Healthcare Real Estate Investment Trusts
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COMPANY UPDATE/ESTIMATE CHANGE

Key Metrics

NHI - NYSE - as of 8/8/17	$75.55
Price Target	N/A
52-Week Range	$66.31 - $82.53
Shares Outstanding (mm)	40.0
Market Cap. ($mm)	$3,022.0
1-Mo. Average Daily Volume	186,757
Institutional Ownership	67.3%
Debt/Total Capital Jun-17	26.0%
Est 3-year FFO Growth Rate	6.5%
Est 3-year Dividend Growth Rate	5.0%
Dividend	$ 3.80
Dividend Yield	5.03%
Est. Fixed Charge Coverage	5.7X

Normalized FFO

	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$1.16	--	$1.25	A	$1.32	$1.32
2Q	$1.22	--	$1.32	A	$1.35	$1.35
3Q	$1.23	$1.32	$1.32		$1.36	$1.36
4Q *	$1.27	$1.33	$1.33		$1.37	$1.37
Year	$4.87	$5.19	$5.22		$5.40	$5.40
P/E	15.5x		14.5x			14.0x

* - FFO numbers not adjusted for accounting changes/ discontinued

Revenue ($mm)

	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$59.0	--	$66.4	A	$74.0	$74.0
2Q	$61.2	--	$69.8	A	$75.7	$75.7
3Q	$63.3	$71.0	$71.0		$77.3	$77.3
4Q	$65.8	$71.9	$71.9		$79.9	$79.9
Year	$248.5	$276.6	$279.1		$307.0	$307.0

Company Description: *National Health Investors, Inc., headquartered in Murfreesboro, TN, is a real estate investment trust (REIT) with investments in more than 130 healthcare facilities located in 20 states.*

National Health Investors, Inc.

NHI -- NYSE – Neutral-2

Second Quarter Earning Highlights

Investment Highlights

- NHI reported Q2 normalized FFO of $1.32 a share, three cents above our estimate, and four cents above the consensus and compared to $1.22 a share in the year earlier period. Management sharply increased 2017 guidance, pushing it to $5.22-$5.26 a share from $5.06-$5.12 a share. While we were above previous guidance, we will likely need to adjust our number, as we are now at the bottom end of the range, when taking into account the three cent beat versus our number. We note that the annual consensus number was five cents below our estimate at $5.14 a share, so the consensus will need to come up meaningfully. We will wait until after the company's conference call before making those adjustments, however.
- With its recent investment activity NHI's earnings have made steady gains over the past several years, generally above that of its peer group. As a result, while its valuation remains above what we consider compelling, sitting above historical norms, the portfolio growth has pushed its shares to a discount to the peer group, especially in light of our likely bump in estimates.
- NHI continues to have a relatively strong balance sheet, solid portfolio of properties and strong earnings growth.
- Our rating for NHI remains Neutral at this point. Management raised guidance, which will likely result in higher numbers for us. We believe that NHI has a strong management team, and has done a good job using its liquidity to make accretive acquisitions, pushing up FFO and dividends. This activity has raised our assessment of the fair value of the company. We will make any potential changes to our assessment of the future outlook of the company and changes in estimates following the company's 12 PM conference call.

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

<u>Second Quarter Review</u>

Total revenue was $69.8 million versus $61.2 million in the year ago period, a 14.1% increase. Rental income of $65.7 million was up 15.3% (please see income statement on page 3), a function of recent investments. Mortgage interest income was up 23.5% to $4.0 million from $3.2 million, a result of a new loan financing offset slightly by normal mortgage amortizations. Interest income from existing mortgages will continue to decline going forward from amortization and payoffs offset by newly sourced loans, as management deems appropriate. Interest and other income was down 88.5% to $0.1 million.

Operating (G&A) and other expenses was up 18.9% at $2.5 million, a little below our expectations. Interest expense has moved up with recent acquisitions financed with debt and equaled our expectations at $11.8 million, up from $10.7 million in the year earlier period. The other two major cash costs, legal expense and franchise and excise taxes in total were $0.4 million, about flat with the year earlier period. Depreciation expense increased 14.5% to $16.8 million versus $14.7 million, a function of the recent acquisitions. The company had no extraordinary gains or losses this year and a $23.5 million gain on the sale of marketable securities and $14.7 million in write-offs on lease intangibles and straight line rent receivables, along with various other small gains and losses last year. There was a $0.4 million charge against earnings for minority interest last year and none in the current year. Second quarter net income available to common shareholders was $38.2 million versus $44.6 million, a 14.2% decline. EPS were $0.93 versus $1.16 on 7.0% more common shares outstanding.

Normalized funds from operations (FFO), which exclude real estate gains and various other non-recurring income and losses, were $54.2 million compared to $47.0 million in last year's second quarter, a 15.4% increase. Normalized FFO per diluted share were $1.32 versus $1.22.

NHI has continued to increase the level of debt on the balance sheet over the past year. NHI had $1,145.0 million in debt at quarter-end, compared to $1,116.0 million at year end 2016 and $914.4 million at the end of 2015. At quarter end the company had more than $600 million in capacity remaining on its credit line.

At quarter-end, NHI's debt to total market capitalization was about 26.0%, still among the lowest in the healthcare REIT sector. NHI has no preferred stock outstanding, and should have capital availability as it undertakes future acquisitions.

<u>Other 2nd Quarter Activity</u>

Investment Activity – NHI announced only one investment during the quarter, the purchase of an assisted living facility (ALF) in Lansing, MI for $10.4 million and providing an additional $0.5 million for capital improvements expected to be funded this year. The property is being leased to an existing tenant, Bickford Senior Living under a 14 year lease with renewal options at a 7.25% lease rate with annual escalators. Subsequent to quarter end the company has made two investments, purchase of land, which is being leased to an operator and a mortgage loan on a senior housing property with total investment of $15 million.

Financing Activity - The company's financing activity during the quarter to fund the above noted purchase was drawn off the credit line. The company did lower the cost of its credit line through an amendment negotiated during the quarter.

Quarterly Income Statement

(in thousands)	2Q 2017	2Q 2016	% Change
Rental Income	$65,735	$57,028	15.3%
Investment Income & Other	$109	$944	-88.5%
Mortgage Interest Income	3,992	3,232	23.5%
Total Revenue	69,836	61,204	14.1%
General & Admin	2,521	2,120	18.9%
Legal expense	146	124	17.7%
Franchise, excise and other taxes	267	273	-2.2%
Loan and Realty losses (recoveries)	0	14,726	
Amortization of loan costs	0	0	
EBITDA	66,902	43,961	52.2%
Interest Expense	11,828	10,666	10.9%
Depreciation Expense	16,829	14,695	14.5%
Income (Loss) Before Discontinued Operations and Other Items	38,245	18,600	105.6%
Discontinued Operations (including gain on sale of assets)	0	26,415	
Non controlling	0	(443)	
Investment interest and other	0	23	
Gain on Real Estate sales	0	0	
Net Income (Loss)	$38,245	$44,595	-14.2%
Net EPS (diluted)	$0.93	$1.16	-19.8%
Avg. Shares Outstanding (diluted)	41,245	38,561	7.0%

Funds From Operations	2Q 2017	2Q 2016	
Net Income	$38,245	$44,595	-14.2%
Depreciation Expense	16,829	14,695	14.5%
Other (adding/substracting one-time items)	(826)	(12,300)	
Normalized Funds From Operations	**$54,248**	**$46,990**	15.4%
Normalized FFO Per Share (diluted)	**$1.32**	**$1.22**	8.2%

Source: Company reports.

Consolidated Balance Sheet

(in thousands)	June 30, 2017	December 31, 2016
Real Estate Assets		
Land	$183,943	$172,003
Buildings and Improvements	$2,408,660	$2,285,122
Construction in Progress	$20,201	$15,729
Less: accumulated depreciation	$ (345,992)	$ (313,080)
Total Net Real Estate Investments	2,266,812	2,159,774
Cash and Cash Equivalents	3,470	4,832
Mortgage notes receivable	141,107	133,493
Investment in Unconsolidated and other	16,380	21,271
Preferred stock investment	0	0
Marketable securities	0	11,745
Real estate held for sale	0	0
Other assets	83,273	72,518
Total Assets	**$2,511,042**	**$2,403,633**
Bank Borrowings	$1,145,005	$1,115,981
Mortgage Loan payable	0	0
Earnest Money Deposit	0	0
Real Estate Purchase Liability	0	0
Lease Deposit Liabilities	22,375	21,275
Accounts payable and accrued expenses	18,301	20,053
Dividends payable	38,935	35,863
Deferred income	0	871
Total Liabilities	**$1,224,616**	**$1,194,043**
Preferred stock	-	-
Common Stock	410	398
Capital in Excess of Par Value	1,254,516	1,173,588
Cumulative Net Income in excess of Dividends	34,624	29,873
Cumulative Dividends	-	-
Other	(3,124)	5,731
Total Shareholders' Equity	**1,286,426**	**1,209,590**
Non-controlling interest	0	0
Total Liabilities and Shareholders' Equity	**$2,511,042**	**$2,403,633**

Balance Sheet Ratio Analysis	June 30, 2017	December 31, 2016
Net R/E Investments / Total Debt	51.5%	52.7%
Debt to Equity	90.7%	94.0%
Debt as % of Total Assets	46.5%	47.3%
Shareholders' Equity as % of Total Assets	51.2%	50.3%

Source: Company reports.

Dividend – Management raised the dividend for the first quarter 2017 to $0.95 a quarter or $3.80 annually, a 5.5% increase. This was after raising it to $0.90 a quarter ($3.60 annually) in 2016, $0.85 a quarter ($3.40 annually) in 2015, to $0.77 a quarter ($3.08 annually) in 2014 and twice during 2013, in the first quarter, increasing it from $0.67 a quarter ($2.68 annually) to $0.695 ($2.78 annually) and again in the second quarter to $0.735 ($2.94 annually), paying a total of $2.90 a share in 2013 not including a $0.22 a share extra dividend paid early in 2013 for the 2012 tax year. Based on our 2017 FFO forecast, the estimated dividend payout ratio of 73.1% is a little above the mid-point of the peer group as the dividend has increased at a more rapid pace than many of its peers. We are anticipating that the increases going forward will be more along the line with earnings growth or slightly below, with annual increases at a level to keep the payout ratio in the low 70% range. Management's large increases have exceeded our expectations here, although we believe they will need to throttle the recent large increases down in the future, as the company's leverage ratio increases to more typical levels.

First Take

Based on our initial look at the company's Q2 earnings report, everything looked very good. Interest expense was exactly in line with our expectations in spite of recent acquisitions, while revenue was slightly above our expectations and several other expense items were slightly lower than we anticipated. In particular, general and administrative which fell solidly below our expectations despite the higher revenue number. There was little other of note disclosed in the Q2 release, other than the recent investments discussed earlier. Investment activity during the quarter was reasonably modest, and we are anticipating a pick-up going forward based on the $15 million already announced, although we will need to hear from management on its pipeline and forward visibility before adjusting any of our assumptions on that front. We will, however, need to get a better expectation of the future profitability of properties to be added in Q3 and Q4 from management on the 12 PM conference call as well. The company remains in a relatively strong position from a capital perspective, with a modest level of debt. As such, we anticipate that debt and sales of shares off of the ATM will continue to be the major source of investment capital over the next couple of quarters.

Management raised its FFO guidance meaningfully to $5.22 to $5.26 a share, compared to our previous $5.19 a share estimate and the consensus of $5.14. We note that our number would be $5.22 a share if adjusted for the Q2 beat versus our number, at the low end of new guidance. We expect it highly likely that we will be fine-tuning our 2017 estimate a bit higher with the Q2 upward surprise in spite of investment coming in a little below our expectations. We are also continuing to anticipate additional purchases over the remainder of the year, although we will wait until after the company's conference call before making any decision on that front.

Overall, a very good quarter. We are somewhat surprised that the shares have not acted more positively this morning to what is a significant positive surprise versus the consensus, as well as the meaningful increase in guidance. Issues outside of company fundamentals may be holding back a move higher in the near term. Despite these positives, industry valuation remains the real issue for us at this point as far as the rating goes. The recent share price increase has pushed NHI up along with the group, although its growth in cash flow has more than blunted that, resulting in it looking cheap relatively. While the company's near term growth trajectory should easily exceed the peer group as illustrated by the Q2 numbers, and it sits at a slight discount on a multiple basis, we just do not see enough value to consider an upgrade at this point.

Suitability

NHI has a suitability rating of 2 on our 1-4 scale. We find the company to have a very strong balance sheet in relation to its peers, and the triple net structure of most of its leases limit its property risk. Its real estate ownership is also a positive factor, as is the company's geographic and operator diversification. We also like company's management and acquisition strategy. On the other hand, the company is exposed to the skilled nursing sector, with much of the operator revenue from this area paid by Medicare and Medicaid adding risk due to potential political issues.

Risks
Purchases of NHI shares could entail a variety of risks. 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 tenants' major payer is the U.S. government and changes in reimbursement schedules can hurt NHI's tenants and in turn impair their ability to pay rent. Because of their thirst for debt, changes in interest rates can also impact REITs. NHI is among the smaller healthcare REITs which may limit its ability to make larger acquisitions. While management has proven to be conservative in their acquisition activity, it is always possible that the company could make a poor acquisition in the future.

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

The author of this report or members of his household have a long position in the common stock of National Health Investors, but may not engage in buying or selling contrary to the recommendation.

As of August 8, 2017 Hilliard Lyons customers owned at least 5% of the outstanding common stock of National Health Investors.

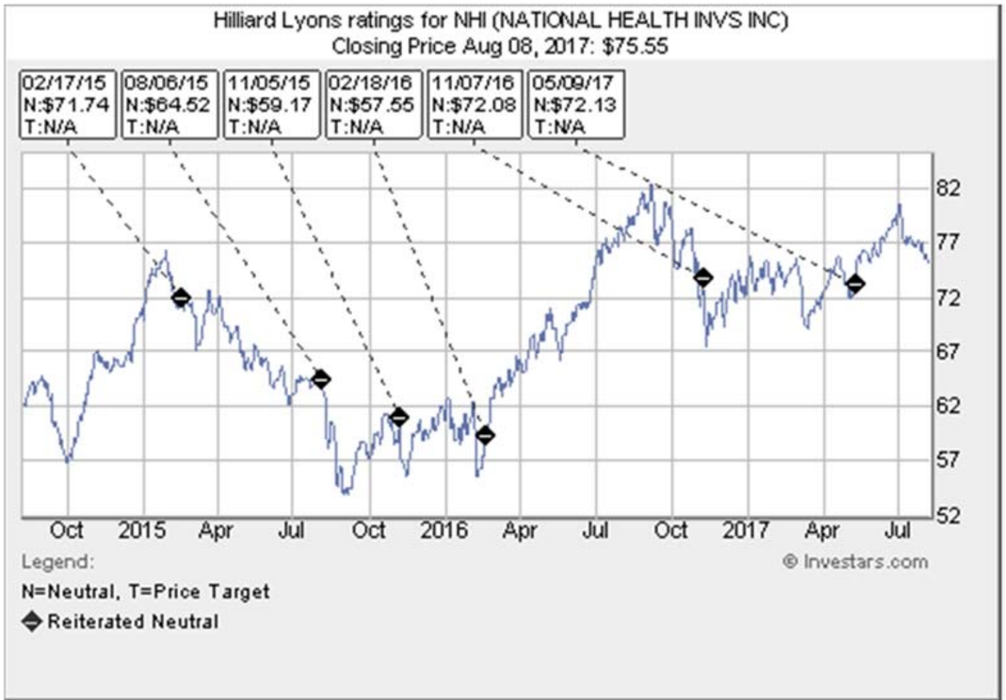
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	44	37%	14%	86%
Hold/Neutral	66	55%	5%	95%
Sell	9	8%	0%	100%

As of 6 July 2016



Other Disclosures

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