



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)	41.0
Market Cap. (\$mm)	\$3,097.6
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	5.9X

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	\$1.38
3Q	\$1.23	\$1.32	\$1.34	\$1.36	\$1.38
4Q *	\$1.27	\$1.33	\$1.37	\$1.37	\$1.40
Year	\$4.87	\$5.22	\$5.28	\$5.40	\$5.48
P/E	15.5x		14.3x		13.8x

* - 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	\$73.9
2Q	\$61.2	--	\$69.8 A	\$75.7	\$76.1
3Q	\$63.3	\$71.0	\$70.7	\$77.3	\$77.4
4Q	\$65.8	\$71.9	\$72.9	\$79.9	\$80.6
Year	\$248.5	\$276.6	\$279.8	\$307.0	\$308.1

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.

Healthcare Real Estate Investment Trusts

John Roberts
 J.J.B. Hilliard, W.L. Lyons, LLC
 502.588.1165 / jmroberts@hilliard.com
 Institutional Sales Desk: George Moorin
 502.585.8909/GMoorin@hilliard.com
 August 9, 2017

National Health Investors, Inc.

NHI -- NYSE – Neutral-2

Conference Call Update

Investment Highlights

- NHI management spent time discussing the 2017 FFO guidance increase to \$5.22 to \$5.26 a share which is mainly a result of the recently closed acquisition activity as well as increased lease rent from rollover leases and future investment activity on which management has visibility. We note that we are anticipating a slight amount of additional investment, although not enough to push our number much beyond guidance. As a result, we are pushing our estimate for the future quarters up a bit to \$5.28 a share, two cents above the high end of guidance. We remain well above the \$5.14 consensus.
- The healthcare REITs have generally acted in concert with interest rates over the past year. NHI shares, are currently trading below the valuation of its peers, despite the company's higher growth rate. The strong work of management and accretive investment activity is also a positive. While this might be a rationale for a positive rating on NHI shares, with the group trading at valuations we consider un-compelling we can't recommend purchase here.
- Our rating for NHI remains Neutral. Although the recent acquisition activity has, in our opinion, increased the overall value of the firm, we believe that this is largely reflected in the current share price despite the shares appearing attractive on a relative basis. With the peer group sitting solidly above historic norms we see little to suggest purchasing NHI shares at this time, in spite of growth that is likely to be near the high end of the group over the next two years and the attractive value versus the peer group.

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

Conference Call Discussion

During NHI's conference call, management discussed its 2017 guidance and decision to increase it substantially. With the company's very low cost of capital and low level of debt, most investments are immediately additive to the bottom line. We also believe that G&A expense will be well controlled despite the company recently making some new hires. Management anticipates G&A of \$2.5-\$3.0 million a quarter and we sit at the higher end of that range. The guidance includes previously announced acquisitions, higher revenue from recently signed leases and some investment that is expected to be signed in the near future. The company also re-negotiated the rates on its credit line and term loan at lower rates, which is also assumed in guidance. We note that management highlighted a newly signed lease with a tenant in Florida that resulted in \$2.5 million in higher lease rent plus annual escalators.

Management also discussed some operating metrics of its underlying portfolio, noting that the coverage ratio for the portfolio as a whole is currently 1.76 times, above its peer companies, although lower than it had been previously as the company diversifies its portfolio away from the skilled nursing (SNF) areas, where the coverage rate has been especially high due to the conservative nature and quality of its major SNF tenant, one of the best operators in the business and illustrated by the 2.64 times coverage ratio for that segment of the company's portfolio. Overall, management believes its tenants have performed very well.

In looking at the company's financial picture, management noted that the current weighted average cost of debt is 3.5%, and the average length of its debt is 6.1 years. The fixed charge coverage ratio for the firm is a very strong 5.9 times. No equity was issued under the company's at the market issuance program, although we expect some will occur in Q3 with the higher share price and investment activity. On the acquisition/investment front, management highlighted the \$10 million Evolve investment which was closed early in Q3. This was a mortgage made coming out of bankruptcy on which NHI holds a future purchase option, and management believes that more of these types of transactions will be available in the future, offering higher potential yields.

Looking at the quarter, the results were solidly above our expectations, and the subsequent investments should enable the company to grow even further. With the pipeline outlined by management, we have modeled in continued purchases, although we are staying somewhat conservative in our expectations. We also note that we anticipate management may target more non-traditional investments like the Evolve mortgage, which offer higher potential returns relative to more traditional acquisitions in this environment.

Q3 and 2017 Outlook

Following our analysis of the company's Q2 results, we are bumping our 2017 FFO estimate by six cents to \$5.28 a share. As noted earlier, this is above both consensus and management guidance. Our estimate is based upon assumptions of another \$110 million in additional investments during the remainder of 2017, a number that seems reasonable to us at this point. Due to the company's relatively modestly leveraged balance sheet and the low cost of debt that continues to be available through the use of the company's credit line and sale of investments, any acquisitions are likely to be accretive initially, although less so after more permanent capital is put in place, something we believe NHI continues to explore. Our third quarter FFO estimate is \$1.33 per share, three cents above the consensus number. We are bumping up our 2018 number to \$5.48 a share, above the \$5.33 a share consensus.

Valuation

Using our \$5.28 a share estimate for 2017, NHI shares are trading at 14.3 times FFO. This is a slight discount to where the peer group is currently trading. The group sits at a position that we feel is solidly above fair value. Further, should investors begin to anticipate higher bond rates, the group could see its valuations pull back. We just do not believe that the group offers solid investment value at the current multiple. We like the company and management and believe its growth rate is likely to exceed the peer group. As such, were the peer group at a level we felt was near fair value, NHI would be a candidate for a positive rating. However, that is not the case currently. So while the current price is a little above where

we would recommend purchase, we will be paying close attention for a potential pullback in the group and for the stock to reach a price at which we would find these quality shares attractive on a price/value basis. We note another positive here is the solid dividend growth, which has been among the best in the peer group over the past several years.

Health Care REITs		Closing Price	Current		2018E	FFO		2-Year Average	Price / FFO	
Ranked By Market Cap.	Symbol	8/8/2017	Dividend	Yield	Payout Ratio	2017E	2018E	Growth Rate	2017E	2018E
Welltower, Inc.	HCN	\$71.94	\$3.48	4.8%	77.2%	\$4.29	\$4.51	-0.7%	16.8x	16.0x
Healthcare Realty	HR	\$32.53	\$1.20	3.7%	68.6%	\$1.60	\$1.75	3.9%	20.3x	18.6x
Omega Healthcare Investors	OHI	\$31.22	\$2.56	8.2%	70.9%	\$3.47	\$3.61	3.2%	9.0x	8.6x
Ventas, Inc.	VTR	\$65.46	\$3.10	4.7%	69.8%	\$4.24	\$4.44	3.3%	15.4x	14.7x
HCP, Inc.	HCP	\$29.61	\$1.48	5.0%	72.2%	\$1.96	\$2.05	-13.5%	15.1x	14.4x
LTC Properties, Inc.	LTC	\$50.32	\$2.28	4.5%	68.3%	\$3.16	\$3.34	4.5%	15.9x	15.1x
Health Care Sector Average		\$46.85	\$2.35	5.0%	71.6%	\$3.12	\$3.28	0.4%	15.0x	14.3x
National Health Investors	NHI	\$75.55	\$3.80	5.0%	69.3%	\$5.28	\$5.48	6.1%	14.3x	13.8x

Note: OHI is rated Buy, HCP, LTC and VTR are rated Neutral, HCN and HR are rated Underperform by Hilliard Lyons

Source: NAREIT, Baseline and Hilliard Lyons' estimates.

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

NHI shares have 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 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.

Table 1. Consolidated Income Statement

	2015		2016		2017E		2018E		Year		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Revenues:											
Mortgage interest income	\$9,978	\$3,092	\$3,232	\$3,591	\$3,590	\$13,505	\$3,089	\$3,982	\$3,961	\$4,023	\$15,065
Interest income & other	\$4,216	\$852	\$944	\$388	\$418	\$2,602	\$162	\$109	\$125	\$110	\$506
Rental income	\$166,279	\$55,074	\$57,028	\$59,272	\$61,019	\$232,393	\$63,137	\$65,735	\$66,593	\$66,774	\$264,239
Facility operating income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenues	\$177,508	\$59,018	\$61,204	\$63,251	\$65,027	\$248,500	\$66,388	\$69,836	\$70,690	\$72,907	\$279,810
Expenses:											
Interest Expense	\$37,629	\$10,262	\$10,666	\$10,816	\$11,364	\$43,108	\$11,661	\$11,828	\$12,173	\$12,438	\$48,100
Depreciation of real estate	35,078	13,733	14,685	15,240	15,897	59,565	16,154	16,829	17,079	17,557	67,619
Amortization of loan costs	-	-	-	-	-	-	-	-	-	-	-
Legal Expense	465	126	124	156	16	422	56	146	150	145	497
Franchise & excise taxes	679	283	273	271	183	1,010	267	267	281	292	1,107
General & administrative	10,519	2,929	2,120	2,169	2,554	9,772	4,108	2,521	2,792	2,909	12,330
Investment loss & impairment expense	-	-	14,726	1,131	-	-	-	-	-	-	-
Facility operating expense	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$74,388	\$27,333	\$42,604	\$29,783	\$30,014	\$129,734	\$32,246	\$31,591	\$32,475	\$33,340	\$129,652
Income from Operations	\$103,120	\$31,685	\$18,600	\$33,468	\$35,013	\$118,766	\$34,142	\$38,245	\$38,205	\$39,567	\$150,159
Noncontrolling, unconsolidated	(\$3,218)	(\$786)	(\$443)	(\$1,160)	\$0	(\$2,389)	\$0	\$0	\$0	\$0	\$0
Gain on sale of assets	\$24,995	\$1,665	\$26,415	\$1,657	\$6,175	\$35,912	\$10,088	\$0	\$0	\$0	\$10,088
Discontinued/other	\$0	\$0	\$23	(\$933)	\$0	(\$910)	\$0	\$0	\$0	\$0	\$0
Income Bef. Preferred div	\$148,862	\$32,564	\$44,595	\$33,032	\$41,188	\$151,379	\$44,230	\$38,245	\$38,205	\$39,567	\$160,247
Preferred dividends	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net income for common before extra	\$148,862	\$32,564	\$44,595	\$33,032	\$41,188	\$151,379	\$44,230	\$38,245	\$38,205	\$39,567	\$160,247
Extraordinary item	\$0	(\$161)	\$0	\$0	\$0	(\$161)	\$0	\$0	\$0	\$0	\$0
Net Income for common	\$148,862	\$32,725	\$44,595	\$33,032	\$41,188	\$151,540	\$44,230	\$38,245	\$38,205	\$39,567	\$160,247
Per share bef. Discontinued	\$3.95	\$0.85	\$1.16	\$0.83	\$1.03	\$3.87	\$1.10	\$0.93	\$0.92	\$0.95	\$3.90
Discontinued items	\$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	\$3.95	\$0.85	\$1.16	\$0.83	\$1.03	\$3.87	\$1.10	\$0.93	\$0.92	\$0.95	\$3.90
Common dividend per share	\$3.40	\$0.90	\$0.90	\$0.90	\$0.90	\$3.60	\$0.95	\$0.95	\$0.95	\$0.95	\$3.80
Shs Outstanding (diluted)	37,639,846	38,415,000	38,561,000	39,651,900	39,993,000	38,155,225	40,109,000	41,245,000	41,378,333	41,773,070	41,126,351

Table 5. Funds From Operations Calculation

Net income for common shareholders	\$101,607	\$148,862	\$19,426	\$14,695	\$53,032	\$41,188	\$151,540	\$44,230	\$38,245	\$38,205	\$39,567	\$160,247
Add Back:	\$37,584	\$52,885	\$13,426	\$14,695	15,240	15,897	\$59,258	16,154	16,829	17,079	17,557	\$67,619
Less:	\$1,004	(\$26,018)	(\$1,654)	(\$12,300)	\$354	(\$6,463)	(\$20,063)	(\$10,088)	(\$826)	\$0	\$0	(\$10,914)
Asset sales and other	\$140,195	\$175,729	\$44,497	\$46,990	\$48,626	\$50,622	\$190,735	\$50,296	\$54,248	\$55,284	\$57,124	\$216,951
Diluted FFO available for common	\$44,230	\$44,497	\$46,990	\$48,626	\$50,622	\$190,735	\$44,230	\$44,497	\$46,990	\$48,626	\$50,622	\$216,951
Basic FFO per share	\$4.20	\$1.18	\$1.23	\$1.24	\$1.28	\$4.93	\$1.25	\$1.32	\$1.34	\$1.38	\$1.38	\$5.30
Diluted FFO per share	\$4.67	\$1.16	\$1.22	\$1.23	\$1.27	\$4.87	\$1.25	\$1.32	\$1.34	\$1.37	\$1.37	\$5.28
Shares, basic	33,378,863	37,609,308	37,841,504	38,104,662	39,283,919	38,695,168	40,088,531	41,001,309	41,134,642	41,528,379	40,940,965	
Shares, diluted	33,416,592	37,648,080	38,415,000	38,561,000	39,651,900	38,156,617	40,109,000	41,245,000	41,378,333	41,773,070	41,126,351	

Table 6. Funds Avail For Distribution

Recurring Cap-X	\$140,195	\$175,729	\$44,497	\$46,990	\$48,626	\$50,622	\$190,735	\$50,296	\$54,248	\$55,284	\$57,124	\$216,951
Other	(\$1,086)	(\$1,086)	(\$205)	(\$255)	(\$307)	(\$319)	(\$1,086)	(\$295)	(\$371)	(\$421)	(\$459)	(\$1,546)
Total	\$139,009	\$174,543	\$44,192	\$46,635	\$48,219	\$50,203	\$189,549	\$49,901	\$53,777	\$54,763	\$56,565	\$215,305
Per share	\$4.16	\$4.64	\$1.17	\$1.22	\$1.23	\$1.27	\$4.90	\$1.24	\$1.31	\$1.33	\$1.36	\$5.26
Shares	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$139,009	\$174,543	\$44,192	\$46,635	\$48,219	\$50,203	\$189,549	\$49,901	\$53,777	\$54,763	\$56,565	\$215,305

Source: Company reports and Hilliard Lyons

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

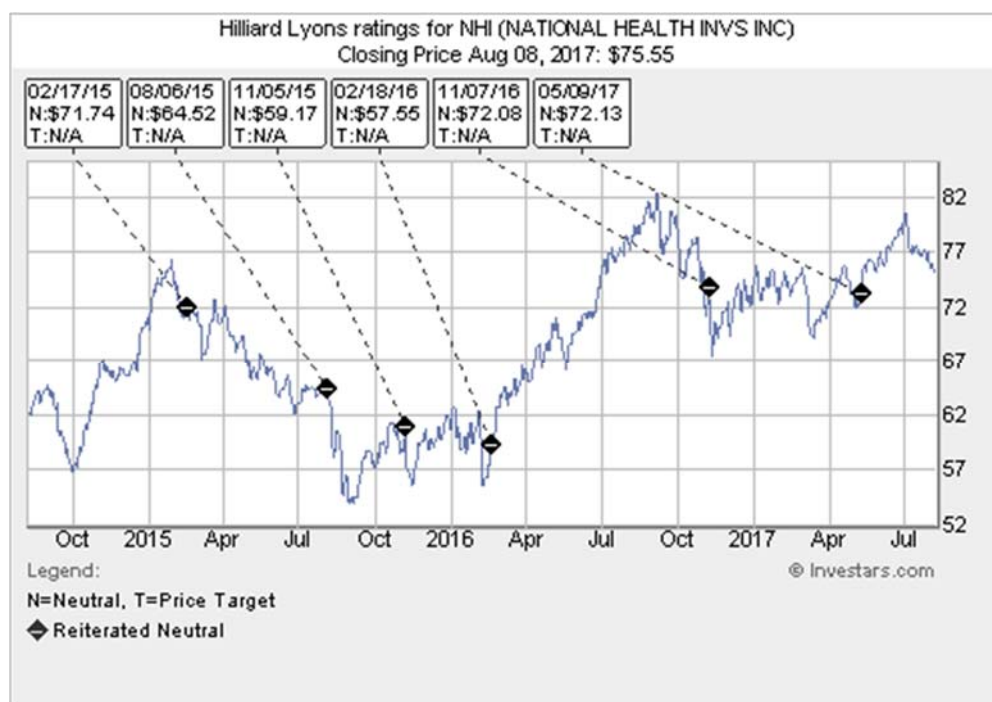
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

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.	
	# of <u>Stocks Covered</u>	% of <u>Stocks Covered</u>	<u>Banking</u>	<u>No Banking</u>
Rating				
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017



Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.