / FFO		
		5/1/2017				Payout Ratio	2017E		2018E	2017E	2018E
Welltower, Inc.	HCN	\$71.20		\$3.44	4.8%	76.3%	\$4.34	\$4.51	-0.4%	16.4x	15.8x
National Health Investors	NHI	\$73.50		\$3.80	5.2%	70.4%	\$5.20	\$5.40	5.3%	14.1x	13.6x
Healthcare Realty Corp.	HR	\$32.65		\$1.20	3.7%	66.7%	\$1.70	\$1.80	5.1%	19.2x	18.1x
Ventas, Inc.	VTR	\$63.97		\$2.92	4.6%	65.8%	\$4.24	\$4.44	3.7%	15.1x	14.4x
LTC Properties, Inc.	LTC	\$47.82		\$2.28	4.8%	69.3%	\$3.13	\$3.29	3.7%	15.3x	14.5x
<b>Health Care Sector Average</b>		<b>\$60.33</b>		<b>\$2.84</b>	<b>4.7%</b>	<b>70.3%</b>	<b>\$3.87</b>	<b>\$4.04</b>	<b>3.1%</b>	<b>15.6x</b>	<b>14.9x</b>
HCP, Inc.	HCP	\$31.45		\$1.48	4.7%	72.2%	\$1.96	\$2.05	-13.5%	16.0x	15.3x

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

Source: NAREIT, Baseline and Hilliard Lyons' estimates.

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**

	2014 Year	2015 Year	2016 Q1	2016 Q2	2016 Q3	2016 Q4	Year	2017 Q1	2017 Q2	2017 Q3	2017 Q4	Year	2018 Q1	2018 Q2	2018 Q3	2018 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	\$286,245	\$289,564	\$297,383	\$1,155,411	\$302,191	\$308,069	\$315,556	\$293,641	\$1,249,457
Tenant recoveries	\$110,688	\$126,485	\$31,737	\$33,930	\$35,195	\$34,855	\$135,427	\$33,446	\$33,446	\$34,603	\$35,835	\$137,559	\$36,537	\$37,967	\$37,967	\$39,063	\$149,085
Income from direct financing leases	\$663,070	\$653,835	\$127,968	\$132,100	\$170,752	\$147,788	\$445,609	\$13,712	\$13,863	\$14,015	\$14,169	\$55,760	\$14,325	\$14,483	\$14,642	\$14,803	\$55,254
Resident fees and services	\$825,453	\$825,453	\$165,763	\$164,202	\$130,663	\$166,146	\$646,746	\$140,232	\$141,340	\$142,466	\$143,582	\$567,610	\$144,716	\$145,659	\$146,173	\$146,173	\$565,760
Investment management fee income	\$1,809	\$1,873	\$91	\$81	\$0	\$0	\$172	\$0	\$0	\$0	\$0	\$172	\$0	\$0	\$0	\$0	\$172
Interest & other	\$74,491	\$112,184	\$18,029	\$2,787	\$20,482	\$17,510	\$98,808	\$492,168	\$492,168	\$488,394	\$508,125	\$1,988,179	\$515,936	\$524,299	\$535,874	\$544,929	\$2,121,038
	\$2,266,279	\$2,544,312	\$640,782	\$662,176	\$654,270	\$639,950	\$2,497,178	\$640,782	\$640,782	\$640,782	\$640,782	\$2,497,178	\$640,782	\$640,782	\$640,782	\$640,782	\$2,497,178
Expenses																	
Interest Expense	\$439,742	\$479,586	\$122,062	\$121,333	\$117,860	\$103,148	\$464,403	\$86,718	\$80,479	\$78,553	\$79,475	\$325,226	\$80,452	\$81,280	\$82,730	\$85,014	\$329,476
Depreciation & Amort.	459,995	510,785	141,322	141,386	142,874	146,927	572,509	136,554	132,765	134,685	137,205	541,210	138,825	139,845	141,615	143,985	564,271
Operating expense	388,369	618,334	176,955	180,125	188,747	195,648	741,475	159,081	159,903	174,988	177,312	671,265	167,590	171,585	188,727	189,197	717,100
Impairment Charge, Other	1,429,019																
Acquisition Expenses	21,797		2,475	14,527	17,568	3,760	38,330	1,057	2,500	2,500	2,500	8,557	2,500	2,500	2,500	2,500	10,000
General & Administrative	95,551	97,575	25,499	22,793	34,787	20,600	103,679	22,478	19,633	24,027	19,601	85,740	23,217	20,972	25,722	20,707	90,618
Total Expenses	\$1,383,657	\$3,157,106	\$468,313	\$480,164	\$501,836	\$470,083	\$1,920,396	\$405,688	\$395,281	\$414,734	\$416,094	\$1,631,997	\$412,584	\$416,182	\$441,294	\$441,404	\$1,711,466
Income from Operations	\$882,622	\$687,206	\$172,469	\$182,012	\$152,434	\$69,867	\$576,782	\$86,280	\$83,113	\$83,757	\$89,031	\$356,182	\$103,352	\$108,117	\$94,580	\$103,524	\$408,573
Minority interests	(\$16,795)	\$13,810	(\$3,983)	(\$3,125)	(\$3,115)	(\$2,860)	(\$13,083)	(\$3,802)	(\$3,631)	(\$3,267)	(\$3,628)	(\$14,328)	(\$4,031)	(\$4,217)	(\$3,689)	(\$4,037)	(\$15,973)
Equity income from unconsolidated JV's	\$49,570	\$33,916	(\$906)	(\$1,409)	\$160	\$15,386	\$13,231	\$3,268	\$3,184	\$2,951	\$3,275	\$12,679	\$2,851	\$2,956	\$2,745	\$2,967	\$11,541
Other income from discontinued ops.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income taxes	(\$250)	\$9,011	(\$53,038)	\$2,003	\$0	\$26,847	(\$54,407)	\$6,162	\$0	\$0	\$0	\$6,162	\$0	\$0	\$0	\$0	\$0
Gain on extinguishment of debt	\$0	\$0	\$0	\$0	\$0	(\$47,430)	\$0	\$51,208	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other income	(\$28,385)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Participating securities share	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$317,258	\$0	\$0	\$0	\$317,258	\$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	\$92,666	\$83,442	\$92,678	\$677,953	\$102,172	\$106,658	\$93,636	\$102,474	\$405,140
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	\$92,666	\$83,442	\$92,678	\$677,953	\$102,172	\$106,658	\$93,636	\$102,474	\$405,140
Per share bef. Extra	\$2.00	(\$1.20)	\$0.25	\$0.64	\$0.32	\$0.12	\$1.37	\$0.97	\$0.19	\$0.18	\$0.19	\$1.42	\$0.21	\$0.22	\$0.20	\$0.21	\$0.85
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	\$0.19	\$0.18	\$0.19	\$1.42	\$0.21	\$0.22	\$0.20	\$0.21	\$0.85
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
Share Outstanding (diluted)	458,788,750	464,461,250	466,262,000	471,425,000	467,855,000	468,210,000	468,433,000	475,173,000	475,623,000	476,073,000	476,523,000	475,848,000	476,973,000	477,423,000	477,873,000	478,323,000	477,648,000

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

**Table 5. Funds From Operations Calculation**

Net income for common shareholders	\$919,796																
Add Back:																	
Depreciation	459,995	527,801	144,284	144,360	145,374	147,416	572,509	136,554	135,295	137,185	139,705	541,210	139,649	139,845	141,615	143,985	564,271
JV Adjustment	26,084	1,512,924	2,475	25,258	17,568	72,659	117,960	(36,622)	2,500	2,500	2,500	(29,122)	2,500	2,500	2,500	2,500	10,000
Other																	
Non-recurring/misc.																	
Deduct:																	
Gain/loss on sales of real estate	\$0	\$0	\$62,842	(\$119,614)	\$0	\$0	(\$120,836)	(\$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	\$1,212,992	\$243,049	\$230,431	\$223,127	\$234,883	\$872,783	\$244,321	\$249,204	\$237,751	\$248,959	\$979,411
Diluted FFO available for common	\$1,410,644	\$1,480,173	\$325,363	\$351,379	\$313,866	\$278,515	\$1,209,123	\$243,049	\$230,431	\$223,127	\$234,883	\$831,491	\$244,321	\$249,204	\$237,751	\$248,959	\$980,235
Basic FFO per share	\$3.04	\$3.17	\$0.70	\$0.75	\$0.67	\$0.60	\$2.71	\$0.51	\$0.49	\$0.47	\$0.49	\$1.96	\$0.51	\$0.52	\$0.50	\$0.52	\$2.06
Diluted FFO per share	\$3.04	\$3.16	\$0.69	\$0.74	\$0.67	\$0.60	\$2.71	\$0.51	\$0.48	\$0.47	\$0.49	\$1.96	\$0.51	\$0.52	\$0.50	\$0.52	\$2.05
Shares, basic	458,470,750	467,682,250	464,912,000	470,025,000	466,485,000	466,860,000	467,083,000	473,823,000	474,273,000	474,723,000	475,173,000	474,498,000	475,623,000	476,073,000	476,523,000	476,973,000	476,298,000
Shares, diluted	448,820,750	469,022,250	466,262,000	471,425,000	467,855,000	468,210,000	468,433,000	475,173,000	475,623,000	476,073,000	476,523,000	475,848,000	476,973,000	477,423,000	477,873,000	478,323,000	477,646,000

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

FFO Available for common	\$1,410,644																
Less:																	
Recurring real estate CAPX	(\$53,974)	(\$60,185)	(\$15,394)	(\$15,402)	(\$15,414)	(\$14,616)	(\$56,825)	(\$13,761)	(\$13,898)	(\$14,161)	(\$14,423)	(\$56,244)	(\$14,488)	(\$14,636)	(\$14,867)	(\$15,130)	(\$56,000)
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	\$325,969	\$321,977	\$284,452	\$249,899	\$1,096,167	\$215,288	\$202,533	\$194,966	\$206,460	\$760,539	\$215,823	\$220,568	\$208,884	\$219,829	\$864,290
Per share	\$2.81	\$2.93	\$0.64	\$0.68	\$0.61	\$0.54	\$2.35	\$0.45	\$0.43	\$0.41	\$0.43	\$1.60	\$0.45	\$0.46	\$0.46	\$0.46	\$1.81

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.

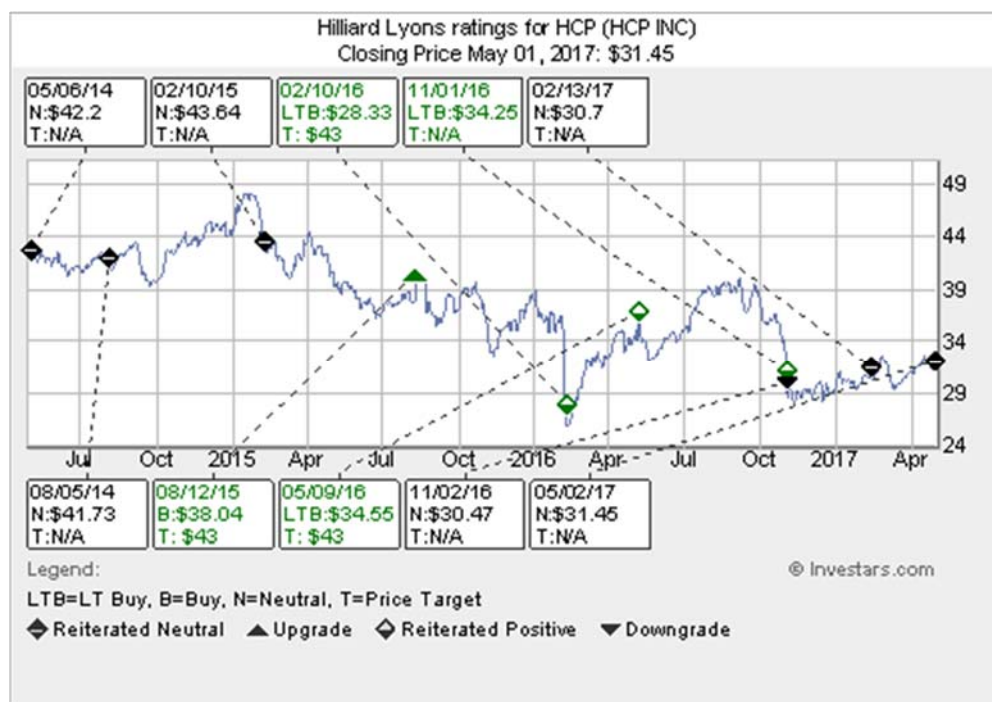
### Suitability Ratings

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 base.



	Hilliard Lyons		Investment Banking	
	Recommended Issues		Provided in Past 12 Mo.	
	# of	% of		
<b>Rating</b>	<b>Stocks Covered</b>	<b>Stocks Covered</b>	<b>Banking</b>	<b>No Banking</b>
<b>Buy</b>	36	30%	14%	86%
<b>Hold/Neutral</b>	71	58%	6%	94%
<b>Sell</b>	15	12%	7%	93%

*As of 5 April 2017*

### Other Disclosures

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