HILLIARD LYONS

**Healthcare Real Estate Investment Trusts**
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COMPANY UPDATE

# Healthcare Realty, Inc.

HR -- NYSE – Underperform-2

## Conference Call Update

### Investment Highlights

- We are retaining our estimate for HR's 2017 FFO at $1.70 a share, two cents above the consensus. We anticipate that we should see some positive near term growth around higher return development and redevelopment activity over the coming two years. Also, net operating income (NOI) growth should remain above the norm for the medical office property (MOB) group due to the company's on-campus product mix. We are initiating a 2018 FFO estimate of $1.80 a share, compared to the consensus of $1.77 a share, with our upside driven by expectations around development activity. We are assuming net investment in 2017 of around $150 million, slightly above management guidance.
- As we have noted many times before, HR's focus is on the acute care and medical office building (MOB) sectors, something that could keep it in better stead than its peers in the current environment. Management anticipates very little impact from potential changes in the Affordable Care Act.
- We are retaining our Underperform rating on HR shares. HR shares have performed largely in line with its peers recently. Having said that, valuation for HR remains at what we believe is an extended level when compared to the peer group--nearly a 20% premium to even those companies with large MOB exposure. We are very much value-oriented in our recommendations, and valuation is above what we believe is appropriate, especially in light of the level of valuation in the peer group. And while growth in revenue is on the upswing, we do not believe the growth is enough to justify the current valuation level.

**Key Metrics**

| | | |
|---|---|---|
| HR - NYSE - | (2/15/2017) | $30.40 |
| Price Target | | N/A |
| 52-Week Range | | $26.66 - $36.60 |
| Shares Outstanding (mm) | | 104.4 |
| Market Cap. ($mm) | | $3,173.8 |
| 1-Mo. Average Daily Volume | | 680,000 |
| Institutional Ownership | | 96.2% |
| Debt/Total Capital | Dec-16 | 25.8% |
| Est 3-year FFO Growth Rate | | 4.0% |
| Est 3-year Dividend Growth Rate | | 1.0% |
| Book Value | | $12.71 |
| Dividend | | $ 1.20 |
| Dividend Yield | | 3.95% |
| Est. Fixed Charge Coverage | | 3.5X |

**FFO**

| | 2015 | | 2016 | Prior 2017E | | Current 2017E |
|---|---|---|---|---|---|---|
| 1Q | $0.38 | -- | $0.41 | $0.41 | | $0.41 |
| 2Q | $0.39 | -- | $0.42 | $0.43 | | $0.43 |
| 3Q | $0.41 | -- | $0.39 | $0.43 | | $0.43 |
| 4Q | $0.41 | -- | $0.41 | $0.43 | | $0.43 |
| Year | $1.60 | | $1.63 | $1.70 | * | $1.70 |
| P/E | 0.0x | | 18.7x | | | 17.9x |

* - May not add due to rounding, numbers historical, not adjusted

**Revenue ($mm)**

| | 2015 | | 2016 | Prior 2017E | Current 2017E |
|---|---|---|---|---|---|
| 1Q | $ 96.5 | -- | $ 100.0 | $107.9 | $106.9 |
| 2Q | $ 96.7 | -- | $ 102.6 | $110.1 | $109.1 |
| 3Q | $ 96.7 | -- | $ 103.7 | $112.1 | $111.4 |
| 4Q | $ 98.6 | -- | $ 105.3 | $113.9 | $113.3 |
| Year | $388.5 | | $411.6 | $444.1 | $440.7 |

***Company Description:*** *Healthcare Realty Trust, Inc., headquartered in Nashville, Tennessee, is a real estate investment trust (REIT) that invests primarily in properties associated with the delivery of healthcare services through mortgage loans and direct real estate property ownership. The company also undertakes development of the same class of properties.*

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

## Additional Conference Call Discussion

On the property fundamentals side, HR continues to provide solid operating metrics on its portfolio. Occupancy in the same store portfolio moved up fifty basis points from the year earlier period to 89.2%. Rental rate increases provided a small amount of growth and were up 2.9% on the multi-tenant and 2.5% on the smaller single tenant portfolio, and were even higher at 3.9% for renewals on the multi-tenant portfolio. The retention rate continues to push and sits at 88.5%.

Looking at operating financials, Q4 property NOI showed an increase of 4.4%, lower than Q3 but a very solid number nonetheless. Management noted that for the full year same store NOI growth was 5.0%. They are looking for same store property NOI growth continuing to be above the industry average for 2017 due to the strength of the property portfolio, on-campus locations and strong relationships that lead to higher yielding development activity.

Management discussed its ongoing development activity, noting its low risk strategy of concentrating on existing tenants in markets where it already does business. These ongoing projects should provide incremental positive returns in 2017. The big one discussed on the conference call was one in Seattle, WA, which is anticipated to begin in the middle of the year, with a total investment of $64 million and an expected completion by the end of 2018. Management noted it would continue to discuss expansion and re-development opportunities with existing tenants as leases roll. Based on management commentary, we expect them to concentrate on on-campus properties, clustering them to maximize returns. In looking at the acquisition environment, management noted it has one to two transactions that are anticipated to close soon. The cap rate environment remains in the 5.5-6.0% range. In discussing last year's asset sale, management noted that it received an average cap rate of 8.2% on the properties it sold in 2016, which is very dilutive in light of the cap rate of purchases as noted above.

Management was questioned on the dividend for the first time in a while and did not indicate to us that an increase is coming any time soon. While the payout ratio has moved down to a point where it is no longer above the group average, we got no sense that they believed that an increase would come in the next year or so.

## 1st Quarter and 2017 Outlook

Following our look at the fourth quarter, we are retaining our Q1 FFO estimate at $0.41, and our full year 2017 estimate at $1.70 a share. The positive contribution from HR's recent purchases, and the increased contribution from the development activity should continue to drive results. Expenses should increase apace with the move up in investment activity. We are assuming total net acquisitions and investments of $170 million including the impact of the $25 million in divestitures we are assuming. Management said that it was anticipating at least as much investment in 2017 as it undertook in 2016, which was a net of nearly $200 million, including the impact of almost $95 million in asset sales. We expect the cap rate environment to stay reasonably steady and see no additional equity issuance other than a modest amount from the ATM program, which we believe is reasonable in light of the drop of leverage with debt to total market capital ratio now below 30%. Our estimate compares to the consensus number of $1.68 for 2017. Our initial projection for 2018 FFO is $1.80, above the consensus of $1.77 a share.

## Valuation and Rating

Using our $1.70 a share estimate for 2017, HR shares are trading at 17.9 times current year's FFO. This is a large premium to the company's peer group, as shown in the table on the following page. Further, the company's yield is now also below that of the peer group. And while the fundamentals of the company are exceedingly good at the current time, we do not believe that this is enough to justify the current premium, which is 20%. As such, we do not believe that HR is attractive on a valuation basis. And while the fundamentals and cash flow growth should be strong and at a premium to other asset classes, we have an issue on the potential for such long-term excess returns to continue beyond a defined period of time. HR's property mix has been and continues to probably be one of the most sought after by investors and acquirers, with its low level of government reimbursement and lack of exposure to skilled nursing. However, such excess returns and low cap rates typically attract new investment, as the company itself alluded to when discussing the recent sub-5% cap rate on the property sold in Seattle. Of course the election of President Trump and the uncertainty of the situation around the Affordable Care Act provides additional uncertainty to the situation. As such, we believe the current valuation metrics support our Underperform rating in spite of improving and likely accelerating fundamental performance.

| Health Care REITs | | Closing Price | Current | | 2017E | | | 2-Year Average | Price / FFO | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Symbol | 2/15/2017 | Dividend | Yield | Payout Ratio | 2016E | 2017E | Growth Rate | 2016E | 2017E |
| Welltower, Inc. | HCN | $65.58 | $3.44 | 5.2% | 75.3% | $4.57 | $4.30 | -0.9% | 14.4x | 15.3x |
| National Health Investors | NHI | $73.16 | $3.60 | 4.9% | 73.9% | $4.87 | $5.22 | 5.7% | 15.0x | 14.0x |
| Physician's Realty Trust | DOC | $18.91 | $0.90 | 4.8% | 87.4% | $1.03 | $1.25 | 16.6% | 18.4x | 15.1x |
| HCP, Inc. | HCP | $30.42 | $1.48 | 4.9% | 54.0% | $2.74 | $1.99 | -20.6% | 11.1x | 15.3x |
| Ventas, Inc. | VTR | $61.68 | $2.92 | 4.7% | 70.2% | $4.16 | $4.38 | -1.0% | 14.8x | 14.1x |
| LTC Properties, Inc. | LTC | $45.95 | $2.28 | 5.0% | 74.5% | $3.06 | $3.20 | 6.9% | 15.0x | 14.4x |
| **Health Care Sector Average** | | **$49.95** | **$2.47** | **4.9%** | **72.0%** | **$3.47** | **$3.43** | **-1.3%** | **14.4x** | **14.6x** |
| Healthcare Realty | HR | $30.40 | $1.20 | 3.9% | 70.6% | $1.63 | $1.70 | 3.1% | 18.7x | 17.9x |

Note: DOC is rated Long-term Buy, NHI, VTR and HCP Neutral and HCN and LTC Underperform by Hilliard Lyons. Source: NAREIT, Baseline and Hilliard Lyons' estimates.

Note, HCP and VTR 2016 numbers are actuals.

## Suitability

HR has a suitability rating of 2 on our 1-4 scale, which we pushed up from 3 due to the recent equity offering. We find the company to have a strong balance sheet, and its tenant base is very diversified with a number of small tenants, as well as larger, credit tenants. Its lease rolls are also solid, with leases rolling off over an extended period of time. Its real estate ownership is also a positive factor, as is the company's geographic and operator diversification. On the other hand, the company is focused on a single asset class, albeit one that is relatively well thought of by investors currently. This reliance on medical office buildings could also be an issue if changes arise in doctor reimbursement.

## Risks

There are a number of risks in owning HR 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 attractive to shareholders and REITs in general could see their prices decline if rates rise, as investors switch to lower risk, higher yielding bonds, potentially hurting HR'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. HR's current capital structure and falling cash flow may limit its ability to make larger acquisitions. It is always possible that the company could make a poor acquisition in the future. HR's geographic exposure to Texas might be an issue should energy prices collapse. The company's construction business, while small, does create some additional issues versus those REITs that just own and lease properties.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2016 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2016 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

**Table 1. Consolidated Income Statement**
In Thousands

| | 2013 | 2014 | 2015 | | | | | 2016 | | | | | 2017E | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Q1 | Q2 | Q3 | Q4 | Year | Q1 | Q2 | Q3 | Q4 | Year | Q1 | Q2 | Q3 | Q4 | Year |
| Master Lease Rent | $0 | | | | | | $0 | | | | | $0 | | | | | $0 |
| Property Operating/Rental Income | $322,884 | $365,006 | $95,034 | $95,450 | $95,383 | $97,466 | $383,333 | $98,740 | $101,472 | $102,534 | $104,736 | $407,482 | $106,330 | $108,543 | $110,828 | $112,650 | $438,350 |
| Straight Line Rent | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Mortgage Interest | $12,701 | $3,666 | $31 | $31 | $29 | $0 | $91 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Other | $5,930 | $5,669 | $1,391 | $1,227 | $1,313 | $1,116 | $5,047 | $1,281 | $1,170 | $1,125 | $573 | $4,149 | $582 | $594 | $606 | $616 | $2,398 |
| | $341,515 | $374,341 | $96,456 | $96,708 | $96,725 | $98,582 | $388,471 | $100,021 | $102,642 | $103,659 | $105,309 | $411,631 | $106,912 | $109,137 | $111,434 | $113,266 | $440,748 |
| Expenses | | | | | | | | | | | | | | | | | |
| General & Administrative | $23,729 | $22,824 | $6,738 | $6,713 | $6,258 | $7,216 | $26,925 | $10,246 | $8,129 | $8,724 | $8,707 | $35,806 | $10,210 | $8,294 | $9,026 | $9,458 | $36,988 |
| Property operating expense | 126,155 | 135,631 | 34,263 | 33,927 | 35,247 | 36,758 | 140,195 | 35,406 | 36,263 | 37,504 | 37,285 | 146,458 | 36,843 | 38,044 | 39,510 | 39,529 | 153,926 |
| Other Operating | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Impairments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Bad Debt Expense, net | 184 | 31 | (207) | 27 | (21) | - | (201) | (39) | 78 | (47) | (13) | (21) | - | - | - | - | - |
| Interest Expense, net | 72,828 | 71,903 | 18,231 | 17,213 | 15,113 | 14,885 | 65,442 | 14,852 | 14,722 | 13,636 | 13,839 | 57,049 | 13,522 | 13,666 | 13,833 | 13,944 | 54,965 |
| Amortization | 10,693 | 10,820 | 2,667 | 2,474 | 2,386 | 2,556 | 10,083 | 2,700 | 2,762 | 2,712 | 3,033 | 11,207 | 2,600 | 2,600 | 2,600 | 2,600 | 10,400 |
| Other | 29,638 | - | - | - | - | 9 | 9 | - | - | - | - | - | - | - | - | - | - |
| Depreciation | 89,609 | 100,586 | 26,387 | 26,552 | 26,571 | 27,019 | 106,529 | 27,693 | 28,528 | 29,273 | 30,989 | 116,483 | 30,043 | 30,461 | 30,835 | 31,165 | 122,504 |
| Total Expenses | $352,836 | $341,795 | $88,079 | $86,906 | $85,554 | $88,443 | $348,982 | $90,858 | $90,482 | $91,802 | $93,840 | $366,982 | $93,219 | $93,065 | $95,804 | $96,695 | $378,784 |
| Income from Operations | ($11,321) | $32,546 | $8,377 | $9,802 | $11,171 | $10,139 | $39,489 | $9,163 | $12,160 | $11,857 | $11,469 | $44,649 | $13,693 | $16,071 | $15,630 | $16,571 | $61,965 |
| Minority interests | ($38) | ($313) | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Other income/loss | $0 | $0 | $0 | $0 | $0 | $78 | $78 | $0 | $0 | $0 | $74 | $74 | $0 | $0 | $0 | $0 | $0 |
| Oper. Income from discontinued opers. | $5,962 | $629 | $333 | $330 | $16,309 | ($696) | $16,276 | ($7) | ($12) | ($23) | $40,894 | $40,852 | $50 | $50 | $50 | $50 | $200 |
| Income taxes | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Impairments | ($9,889) | ($3,105) | ($3,328) | ($33,765) | $0 | ($1) | ($37,094) | $0 | ($4) | $0 | $0 | ($4) | $0 | $0 | $0 | $0 | $0 |
| (Loss)/Gain on sale of assets | $22,231 | $2,130 | $0 | $41,549 | $0 | $9,138 | $50,687 | $0 | $1 | $0 | $0 | $1 | $0 | $0 | $0 | $0 | $0 |
| Income Bef. Preferred div | $6,945 | $31,887 | $5,382 | $17,916 | $27,480 | $18,658 | $69,436 | $9,156 | $12,145 | $11,834 | $52,437 | $85,572 | $13,743 | $16,121 | $15,680 | $16,621 | $62,165 |
| Preferred dividends | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Net Income for common | $6,945 | $31,887 | $5,382 | $17,916 | $27,480 | $18,658 | $69,436 | $9,156 | $12,145 | $11,834 | $52,437 | $85,572 | $13,743 | $16,121 | $15,680 | $16,621 | $62,165 |
| Per share bef. Extra | $0.08 | $0.33 | $0.05 | $0.18 | $0.27 | $0.19 | $0.70 | $0.09 | $0.12 | $0.10 | $0.45 | $0.78 | $0.12 | $0.14 | $0.13 | $0.14 | $0.53 |
| Extraordinary item | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 |
| Net (loss) income per share | $0.08 | $0.33 | $0.05 | $0.18 | $0.27 | $0.19 | $0.70 | $0.09 | $0.12 | $0.10 | $0.45 | $0.78 | $0.12 | $0.14 | $0.13 | $0.14 | $0.53 |
| Quarterly dividend rate | $1.20 | $1.20 | $0.30 | $0.30 | $0.30 | $0.30 | $1.20 | $0.30 | $0.30 | $0.30 | $0.30 | $1.20 | $0.30 | $0.30 | $0.30 | $0.30 | $1.20 |
| Shs Outstanding (diluted) | 91,976,750 | 96,744,500 | 99,137,000 | 99,945,000 | 99,997,000 | 100,474,000 | 99,888,250 | 102,165,000 | 104,770,000 | 115,052,000 | 115,408,000 | 109,348,750 | 115,702,118 | 116,294,710 | 116,593,218 | 117,502,309 | 116,523,089 |

**Table 5. Funds From Operations Calculation**
In Thousands

| | | | 2015 | | | | | 2016 | | | | | 2017E | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Year | Q1 | Q2 | Q3 | Q4 | Year | Q1 | Q2 | Q3 | Q4 | Year | Q1 | Q2 | Q3 | Q4 | Year |
| Net income for common shareholders | $6,945 | $31,887 | $5,382 | $17,916 | $27,480 | $18,658 | $69,436 | $9,156 | $12,145 | $11,834 | $52,437 | $85,572 | $13,743 | $16,121 | $15,680 | $16,621 | $62,165 |
| Add Back: | | | | | | | | | | | | | | | | | |
| Depreciation | 97,950 | 108,859 | 28,532 | 28,542 | 28,438 | 29,021 | 114,533 | 30,800 | 31,716 | 32,557 | 34,699 | 129,772 | 33,280 | 33,706 | 34,087 | 34,423 | 135,496 |
| JV Adjustment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | $0 | $1,235 | $4,345 | $34,925 | $0 | $2,601 | $41,871 | $0 | $229 | $0 | $0 | $229 | $0 | $0 | $0 | $0 | $0 |
| Non-recurring | | | | | | | | | | | | | | | | | |
| Deduct: | | | | | | | | | | | | | | | | | |
| Gain/loss on sales of real estate | ($22,231) | ($666) | $0 | ($41,549) | ($15,176) | ($9,138) | ($65,863) | $1,707 | ($1) | $730 | ($40,001) | ($37,565) | $0 | $0 | $0 | $0 | $0 |
| FFO Available for common | $82,664 | $141,315 | $38,259 | $39,834 | $40,742 | $41,142 | $159,977 | $41,663 | $44,089 | $45,121 | $47,135 | $178,008 | $47,022 | $49,827 | $49,767 | $51,044 | $197,660 |
| Diluted FFO available for common | $121,725 | $141,315 | $38,259 | $39,834 | $40,742 | $41,142 | $159,977 | $41,663 | $44,089 | $45,121 | $47,135 | $178,008 | $47,022 | $49,827 | $49,767 | $51,044 | $197,660 |
| Basic FFO per share | $1.33 | $1.46 | $0.39 | $0.40 | $0.41 | $0.41 | $1.61 | $0.41 | $0.42 | $0.39 | $0.41 | $1.63 | $0.41 | $0.43 | $0.43 | $0.44 | $1.70 |
| Diluted FFO per share | $1.32 | $1.46 | $0.39 | $0.40 | $0.41 | $0.41 | $1.60 | $0.41 | $0.42 | $0.39 | $0.41 | $1.63 | $0.41 | $0.43 | $0.43 | $0.43 | $1.70 |
| Shares, basic | 91,626,750 | 96,505,000 | 98,787,000 | 99,595,000 | 99,647,000 | 100,124,000 | 99,538,250 | 101,815,000 | 104,420,000 | 114,702,000 | 115,058,000 | 108,998,750 | 115,352,118 | 115,944,710 | 116,243,218 | 117,152,309 | 116,173,089 |
| Shares, diluted | 91,976,750 | 96,855,000 | 99,137,000 | 99,945,000 | 99,997,000 | 100,474,000 | 99,888,250 | 102,165,000 | 104,770,000 | 115,052,000 | 115,408,000 | 109,348,750 | 115,702,118 | 116,294,710 | 116,593,218 | 117,502,309 | 116,523,089 |

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

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FFO Available for common | $82,664 | $141,315 | $38,259 | $39,834 | $40,742 | $41,142 | $159,977 | $41,663 | $44,089 | $45,121 | $47,135 | $178,008 | $47,022 | $49,827 | $49,767 | $51,044 | $197,660 |
| Less: | | | | | | | | | | | | | | | | | |
| Recurring real estate CAPX | ($12,075) | ($12,900) | ($3,250) | ($3,400) | ($3,500) | ($3,750) | ($13,900) | ($2,950) | ($3,000) | ($3,050) | ($3,075) | ($12,075) | ($2,950) | ($3,000) | ($3,050) | ($3,075) | ($12,075) |
| Debt adjustments | ($4,750) | $0 | ($1,200) | ($1,200) | ($1,200) | ($1,150) | ($4,750) | ($1,200) | ($1,200) | ($1,200) | ($1,150) | ($4,750) | ($1,200) | ($1,200) | ($1,200) | ($1,150) | ($4,750) |
| Other | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Funds available for distribution | $65,839 | $128,415 | $33,809 | $35,234 | $36,042 | $36,242 | $141,327 | $37,513 | $39,889 | $40,871 | $42,910 | $161,183 | $42,872 | $45,627 | $45,517 | $46,819 | $180,835 |
| Per share | $0.72 | $1.33 | $0.34 | $0.35 | $0.36 | $0.36 | $1.42 | $0.37 | $0.38 | $0.36 | $0.37 | $1.48 | $0.37 | $0.39 | $0.39 | $0.40 | $1.56 |

**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

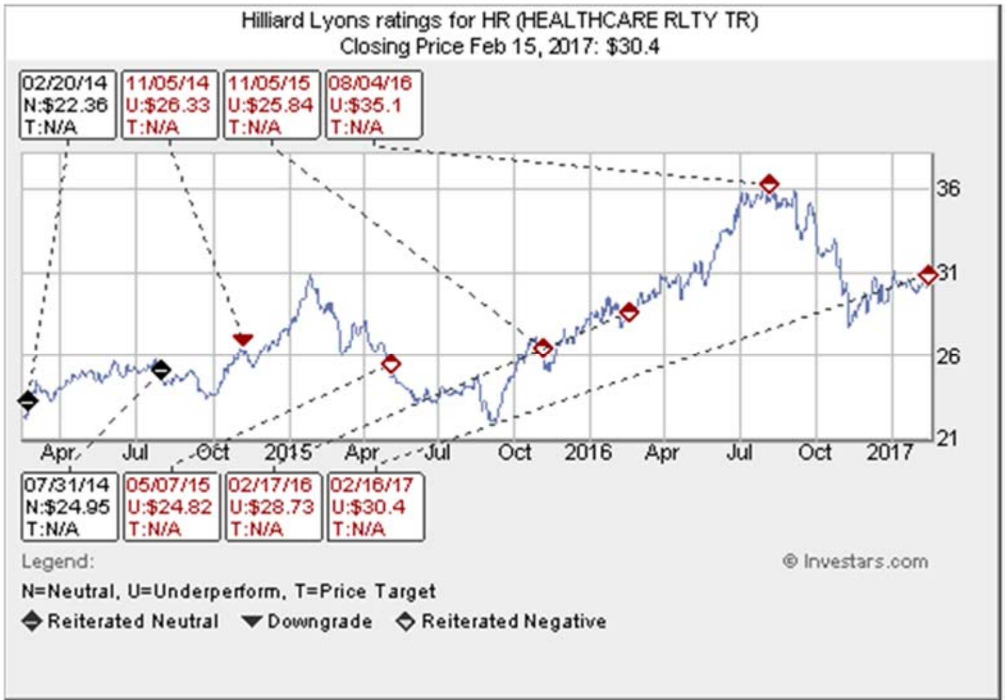
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

**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.

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

*As of 6 February 2017*

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