



COMPANY UPDATE

Key Metrics

NHI - NYSE - as of 11/7/17	\$78.72
Price Target	N/A
52-Week Range	\$66.31 - \$81.21
Shares Outstanding (mm)	41.5
Market Cap. (\$mm)	\$3,266.9
1-Mo. Average Daily Volume	186,757
Institutional Ownership	67.3%
Debt/Total Capital Sep-17	25.6%
Est 3-year FFO Growth Rate	6.5%
Est 3-year Dividend Growth Rate	5.0%
Dividend	\$ 3.80
Dividend Yield	4.83%
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	\$1.38	\$1.38
3Q	\$1.23	--	\$1.37 A	\$1.38	\$1.38
4Q *	\$1.27	\$1.37	\$1.37	\$1.40	\$1.40
Year	\$4.87	\$5.28	\$5.31	\$5.48	\$5.48
P/E	16.2x		14.8x		14.4x

* - 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	\$73.9	\$73.9
2Q	\$61.2	--	\$69.8 A	\$76.1	\$76.1
3Q	\$63.3	--	\$71.4 A	\$77.4	\$77.4
4Q	\$65.8	\$72.9	\$72.9	\$80.6	\$80.6
Year	\$248.5	\$279.8	\$280.5	\$308.1	\$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
 November 8, 2017

National Health Investors, Inc.

NHI -- NYSE – Neutral-2

Third Quarter Earning Highlights

Investment Highlights

- NHI reported Q3 normalized FFO of \$1.37 a share, three cents above our estimate, and four cents above the consensus and compared to \$1.23 a share in the year earlier period. The beat was a function of a little higher than anticipated revenue and a little lower than expected expenses. The numbers were actually pretty close to our estimates, but everything was just a little better, thus the three cent beat versus our number.
- NHI shares have held up reasonably well versus its peers so far in 2017. Investors have begun to move away from income-oriented securities with the expectation for higher rates and a move into more economically sensitive areas. As such, valuation remains above historical norms.
- We see limited operating risks for NHI in the near term, although some of its tenants may see difficulties over the longer term should reimbursement rates be reduced as the government reduces spending. This could be especially true for NHI as it does have significant exposure to the skilled nursing facilities (SNFs) area, the sector with the most government exposure.
- Our rating for NHI remains Neutral at this point. Management retained guidance in spite of the beat seen during Q3, which would indicate a significant sequential decline in results, something that seems illogical in light of the clean Q3 numbers. We are well above the range based on our existing Q4 number and will need to talk to management before any adjustment can be made. 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. We will make any 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 5.**

Third Quarter Review

Total revenue was \$71.4 million versus \$63.3 million, a 12.8% increase. Rental income of \$68.2 million was up 15.1% (please see income statement on page 3), a function of new properties, as well as ordinary rental escalators. Mortgage interest income fell 15.2% to \$3.0 million on loan payoffs. Interest income from existing mortgages will decline going forward from amortization and payoffs offset by newly sourced loans. Interest and other income was down 73.5% at \$0.1 million.

Operating (G&A) and other expenses were up 15.9% at \$2.5 million a little better than our expectations. Interest expense has trended up with recent acquisitions, and was a little below our expectations at \$12.2 million, up 13.2%. The other two major cash costs, legal expense and franchise and excise taxes together year-over-year were up a little but still amounted to only \$0.5 million. Depreciation expense rose 11.7% to \$17.0 million versus \$15.2 million, due to recent acquisitions. There were no extraordinary items this year, compared to a \$1.7 million gain on sale of an investment and income allocated to minority interest of \$1.2 million last year. Third quarter net income available to common shareholders was \$39.1 million versus \$33.0 million, an 18.3% rise. EPS were \$0.94 versus \$0.83 on 4.5% more common shares outstanding.

Normalized funds from operations (FFO), which exclude real estate gains and various other non-recurring income and losses, were \$56.7 million compared to \$48.6 million in last year's third quarter, a 16.5% increase. Normalized FFO per diluted share were \$1.37 versus \$1.23.

NHI had \$1.11 billion in debt at quarter end. The company also held \$3.9 million in cash and equivalents. At quarter-end, we estimate that NHI's debt to total market capitalization was 25.6%, below the healthcare REIT sector average. NHI has no preferred stock outstanding, and should have capital availability should it need such for future acquisitions.

Other 3rd Quarter Activity

Investment Activity – During the third quarter NHI made \$21.9 million in total investments during the quarter, including a \$10 million loan on a 40 unit memory care community in Rye, NH. The loan is a first mortgage with a 5 year term at an interest rate of 8.0% with renewal options. NHI has a purchase option on the property and the funds to pay for the mortgage were taken off of the company's credit line. The borrower is a new relationship for NHI.

Capital Markets Activity – During the quarter NHI extended the maturity of its \$800 million unsecured credit facility through 2022. NHI also issued 536,861 shares under its ATM plan, with a total raise of approximately \$42.4 million.

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.

Quarterly Income Statement

(in thousands)	3Q 2017	3Q 2016	% Change
Rental Income	\$68,204	\$59,272	15.1%
Investment interest and other	\$103	\$388	-73.5%
Mortgage Interest Income	3,045	3,591	-15.2%
Total Revenue	71,352	63,251	12.8%
General & Admin	2,513	2,169	15.9%
Legal expense	215	156	37.8%
Franchise, excise and other taxes	268	271	-1.1%
Loan and Realty losses (recoveries)	0	1,131	0.0%
Amortization of loan costs	0	0	
EBITDA	68,356	59,524	14.8%
Interest Expense	12,241	10,816	13.2%
Depreciation Expense	17,023	15,240	11.7%
Income (Loss) Before Discontinued Operations and Other Items	39,092	33,468	16.8%
Discontinued Operations (including gain on sale of assets)	0	0	
Charges	0	(933)	
Non-controlling	0	(1,160)	
Gain on Real Estate sales, investments	0	1,657	
Net Income (Loss)	\$39,092	\$33,032	18.3%
Net EPS (diluted)	\$0.94	\$0.83	13.2%
Avg. Shares Outstanding (diluted)	41,448	39,652	4.5%

Funds From Operations	3Q 2017	3Q 2016	
Net Income	\$39,092	\$33,032	18.3%
Depreciation Expense	17,023	15,240	11.7%
Other (adding/subtracting one-time items)	552	354	
Normalized Funds From Operations	\$56,667	\$48,626	16.5%
Normalized FFO Per Share (diluted)	\$1.37	\$1.23	11.4%

Source: Company reports.

Consolidated Balance Sheet

(in thousands)	September 30, 2017	December 31, 2016
Real Estate Assets		
Land	\$188,783	\$172,003
Buildings and Improvements	\$2,421,302	\$2,285,122
Construction in Progress	\$10,835	\$15,729
Less: accumulated depreciation	\$ (363,035)	\$ (313,080)
Total Net Real Estate Investments	2,257,885	2,159,774
Cash and Cash Equivalents	3,926	4,832
Mortgage notes receivable	149,299	133,493
Investment in Unconsolidated and other	18,598	21,271
Preferred stock investment	0	0
Marketable securities	0	11,745
Real estate held for sale	0	0
Other assets	90,224	72,518
Total Assets	\$2,519,932	\$2,403,633
Bank Borrowings	\$1,111,292	\$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	19,144	20,053
Dividends payable	39,454	35,863
Deferred income	0	871
Total Liabilities	\$1,192,265	\$1,194,043
Preferred stock	-	-
Common Stock	415	398
Capital in Excess of Par Value	1,295,709	1,173,588
Cumulative Net Income in excess of Dividends	34,262	29,873
Cumulative Dividends	-	-
Other	(2,719)	5,731
Total Shareholders' Equity	1,327,667	1,209,590
Non-controlling interest	0	0
Total Liabilities and Shareholders' Equity	\$2,519,932	\$2,403,633

Balance Sheet Ratio Analysis	September 30, 2017	December 31, 2016
Net R/E Investments / Total Debt	50.2%	52.7%
Debt to Equity	85.4%	94.0%
Debt as % of Total Assets	45.0%	47.3%
Shareholders' Equity as % of Total Assets	52.7%	50.3%

Source: Company reports.

First Take

Based on our initial look at the company's Q3 earnings report, the company seems to be doing very well operationally, despite the relative lack of investment during the year. It is interesting to see that management retained its full year guidance at \$5.22-\$5.26 a share, which indicates weakness in FFO for Q4 versus what was reported in Q3, and does not seem logical in light of that number. We note that with normalized FFO through the first three quarters at \$3.94 a share that would indicate Q4 FFO of \$1.28-\$1.32, well below the \$1.37 reported in Q3. We postulate that the stock action today in the face of the very solid Q3 numbers might be reflecting the lack of guidance increase in the face of the strong Q3 numbers. We have a difficult time rationalizing the full year guidance in the face of the Q3 results, and we will need to listen to the conference call before making any decision on what to do with our Q4 number, although we believe that management may be laying out much too conservative guidance based on our evaluation of the Q3 numbers, unless there is some specific issue with a tenant or on the expense front that was not disclosed in the press release.

Note that our previous estimate was \$5.28 a share. With the three cent beat in Q3, our number would be \$5.31, with nothing changed. Off of the run rate trends in Q3 and the investments made during the quarter, our \$1.37 number for Q4 looks conservative unless management offers a specific reason why the Q3 run rate is not appropriate. However, that \$1.37 number puts us well outside of management guidance. As such, we will have to wait until after the conference call to update our estimates, and a full report will be issued in conjunction with that.

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.

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 November 7, 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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 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.