HILLIARD LYONS

COMPANY UPDATE/ESTIMATE CHANGE

Healthcare Real Estate Investment Trusts
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National Health Investors, Inc.

NHI -- NYSE – Neutral-2

First Quarter Earning Highlights

Key Metrics

NHI - NYSE - as of 5/8/17		$72.13
Price Target		N/A
52-Week Range	$57.32 -	$82.53
Shares Outstanding (mm)		40.0
Market Cap. ($mm)		$2,885.2
1-Mo. Average Daily Volume		186,757
Institutional Ownership		67.3%
Debt/Total Capital	Dec-16	27.3%
Est 3-year FFO Growth Rate		6.5%
Est 3-year Dividend Growth Rate		5.0%
Dividend		$ 3.80
Dividend Yield		5.27%
Est. Fixed Charge Coverage		5.7X

Normalized FFO

	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$1.16	--	$1.25	A	--	--
2Q	$1.22	$1.29	$1.29		--	--
3Q	$1.23	$1.32	$1.32		--	--
4Q *	$1.27	$1.33	$1.33		--	--
Year	$4.87	$5.20	$5.19			$5.40
P/E	14.8x		13.9x			13.4x

* - 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	--	--
2Q	$61.2	--	$68.1		--	--
3Q	$63.3	--	$70.2		--	--
4Q	$65.8	--	$71.9		--	--
Year	$248.5		$276.7			$318.7

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.*

Investment Highlights

- NHI reported Q1 normalized FFO of $1.25 a share, a penny below our estimate and the consensus estimate, and compared to $1.16 a share in the year earlier period. Results were largely in line with our expectations, with the more than 1.1 million shares issued through the “at the market” (ATM) share issuance plan and higher G&A expense than we anticipated being the major driver behind that miss.
- With its continuing acquisition activity NHI earnings have continued to move up at a solid rate, and above that of its peer group. However, the shares have moved up with the earnings and as a result, valuation remains above historical norms, and above where we would typically suggest buying.
- We see limited operating risks for NHI in the near term, with a strong balance sheet and a low level of debt to capital. The strong capital structure also should enable NHI to continue growing. The company strengthened this position by issuing shares under its “at the market” (ATM) stock sale program.
- Our rating for NHI remains Neutral. We believe that NHI has a solid management team and strategy, and has done a good job using its liquidity to make accretive acquisitions, pushing up FFO and dividends. This activity has continued to push up our assessment of the fair value of the company, although the stock price has increased apace. We will make any changes to our assessment of the future outlook of the company following its 12 PM conference call.

Note Important Disclosures on Pages 5-6.
Note Analyst Certification on Page 4.

First Quarter Review
Total revenue was $66.4 million versus $59.0 million, a 12.5% increase. Rental income of $63.1 million was up 14.6% (please see income statement on page 3), a function of recent investments. Mortgage interest income was down 2.2% to $3.1 million, a result of 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 79.3% at $0.2 million.

Operating (G&A) and other expenses was up 40.3% at $4.1 million. This was above our expectations. Interest expense has continued to move higher as NHI has generally used debt to finance recent investment activity and was $11.7 million, up from $10.3 million in the year earlier period. The other two major cash costs, legal expense and franchise and excise taxes in total were just over $0.3 million, down a bit from just over $0.4 million in the year earlier period. Depreciation expense increased 17.6% to $16.2 million versus $13.7 million, a function of the recent acquisitions. The company had a $10.1 million gain on an asset sale this year and $1.7 million last year. We exclude non-recurring charges from our normalized FFO numbers. First quarter net income available to common shareholders was $44.2 million versus $32.7 million, a 35.2% increase. EPS were $1.10 versus $0.85 in the year ago period on 4.4% more common shares outstanding.

Normalized funds from operations (FFO), which exclude real estate gains and various other non-recurring income and losses, were $50.3 million compared to $44.5 million in last year's first quarter, a 13.0% increase. Normalized FFO per diluted share were $1.25 versus $1.16.

NHI has continued to increase the level of debt on the balance sheet over the past year. NHI had $1.146 billion in debt at quarter-end, compared to $1.116 billion at year end 2016 and $914.4 million at the end of 2015. The company has also added equity through its ATM program. At quarter end the company had approximately $360 million in capacity remaining on its credit line.

At quarter-end, NHI's debt to total market capitalization was a little over 28%, 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.

Other 1st Quarter Activity
Investment Activity – NHI announced a number of investments during the quarter. These included the purchase of 5 memory care facilities in Texas encompassing 233 units for $61.8 million with an initial cash yield of 7% and annual escalators. In addition, the company purchased a 102-unit assisted living/memory care facility in Portland, Oregon, which was added to a master lease with an existing tenant at 7% plus annual escalators for 12-years, for $26.2 million, two more assisted living/memory care facilities in North Carolina under a 15-year lease at an initial rate of 7.35% with annual escalators for $16.1 million and a skilled nursing facility in Texas that is being added to an existing master lease at a yield of 8.35% plus fixed escalators. The company also funded the remaining $11.9 million mortgage and mezzanine loan commitment with Senior Living Management, with the total of $24.5 million in loans having a yield of 8.25%.

Financing Activity – During the first quarter, the company sold 1.12 million shares of common stock under its ATM program, raising $80 million in net proceeds. The remaining capital to fund the investments noted above came from drawing funds off its credit line.

Quarterly Income Statement

(in thousands)	1Q 2017	1Q 2016	% Change
Rental Income	$63,137	$55,074	14.6%
Mortgage Interest Income	3,089	3,160	-2.2%
Investment income and other	162	784	-79.3%
Total Revenue	66,388	59,018	12.5%
General & Admin	4,108	2,929	40.3%
Legal expense	56	126	-55.6%
Franchise, excise and other taxes	267	283	-5.7%
Loan and Realty losses (recoveries)	0	0	0.0%
Amortization of loan costs	0	0	0.0%
EBITDA	61,957	55,680	11.3%
Interest Expense	11,661	10,262	13.6%
Depreciation Expense	16,154	13,733	17.6%
Income (Loss) Before Discontinued Operations and Other Items	34,142	31,685	7.8%
Discontinued Operations (including gain on sale of assets)	10,088	1,665	
Charges	0	(402)	
Other income	0	161	
Non-Controlling/Unconsolidated	0	(384)	
Net Income (Loss)	$44,230	$32,725	35.2%
Net EPS (diluted)	$1.10	$0.85	29.4%
Avg. Shares Outstanding (diluted)	40,109	38,415	4.4%

Funds From Operations	1Q 2017	1Q 2016	
Net Income	$44,230	$32,725	35.2%
Depreciation Expense	16,154	13,426	20.3%
Other (adding/substracting one-time items)	(10,088)	(1,654)	
Normalized Funds From Operations	**$50,296**	**$44,497**	13.0%
Normalized FFO Per Share (diluted)	**$1.25**	**$1.16**	7.8%

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 Q1 earnings report, the revenue numbers were higher as a result of investment made during Q1 and the previous quarters, exactly matching our expectations. However, expenses were a little higher versus our expectations, the major factor behind the penny miss versus our number. The shares issued under the ATM during the quarter were also slightly dilutive. We anticipate that the revenue numbers will continue to grow as a result of all the recent investments. At this point we will wait to make any adjustments on future investment activity until we hear from management on the 12 PM conference call. The company remains in a relatively strong position from a capital perspective, with a modest level of debt. As such, we anticipate that debt will be a major source of investment capital in the near term along with equity raised from the ATM program on an as needed basis, which should hold down dilution. The company retained its FFO guidance at $5.06 to $5.12 a share, compared to our previous $5.20 a share estimate and the consensus of $5.16. We anticipate that we will be fine-tuning our 2017 estimate depending upon management guidance for future investment and any changes with interest expense as a result of terming out debt, although we will wait until after the company's conference call before making a definitive call on that point.

Overall, a quarter largely in line with our expectations excluding the impact of the higher level of general and administrative expenses. However, as we see the company continuing to trade in line with fair value, we do not see a change in our rating at this time despite the fact that the company should continue to report generally positive results. Having said that we continue to look for a point where the share price reaches an attractive level.

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

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.

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 May 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	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 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.

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