



COMPANY UPDATE/ESTIMATE CHANGE

Key Metrics

NHI - NYSE - as of 5/8/17	\$72.13
Price Target	N/A
52-Week Range	\$65.94 - \$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 Mar-17	28.3%
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 --	\$1.32
2Q	\$1.22	\$1.29	\$1.29	--	\$1.35
3Q	\$1.23	\$1.32	\$1.32	--	\$1.36
4Q *	\$1.27	\$1.33	\$1.33	--	\$1.37
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 --	\$74.0
2Q	\$61.2	\$68.1	\$68.3	--	\$75.7
3Q	\$63.3	\$70.2	\$71.0	--	\$77.3
4Q	\$65.8	\$71.9	\$71.9	--	\$79.9
Year	\$248.5	\$276.7	\$276.6		\$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

Conference Call Update

Investment Highlights

- NHI's conference call did not offer a lot of color beyond what was in the company's press release and supplemental material. Management retained the 2017 FFO guidance at \$5.06 to \$5.12 a share. They noted that guidance anticipates higher debt costs from recent refinancing activity, dilution from recent share issuance and does not include any unannounced acquisitions. We are adjusting our 2017 FFO estimate for the penny miss so our estimate is now \$5.19 a share, above the \$5.16 consensus and management's guidance.
- The healthcare REITs have underperformed the market since the start of the year, with volatility around expected changes in interest rates. We are generally suggesting a market weight on the group, although with them continuing to trade above historic multiples and the bond rate likely to push higher beyond 2017, we are cautious on the group. NHI shares are in the same situation and do not represent compelling value to us, despite a solid growth rate. The strong work of management, balance sheet and solid investment activity is a positive, although overall valuation remains above what we find compelling, especially when interest rates are likely to rise over the coming couple of years. Higher interest rates are unlikely to have a positive impact on the group as the cost of debt and equity to finance investment rises and investors demand higher returns due to a rise in rates on competing investments.
- 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 is largely reflected in the current share price. With the group likely to experience headwinds, that only makes us less willing to suggest purchasing NHI shares at this time.

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

Conference Call Discussion

During NHI's conference call, management generally discussed what was in the press release and first quarter supplemental, adding a little color around the information. Management retained its 2017 guidance in spite of the strong investment activity during the first quarter. Management also guided G&A expense to \$3 million a quarter, which is solidly below Q1 G&A due to heavy non-cash compensation expense during Q1. We are pushing up our estimates a bit based on management's guidance.

Management also discussed some operating metrics of its underlying portfolio, noting that the coverage ratio for the portfolio as a whole is currently 1.8 times, above its peer companies, although lower than it had been previously as the company continues to diversify 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. In fact, the SNF portfolio had a coverage ratio of 2.71 times, while the senior housing portfolio only had a 1.26 times coverage ratio.

In looking at the acquisition/investment pipeline, management discussed the progress on its various development projects, noting that it had already funded \$98.8 million for its Timber Ridge project and that it was getting paid back on this loan with entrance fee income. NHI has already received more than \$70 million in repayments from this source, using the proceeds to pay down the credit line. We expect this to be very dilutive in the near term due to the high yield on the investment and low yield on the credit line. Management noted that its pipeline remains fairly robust, but has not changed markedly during the quarter. Management has not changed their underwriting metrics and that this is making finding good investments a little more difficult due to the high prices demanded by sellers. Management noted that they were staying disciplined, and only looking at accretive investments, despite the current active merger activity.

On other issues, management said that the company has now sold all of its LTC Properties (LTC, \$46.94) common stock and as a result, has no marketable securities remaining. We have sharply adjusted down our estimate for revenues from this area going forward. Looking at the quarter, the numbers were largely in line with our expectations, with the major difference being the G&A expense being slightly above our expectations. We have adjusted our estimate for 2017 for the penny miss versus our expectations.

Q2 and 2017 Outlook

Following our analysis of the company's Q1 results, we are dropping our 2017 FFO estimate by the Q1 miss to \$5.19 a share. As noted earlier this is above both consensus and management guidance. Our estimate is based upon assumptions of \$175 million in additional property acquisitions/investments during the remainder of 2017, a number that seems conservative in light of the acquisitions and investments already announced and discussion on the pipeline. Due to the company's relatively low leveraged balance sheet, access to capital through the sale of securities and the low cost of debt that continues to be available through the use of the company's credit line, any acquisitions are likely to be accretive initially. Our second quarter estimate is \$1.29 per share, equal to the consensus number. We are also retaining our 2018 number at \$5.40 a share, also above the \$5.33 a share consensus.

Valuation

Using our \$5.19 a share estimate for 2017, NHI shares are trading at 13.9 times FFO. This is a little below where the peer group is currently trading. Having said that, the shares continue to trade a little above historic trading multiples, while the risk of higher rates means that the group is not a compelling value at this time. As such, while NHI does have an FFO growth rate that could exceed that of its healthcare REIT peers over the next several years and has a very strong balance sheet in comparison to its peers, it is not at a price point that we find attractive. We will be paying close attention for an opportune level at which to upgrade these quality shares. 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	5/8/2017	Dividend	Yield	Payout Ratio	2017E	2018E	Growth Rate	2017E	2018E
Welltower, Inc.	HCN	\$69.72	\$3.48	5.0%	76.5%	\$4.34	\$4.55	-0.2%	16.1x	15.3x
Healthcare Realty	HR	\$32.26	\$1.20	3.7%	68.6%	\$1.64	\$1.75	3.9%	19.7x	18.4x
Omega Healthcare Investors	OHI	\$32.26	\$2.52	7.8%	69.4%	\$3.49	\$3.63	3.5%	9.2x	8.9x
Ventas, Inc.	VTR	\$63.53	\$2.92	4.6%	65.8%	\$4.24	\$4.44	3.3%	15.0x	14.3x
HCP, Inc.	HCP	\$30.13	\$1.48	4.9%	72.2%	\$1.96	\$2.05	-13.5%	15.4x	14.7x
LTC Properties, Inc.	LTC	\$46.94	\$2.28	4.9%	68.3%	\$3.16	\$3.34	4.5%	14.9x	14.1x
Health Care Sector Average		\$45.81	\$2.31	5.1%	70.2%	\$3.14	\$3.29	0.6%	14.6x	13.9x
National Health Investors	NHI	\$72.13	\$3.80	5.3%	70.4%	\$5.19	\$5.40	5.3%	13.9x	13.4x

Note: OHI is rated Buy, HCP and VTR are rated Neutral, LTC, 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

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, except per share amounts

	2015		2016		2017E		2018E		Year		
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2		Q3	Q4
Revenues:											
Mortgage interest income	\$9,978	\$3,092	\$3,232	\$3,591	\$3,590	\$13,505	\$3,089	\$3,266	\$3,291	\$3,316	\$12,962
Interest income & other	\$4,623	\$652	\$944	\$398	\$418	\$2,602	\$162	\$75	\$75	\$75	\$387
Rental income	\$214,148	\$55,074	\$57,028	\$59,272	\$61,019	\$232,393	\$63,137	\$65,008	\$66,640	\$68,468	\$263,274
Facility operating income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Facility operating income	\$177,508	\$59,018	\$61,204	\$63,251	\$65,027	\$248,500	\$66,388	\$68,349	\$70,007	\$71,879	\$276,623
Expenses:											
Interest expense	\$37,629	\$10,262	\$10,666	\$10,816	\$11,364	\$43,108	\$11,661	\$11,772	\$11,925	\$12,188	\$47,546
Depreciation of real estate	38,078	13,733	14,695	15,240	15,897	59,565	16,154	16,835	17,405	17,884	68,278
Amortization of loan costs	-	-	-	-	-	-	-	-	-	-	-
Legal Expense	209	126	124	156	16	422	56	150	150	90	446
Franchise & excise taxes	620	283	273	271	183	1,010	267	350	281	359	1,257
General & administrative	10,519	2,929	2,120	2,169	2,554	9,772	4,108	3,042	2,905	3,342	13,397
Investment loss & impairment expense	-	-	14,726	1,131	-	-	-	-	-	-	-
Facility operating expense	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$74,388	\$27,333	\$42,604	\$29,763	\$30,014	\$129,724	\$32,246	\$32,149	\$32,666	\$33,865	\$130,925
Income from Operations	\$101,964	\$31,685	\$18,600	\$33,468	\$35,013	\$118,766	\$34,142	\$36,201	\$37,341	\$38,015	\$145,698
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	\$101,607	\$32,564	\$44,595	\$33,032	\$41,188	\$151,379	\$44,230	\$36,201	\$37,341	\$38,015	\$155,786
Preferred dividends	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net income for common before extra	\$101,607	\$32,564	\$44,595	\$33,032	\$41,188	\$151,379	\$44,230	\$36,201	\$37,341	\$38,015	\$155,786
Extraordinary item	\$0	(\$161)	\$0	\$0	\$0	(\$161)	\$0	\$0	\$0	\$0	\$0
Net income for common	\$101,607	\$32,725	\$44,595	\$33,032	\$41,188	\$151,540	\$44,230	\$36,201	\$37,341	\$38,015	\$155,786
Per share bef. Discontinued	\$3.04	\$0.85	\$1.16	\$0.83	\$1.03	\$3.87	\$1.10	\$0.88	\$0.90	\$0.90	\$3.78
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	\$3.04	\$0.85	\$1.16	\$0.83	\$1.03	\$3.87	\$1.10	\$0.88	\$0.90	\$0.90	\$3.78
Common dividend per share	\$3.14	\$0.90	\$0.90	\$0.90	\$0.90	\$3.60	\$0.95	\$0.95	\$0.95	\$0.95	\$3.80
Shs Outstanding (diluted)	33,401,247	38,415,000	38,561,000	39,651,900	39,993,000	39,155,225	40,109,000	41,011,778	41,628,216	42,033,622	41,195,654

Table 5. Funds From Operations Calculation

Net income for common shareholders	\$148,862	\$32,725	\$44,595	\$33,032	\$41,188	\$151,540	\$44,230	\$36,201	\$37,341	\$38,015	\$155,786
Add Back:											
Depreciation	\$37,584	\$52,885	\$13,426	\$14,695	15,240	15,897	16,154	16,835	17,405	17,884	68,278
Less:											
Asset sales and other	(\$26,018)	(\$1,654)	(\$12,300)	\$354	(\$6,463)	(\$20,063)	(\$10,088)	\$0	\$0	\$0	(\$10,088)
FFO Available for common	\$140,195	\$175,729	\$44,497	\$46,990	\$48,626	\$190,735	\$30,296	\$33,036	\$34,746	\$35,899	\$213,976
Diluted FFO available for common	\$140,195	\$175,729	\$44,497	\$46,990	\$48,626	\$190,735	\$30,296	\$33,036	\$34,746	\$35,899	\$213,976
Basic FFO per share	\$4.20	\$4.67	\$1.18	\$1.23	\$1.24	\$4.93	\$1.25	\$1.29	\$1.32	\$1.33	\$5.20
Diluted FFO per share	\$4.20	\$4.67	\$1.16	\$1.22	\$1.23	\$4.87	\$1.25	\$1.29	\$1.32	\$1.33	\$5.19
Shares, basic	33,378,863	37,609,308	37,841,504	38,104,662	39,283,919	39,550,566	40,098,531	41,001,309	41,617,747	42,023,152	41,185,185
Shares, diluted	33,416,592	37,648,080	38,415,000	38,561,000	39,651,900	39,918,567	40,109,000	41,011,778	41,628,216	42,033,622	41,195,654

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

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

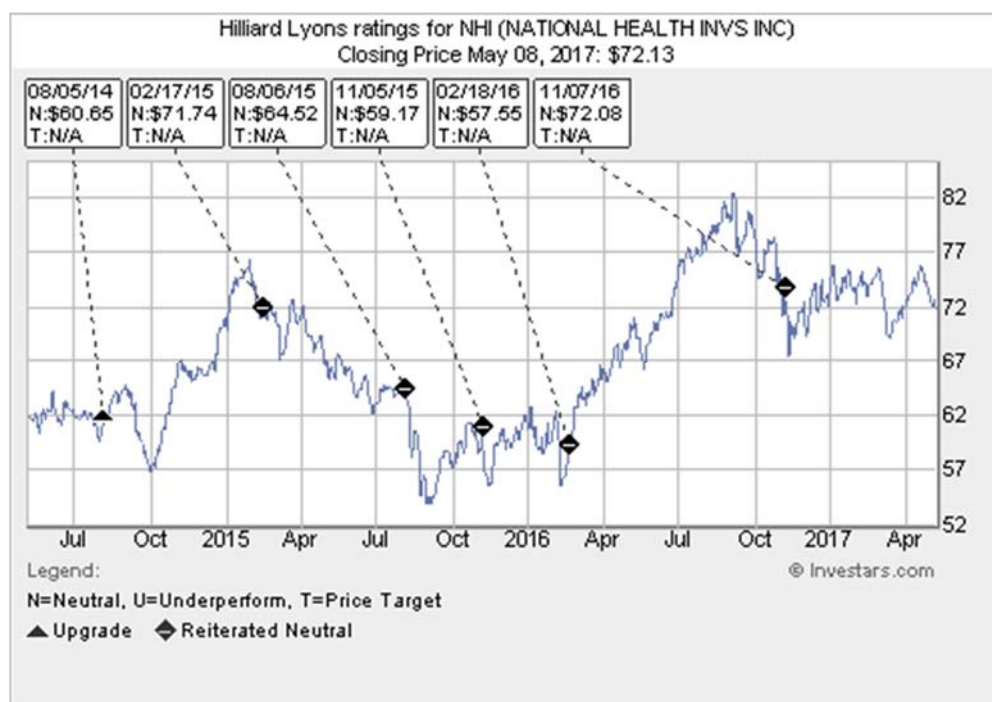
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

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.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017



Other Disclosures

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