



COMPANY UPDATE/ESTIMATE CHANGE

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	6.6X

Normalized FFO

	Prior		Current			
	2016	2017E	2017E	2018E	2018E	
1Q	\$1.16	--	\$1.25	A	\$1.32	\$1.29
2Q	\$1.22	--	\$1.32	A	\$1.38	\$1.36
3Q	\$1.23	--	\$1.37	A	\$1.38	\$1.37
4Q *	\$1.27	\$1.37	\$1.33		\$1.40	\$1.38
Year	\$4.87	\$5.28	\$5.27		\$5.48	\$5.40
P/E	16.2x		14.9x			14.6x

* - FFO numbers not adjusted for accounting changes/ discontinued

Revenue (\$mm)

	Prior		Current			
	2016	2017E	2017E	2018E	2018E	
1Q	\$59.0	--	\$66.4	A	\$73.9	\$72.4
2Q	\$61.2	--	\$69.8	A	\$76.1	\$74.6
3Q	\$63.3	--	\$71.4	A	\$77.4	\$76.5
4Q	\$65.8	\$72.9	\$71.4		\$80.6	\$79.7
Year	\$248.5	\$279.8	\$279.0		\$308.1	\$303.2

Company Description: National Health Investors, Inc., headquartered in Murfreesboro, TN, is a real estate investment trust (REIT) with investments in more than 210 healthcare facilities located in 32 states.

National Health Investors, Inc.

NHI -- NYSE – Neutral-2

Conference Call Update

Investment Highlights

- Management noted that like most of its peers, it has seen some issues with tenants having more difficulties recently, as it has transitioned one tenant’s properties to a stronger tenant (albeit at lower rent), and that another tenant was in technical default on its lease. The issue that is causing the technical default is that the coverage ratio has fallen below the contractual level and management notes that the tenant is up to date on its rent. NHI will be losing about a penny and a half for the year on the new lease signed and believes that moving those properties to a stronger tenant more than makes up for the loss of rent.
- With the significant beat versus our estimate and the consensus, we would have typically anticipated to also increase our full year number. The lower rent noted above (which would be expected to lower forward quarter numbers by four-tenths of a cent) is not enough to account for the drop in FFO that management is projecting by keeping guidance unchanged. They noted that they are unsure of the rent from the other tenant discussed above, but again, that tenant is still paying rent. As such, we believe management is just being very cautious at this point. While we are fine-tuning our numbers for the lower rent and increasing expectations for G&A expense our 2017 estimate remains above guidance now standing at \$5.27 a share. We are also fine-tuning our 2018 FFO estimate to assume slightly lower rent at the other problem property and it is now \$5.40 a share.
- Our rating on NHI remains Neutral. With the shares holding up reasonably well so far in 2017 and outperforming the group, one might expect them to have become more expensive. However, the company has produced higher growth than its peers, meaning that its valuation has stayed reasonably consistent versus its peers on a relative basis. As such, our rating is unchanged at this point.

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

Conference Call Discussion, Continued

In following up on the two problem tenants, beyond the one that's property went to the stronger tenant at \$0.5 million lower annual lease rent, management offered more color on the other tenant, which accounts for about 4% of revenue. They noted that the default here is only technical in nature and is around contractual coverage ratios due to weaker fundamentals at the properties. Management is not sure how this will work out yet (whether the tenant will improve operations or a new tenant will be needed). However, they noted that there will likely be a 6-12 month workout process involved here and they wished to get the information out to the financial community to not surprise investors in the future. They are taking a wait and see approach at this point, but wished to alert investors to the potential issue. On the positive side, management also noted a lease renewal signed earlier in the year on one of its skilled nursing portfolios that adds \$0.06 a share annually. This is part of the strong year to date numbers.

NHI management also offered color around its acquisition activity, noting two pending transactions that will amount to \$42 million. These two transactions will likely close near year end, and as such will not be additive to Q4 numbers. This is part of the reason for the decline in our Q4 estimate versus our previous number, as we assumed some Q4 investment. The investment pipeline remains substantial, but management is taking a very selective stance in light of the current cap rate environment and weakening of industry fundamentals. They are looking at credit enhancements as coverage ratios decline.

On the financial front, management noted that its current debt level is at the low end of its target metrics, providing it with plenty of acquisition capacity. We believe that recent equity issuance under its at the market share issuance plan was opportunistic, as the shares were sold right near the 52-week high at an average of over \$80 a share. On the debt front, the average maturity of its debt is 6.5 years and the average cost of debt is 3.56%. The fixed charge coverage is 6.6 times. Management noted that it opportunistically repurchased some of its convertible notes. We would anticipate given the very low leverage levels and pull back in the share price that less equity will be issued in comparison to debt. Coverage ratios continued to be solid, with skilled nursing remaining at the high end of industry metrics.

Q4 and 2018 Outlook

Following our analysis of the company's Q3 results, we are fine-tuning our 2017 FFO estimate down a bit, despite the Q3 beat taking into account the issues noted earlier. We have reduced our Q4 estimate by four cents resulting in our full year 2017 estimate now being \$5.27 a share, a penny above the consensus and the top end of guidance. Our estimate is based on assumptions of only a small amount of investment in Q4, and it having virtually no impact on the company's fourth quarter, as well as the lost rent noted above. Due to the company's relatively low leveraged balance sheet and the low cost of debt that continues to be available through the use of the company's credit line and term loans, any acquisitions are likely to be accretive initially, although less so after more permanent capital is put in place, although we are also assuming use of the ATM stock offering program when the stock moves back towards the \$80 area. Our fourth quarter FFO estimate of \$1.33 per share is two cents below the consensus number. With investments we anticipate included, we are projecting 2018 FFO of \$5.40 compared to the consensus of \$5.45 a share.

Valuation

Using our \$5.27 a share estimate for 2017, NHI shares are trading at 14.9 times FFO. This is above where the peer group is currently trading, 14.6 times, as NHI shares have outperformed most of its peers recently, although we note that this number is skewed by the very low valuation at OHI. With the likelihood of a Fed rate raise in December, investors could continue to shy away from income-oriented securities, which could produce an attractive entry point down the road a bit, although at this point we believe that the group is fairly valued at best. We note that NHI has an FFO growth rate that is likely to exceed that of its healthcare REIT peers over the next several years and has a strong balance sheet in comparison to its peers, most of which have higher debt levels. And while this could argue for a positive rating, the shares are above the area that we find attractive for purchase. As such, we are retaining our Neutral rating and looking for a more attractive share price for an entry point for these quality shares.

Health Care REITs		Closing Price	Current		2018E	FFO		2-Year Average	Price / FFO	
Ranked By Market Cap.	Symbol	11/7/2017	Dividend	Yield	Payout Ratio	2017E	2018E	Growth Rate	2017E	2018E
Welltower, Inc.	HCN	\$68.59	\$3.48	5.1%	78.4%	\$4.26	\$4.44	-1.4%	16.1x	15.4x
Healthcare Realty	HR	\$32.50	\$1.20	3.7%	71.0%	\$1.56	\$1.69	2.1%	20.8x	19.2x
Omega Healthcare Investors	OHI	\$28.12	\$2.60	9.2%	74.9%	\$3.30	\$3.47	1.2%	8.5x	8.1x
Ventas, Inc.	VTR	\$64.33	\$3.10	4.8%	71.1%	\$4.17	\$4.36	2.4%	15.4x	14.8x
HCP, Inc.	HCP	\$27.00	\$1.48	5.5%	74.4%	\$1.96	\$1.99	-14.8%	13.8x	13.6x
LTC Properties, Inc.	LTC	\$47.42	\$2.28	4.8%	69.7%	\$3.07	\$3.27	3.4%	15.4x	14.5x
Health Care Sector Average		\$44.66	\$2.36	5.3%	73.6%	\$3.05	\$3.20	-0.8%	14.6x	13.9x
National Health Investors	NHI	\$78.72	\$3.80	4.8%	70.4%	\$5.27	\$5.40	5.3%	14.9x	14.6x

Note: OHI is rated Long-term 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 which add 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.

Table 1. Consolidated Income Statement

In thousands, except per share amounts

	2015	2016			2017E			2018E			Year						
	Year	Q1	Q2	Q3	Q4	Q3A	Q2A	Q1A	Q4	Q3		Q2	Q1	Q4	Year		
Revenues:																	
Mortgage interest income	\$9,978	\$3,092	\$3,232	\$3,591	\$3,590	\$3,590	\$13,505	\$3,089	\$3,992	\$3,045	\$3,379	\$13,505	\$3,404	\$3,429	\$3,464	\$3,479	\$13,764
Interest income & other	\$4,216	\$952	\$944	\$388	\$418	\$2,602	\$2,602	\$162	\$109	\$103	\$100	\$474	\$105	\$105	\$105	\$105	\$420
Rental income	\$214,448	\$55,074	\$57,028	\$59,272	\$61,019	\$232,393	\$232,393	\$63,137	\$65,735	\$68,204	\$67,914	\$264,990	\$68,916	\$71,102	\$72,918	\$76,122	\$289,058
Facility operating income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total revenues	\$229,049	\$59,018	\$61,204	\$63,251	\$65,027	\$248,500	\$248,500	\$66,388	\$69,836	\$71,352	\$71,393	\$278,969	\$72,424	\$74,636	\$76,476	\$79,706	\$303,242
Expenses:																	
Interest expense	\$37,629	\$10,262	\$10,666	\$10,816	\$11,364	\$43,108	\$43,108	\$11,661	\$11,828	\$12,241	\$12,458	\$48,188	\$12,745	\$13,100	\$13,524	\$14,263	\$53,622
Depreciation of real estate	38,078	13,733	14,685	15,240	15,897	59,565	59,565	16,154	16,829	17,023	17,283	67,269	17,680	18,100	18,553	19,133	73,465
Amortization of loan costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal Expense	209	465	126	124	156	16	422	56	146	215	145	562	130	150	150	150	580
Franchise & excise taxes	620	283	273	271	183	1,010	1,088	267	267	268	286	1,088	270	270	280	300	1,130
General & administrative	10,519	2,929	2,120	2,169	2,554	9,772	9,772	4,108	2,521	2,513	2,891	12,033	4,201	2,687	2,677	3,288	12,832
Investment loss & impairment expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Facility operating expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	\$101,964	\$27,333	\$42,604	\$29,783	\$30,014	\$129,734	\$129,734	\$32,246	\$31,591	\$32,260	\$33,043	\$123,140	\$35,026	\$34,307	\$35,193	\$37,104	\$141,629
Income from Operations	\$127,085	\$31,685	\$18,600	\$33,468	\$35,013	\$118,766	\$118,766	\$34,142	\$38,245	\$39,092	\$38,350	\$149,829	\$37,399	\$40,329	\$41,283	\$42,602	\$161,613
Noncontrolling, unconsolidated	(\$3,218)	(\$786)	(\$443)	(\$1,160)	\$0	(\$2,389)	(\$2,389)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gain on sale of assets	\$24,995	\$1,665	\$26,415	\$1,657	\$6,175	\$35,912	\$35,912	\$10,088	\$0	\$0	\$0	\$10,088	\$0	\$0	\$0	\$0	\$0
Discontinued/other	\$0	\$0	\$23	(\$933)	\$0	(\$910)	(\$910)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income Bef. Preferred div	\$148,862	\$32,564	\$44,595	\$33,032	\$41,188	\$151,379	\$151,379	\$44,230	\$38,245	\$39,092	\$38,350	\$159,917	\$37,399	\$40,329	\$41,283	\$42,602	\$161,613
Preferred dividends	\$0	\$0	\$0	\$0	\$0	\$0	\$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	\$151,379	\$44,230	\$38,245	\$39,092	\$38,350	\$159,917	\$37,399	\$40,329	\$41,283	\$42,602	\$161,613
Extraordinary item	\$0	(\$161)	\$0	\$0	\$0	(\$161)	(\$161)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income for common	\$148,862	\$32,725	\$44,595	\$33,032	\$41,188	\$151,540	\$151,540	\$44,230	\$38,245	\$39,092	\$38,350	\$159,917	\$37,399	\$40,329	\$41,283	\$42,602	\$161,613
Per share bef. Discontinued	\$3.95	\$0.85	\$1.16	\$0.83	\$1.03	\$3.87	\$3.87	\$1.10	\$0.93	\$0.94	\$0.92	\$3.89	\$0.89	\$0.95	\$0.97	\$0.99	\$3.79
Discontinued items	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$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	\$3.87	\$1.10	\$0.93	\$0.94	\$0.92	\$3.89	\$0.89	\$0.95	\$0.97	\$0.99	\$3.79
Common dividend per share	\$3.40	\$0.90	\$0.90	\$0.90	\$0.90	\$3.60	\$3.60	\$0.95	\$0.95	\$0.95	\$0.95	\$3.80	\$1.00	\$1.00	\$1.00	\$1.00	\$4.00
Sts Outstanding (diluted)	37,639,946	38,415,000	38,561,000	39,651,900	39,983,000	39,155,225	39,155,225	40,109,000	41,245,000	41,446,000	41,942,737	41,161,184	42,102,477	42,386,887	42,743,503	43,249,832	42,613,675

Table 5. Funds From Operations Calculation

Net income for common shareholders	\$101,607	\$148,862	\$32,725	\$44,595	\$33,032	\$41,188	\$151,540	\$44,230	\$38,245	\$39,092	\$38,350	\$159,917	\$37,399	\$40,329	\$41,283	\$42,602	\$161,613
Add Back:	\$37,584	\$52,885	\$13,426	\$14,685	15,240	15,897	\$59,258	16,154	16,829	17,023	17,283	\$67,269	\$16,796	\$17,195	\$17,625	\$18,176	\$68,792
Less:																	
Asset sales and other	\$1,004	(\$26,016)	(\$1,654)	(\$12,300)	\$354	(\$6,463)	(\$20,063)	(\$10,088)	(\$826)	\$552	\$0	(\$10,362)	\$0	\$0	\$0	\$0	\$0
FFO Available for common	\$140,195	\$175,729	\$44,497	\$46,990	\$48,626	\$190,735	\$190,735	\$50,296	\$54,248	\$56,667	\$55,613	\$216,824	\$54,194	\$57,524	\$58,908	\$60,778	\$231,405
Diluted FFO available for common	\$140,195	\$175,729	\$44,497	\$46,990	\$48,626	\$190,735	\$190,735	\$50,296	\$54,248	\$56,667	\$55,613	\$216,824	\$54,194	\$57,524	\$58,908	\$60,778	\$231,405
Basic FFO per share	\$4.20	\$4.67	\$1.18	\$1.23	\$1.24	\$4.93	\$4.93	\$1.25	\$1.32	\$1.38	\$1.34	\$5.30	\$1.30	\$1.36	\$1.38	\$1.39	\$5.43
Diluted FFO per share	\$4.20	\$4.67	\$1.18	\$1.22	\$1.23	\$4.87	\$4.87	\$1.25	\$1.32	\$1.37	\$1.33	\$5.27	\$1.29	\$1.36	\$1.37	\$1.38	\$5.40
Shares, basic	33,378,863	37,609,308	37,841,504	38,104,662	39,283,919	39,550,566	38,695,168	40,088,531	41,001,309	41,134,642	41,529,379	40,940,965	41,785,769	42,170,404	42,676,734	43,743,400	42,594,082
Shares, diluted	33,416,592	37,648,080	38,415,000	38,561,000	39,651,900	39,918,567	39,136,617	40,109,000	41,245,000	41,378,333	41,773,070	41,126,351	42,029,480	42,414,096	42,920,425	43,987,092	42,837,773

Table 6. Funds Avail For Distribution

Recurring Cap-X	\$140,195	\$175,729	\$44,497	\$46,990	\$48,626	\$190,735	\$190,735	\$50,296	\$54,248	\$56,667	\$55,613	\$216,824	\$54,194	\$57,524	\$58,908	\$60,778	\$231,405
Other	(\$1,086)	(\$1,086)	(\$205)	(\$255)	(\$307)	(\$1,086)	(\$1,086)	(\$295)	(\$371)	(\$421)	(\$469)	(\$1,546)	(\$205)	(\$255)	(\$307)	(\$319)	(\$1,086)
Total	\$139,009	\$174,643	\$44,192	\$46,635	\$48,219	\$189,549	\$189,549	\$49,901	\$53,777	\$56,146	\$55,054	\$215,178	\$53,889	\$57,169	\$58,501	\$60,359	\$230,219
Per share	\$4.16	\$4.64	\$1.17	\$1.22	\$1.23	\$4.90	\$4.90	\$1.24	\$1.31	\$1.36	\$1.33	\$5.26	\$1.29	\$1.36	\$1.37	\$1.38	\$5.40
Shares	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

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 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

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Rating				
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

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