HILLIARD LYONS

Healthcare Real Estate Investment Trusts
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COMPANY UPDATE

Key Metrics

VTR - NYSE - as of 7/27/17		$67.41
Price Target		NA
52-Week Range	$56.20 -	$76.80
Shares Outstanding (mm)		357.8
Market Cap. ($mm)		$24,119.3
1-Mo. Average Daily Volume		2,280,000
Institutional Ownership		97.0%
Debt/Total Capital	Jun-17	32.0%
Est 3-year FFO Growth Rate		6.0%
Est 3-year Dividend Growth Rate		5.0%
Dividend		$ 3.10
Dividend Yield		4.60%
Est. Fixed Charge Coverage		4.6X

Normalized FFO	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$1.04	--	$1.03	A	$1.07	$1.09
2Q	$1.04	--	$1.06	A	$1.11	$1.10
3Q	$1.03	$1.07	$1.06		$1.13	$1.12
4Q	$1.03	$1.08	$1.09		$1.13	$1.14
Year	$4.13	$4.24	$4.24		$4.44	$4.44
P/E	16.3x		15.9x			15.2x

Revenue ($mm)

	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$ 852.3	--	$883.4	A	$ 936.6	$931.2
2Q	$ 848.4	--	$895.5	A	$ 950.0	$950.0
3Q	$ 867.1	$909.2	$904.2		$ 965.3	$962.9
4Q	$ 875.7	$932.3	$923.7		$ 980.9	$978.3
Year	$3,443.5	$3,618.9	$3,606.9		$3,832.8	$3,822.5

Numbers not restated for discontinued.

Company Description: *Ventas, Inc., headquartered in Chicago, Illinois, owns a total of over 1,000 properties, including hospitals, senior housing facilities, medical office and other properties in 47 states, the District of Columbia, Canada and the United Kingdom.*

Ventas, Inc.

VTR -- NYSE – Neutral-2

Second Quarter Earnings

Investment Highlights

- VTR reported normalized Q2 FFO of $1.06 a share, equal to our estimate and compared to the consensus of $1.05. FFO was up two cents year over year, although that would have been better were it not for divestitures and the reduced earnings that resulted. Operating comparisons continue to show solid growth, however. We are retaining our 2017 FFO estimate at $4.24 a share, slightly above the high end of company guidance of $4.12-$4.18. We believe management is being conservative and that additional investments will provide upside to the number.
- Healthcare REIT's have moved up so far this year, and group multiples have also moved up slightly since the beginning of the year. We note that the group's price movement has been largely related to the change in rates on longer term bonds. We believe over the coming year or two that rates will likely rise, which could push the shares down towards our preferred buying range, all things being equal. The Fed has signaled three increases this year and if they meet this number, and bond rates rise as a result, the shares could move back towards our preferred level.
- VTR's results were solid and VTR, in our opinion, remains a consolidator in a growing, attractive asset class. As the share price at this time is above our preferred buying range we are retaining our Neutral rating on the shares. While the company has taken a number of steps to increase growth and reduce risk, we believe these positives are reflected in the current share price. Having said that, VTR should continue to post solid growth and fundamentals and the company's management remains solid. While we continue to rate VTR share Neutral investors could still hold the shares for their dividend yield and what we see as slight price appreciation potential.

Note Important Disclosures on Pages 8-9.
Note Analyst Certification on Page 8.

<u>Second Quarter Review</u>

Rental income was $399.5 million versus $354.2 million, a 12.8% increase from normal rental increases as well as the increase in the size of the company's portfolio from recent investments. Resident fees and services were $460.2 million versus a level of $464.4 million in the year ago period, basically flat with normal growth offset by some divestitures. Total revenue was $895.5 million versus $848.4 million, a 5.5% increase.

Property level operating expenses were $365.8 million versus $352.0 million in last year's second period, an increase of 3.9%. Net operating income on the operating properties rose to $150.5 million from $148.5 million, up 1.3%, a little under the increase in operating revenue. G&A (general and administrative) expenses were a little under our expectations at $33.3 million compared to $32.1 million year-over-year, a 3.7% increase.

Interest expense was up 9.6% to $113.6 million from $103.7 million. Debt was up year over year as well as since year end, at $11.91 billion. Depreciation expense was up 1.0% at $224.1 million versus $222.0 million in the year ago period. During the quarter, the company recorded $6.1 million in merger-related expenses, compared to $7.2 million reported in the second quarter of 2016. Ventas' net income applicable to common shareholders was $151.8 million compared to $143.2 million earned in the year earlier period. Earnings per share were $0.42 in this year's second quarter and $0.42 last year.

For the quarter, "normalized" funds from operations, in which management excludes one-time expenses and gains, were $379.3 million versus $355.8 million, up 6.6% year-over-year. FFO (as defined by NAREIT) were $1.04 versus $1.04 a share, while "normalized" FFO were $1.06 versus $1.04 a share. Our estimates use "normalized" results.

At quarter-end, Ventas' debt to total assets was 49.9% compared to 48.0% at year-end 2016. Cash and equivalents were $103.4 million at the end of the second quarter down from $286.7 million at the end of 2016. VTR continues to have a lack of near term debt maturities, with only $104.0 million due during the remainder of 2017 out of a total of $11.9 billion in debt. Given the company's relatively low level of debt, we do not see any near term liquidity issues with VTR. Debt to total market capitalization at quarter-end was an estimated 32% compared to 33% at 2016 year-end.

Acquisitions and Investment – During Q2 Ventas announced no major new investment activity, although it did undertake ongoing development/redevelopment activity and investments, VTR invested $110 million during the quarter. The company sold properties and had loan repayments for total proceeds of about $45 million, during the quarter the company committed to just under $190 million in new development/redevelopment projects, and reaffirmed the future sale of the bulk of its skilled nursing properties for $700 million in Q2.

Capital Market Activity – During the quarter the company priced $275 million Canadian in senior notes with a 2.55% coupon due in 2023. In addition, the company closed on an upsized credit facility of $3 billion at a better rate and with a maturity pushed out to 2022 with a company option and an additional $750 million accordion feature. The company also sold 1.1 million shares of common stock under its at the market stock sales plan raising $74 million.

Quarterly Income Statement

(in thousands)	Q2 2017	Q2 2016	% Change
Rental Income	$399,498	$354,206	12.8%
Resident Fees and Services	460,243	464,437	-0.9%
Medical Office Building Service Revenue	3,179	5,504	
Interest Income from Loan Receivable	32,368	24,146	34.1%
Interest and Other Income	202	111	82.0%
Total Revenue	895,490	848,404	5.5%
Property Level Operating Expenses	365,830	351,955	3.9%
General and Administrative Expenses	33,282	32,094	3.7%
Foreign Currency Gain (Loss)	0	0	
Merger-related Expenses	6,043	7,224	-16.3%
Medical Office Building Service costs	552	1,852	-70.2%
Other	1,848	2,303	
(Gain) Loss on Extinguishment of Debt	36	2,468	
EBITDA	487,899	450,508	8.3%
Interest Expense	113,572	103,665	9.6%
Depreciation Expense	224,108	221,961	1.0%
Income (Loss) Before Discontinued Operations and Other Items	150,219	124,882	20.3%
Discontinued Operations (including gain on sale of assets)	696	5,591	
Income Tax Benefit	2,159	11,549	
Minority Interest	(106)	1,418	
Income (Loss) from Unconsolidated	(1,137)	(278)	
Net Income (Loss)	$151,831	$143,162	6.1%
Net EPS (diluted)	$0.42	$0.42	0.5%
Avg. Shares Outstanding (diluted)	358,311	342,571	4.6%

Funds From Operations	Q2 2017	Q2 2016	
Net Income	$151,831	$143,162	6.1%
Depreciation Expense	222,347	214,055	3.9%
Discontinued Operations - Depreciation			
Discontinued Operations - (Gains)			
Depreciation - Related to Minority Interest			
Other (adding/substracting one-time items)	5,151	(1,422)	
Normalized Funds From Operations	**$379,329**	**$355,795**	6.6%
Normalized FFO Per Share (diluted)	**$1.06**	**$1.04**	1.9%

Source: Company reports.

Consolidated Balance Sheet

(in thousands)	30-Jun-17	December 31, 2016
Real Estate Assets		
Land	$2,117,692	$2,089,591
Construction in progress	$281,093	$210,599
Buildings and Improvements	21,827,419	21,516,396
Acquired Lease Intangibles	1,534,173	1,510,629
	25,760,377	25,327,215
Less Accumulated Depreciation and Amortization	(5,220,611)	(4,932,461)
Net Investment in Real Estate Property	$20,539,766	$20,394,754
Loan Receivable, net	1,395,404	702,021
Total Net Real Estate Investments	**$21,935,170**	**$21,096,775**
Cash and Cash Equivalents	103,353	286,707
Investment in Unconsolidated Entities	119,794	95,921
Escrow Deposits and Restricted Cash	68,343	80,647
Deferred Financing Costs (net)	0	0
Notes Receivable-related Parties	0	0
Other Assets	1,629,098	1,606,550
Total Assets	**$23,855,758**	**$23,166,600**
Notes Payable and Other Debt	**$11,907,997**	**$11,127,326**
Accrued Interest	87,248	83,762
Accounts Payable and Other Accrued Liabilities	939,385	909,390
Deferred Income Taxes	296,822	316,641
Total Liabilities	**$13,231,452**	**$12,437,119**
Minority Interest	$250,248	$269,241
Common Stock	89,016	88,514
Capital in Excess of Par Value	13,019,023	12,917,002
Unearned Compensation on Restricted Stock	0	0
Accumulated Other Comprehensive Loss	(45,035)	(57,534)
Retained Earnings (deficit)	(2,688,946)	(2,487,695)
Treasury Stock	0	(47)
Total Shareholders' Equity	**10,374,058**	**10,460,240**
Total Liabilities and Shareholders' Equity	**$23,855,758**	**$23,166,600**

Balance Sheet Ratio Analysis	30-Jun-17	December 31, 2016
Net R/E Investments / Total Debt	184.2%	189.6%
Debt to Equity	114.8%	106.4%
Debt as % of Total Assets	49.9%	48.0%
Shareholders' Equity as % of Total Assets	43.5%	45.2%

Source: Co. reports. Note we have chosen not to restate past year numbers for accounting changes

Property Fundamentals

Senior Housing Operating Portfolio – Total community NOI (real estate net operating income) for the Sunrise and Atria portfolios after management fees was $150.5 million for the second quarter of 2017, which was up from $148.5 million in the year ago period. Ventas noted that average occupancy for the "stabilized" communities was 88.3%, down about 200 basis points over the previous year, while total portfolio occupancy, including lease up properties was 88.2%, off 200 basis points.

Medical Office Building Portfolio – Medical office buildings (MOBs) remain a major source of revenue for VTR, at 23.9 million square feet. NOI rose from $91.5 million in 2016 Q2 to $118.2 million (excluding minority partner's shares), with a large addition of life science properties providing the major boost. In looking at property fundamentals, occupancy of the portfolio increased 130 basis points to 93.1%, while the rental rate rose to $32 a square foot, up 4.2%, driven by the life science properties.

Dividend – VTR raised its dividend six consecutive years, before reducing it in 2015 to account for the spin-off of the SNF properties into Care Capital Properties (CCP-$24.93, Neutral). We do note, however, that if one combines the dividends of VTR and CCP and adjust it for the one-for four distribution to VTR shareholders of CCP shares, the dividend was actually increased from $3.16 to $3.49 (adding VTR's $2.92 dividend and one-fourth of CCP's $2.28 a share dividend). VTR further increased its dividend in the fourth quarter of 2016, bumping it 6% to $0.775 a quarter or to $3.10 a share annually. We anticipate the company will continue to raise the dividend on an ongoing basis in the future. We believe dividend increases are likely to approximate or be a little less than FFO growth, following the abnormally large increase around the CCP spin-off. The company's payout ratio stands at 70.0% of our 2017 FFO estimate, just over the group payout ratio, and we believe that management has reached its target payout ratio.

Conference Call Discussion – VTR's 10 AM conference call was reasonably uneventful. The company's continued move towards private pay assets, which is currently 94% of all assets and that skilled nursing exposure is down to 1% of revenue was a focus of management, who noted that skilled nursing dropped from 70% when Ms. Cafaro took over as CEO to the current 1% level. Management also discussed the strength of its Canadian operations, which have proven to be very strong, with same store cash NOI growth of 12%.

Other salient points discussed on the call include that the head of the company's medical office properties business was transitioning out of his position and that the company would be searching for a replacement for him. The company's medical office properties posted solid occupancy growth despite a very high level of rollovers, as the company's retention rate was over 80% during the quarter, a solid performance. Management has retained its general operating guidance with 2017 total portfolio same store cash NOI growth of 1.5-2.5%, with the triple net portfolio the major driver at this point at an expectation of 2.5-3.5% growth. Normalized FFO guidance remains at $4.12-$4.18 a share. Also noted on the call was the company's balance sheet strength with fixed charge coverage of 4.6 times.

Q3 and 2017 Outlook

At this time we are retaining our 2017 FFO estimate at $4.24 a share. The lack of investment activity versus our expectations is a negative, but the divestiture of the skilled nursing assets are likely to close later than we had anticipated likely offsetting that in the near term, thus our estimate is unchanged from our Q1 report. We are anticipating that acquisition and investment activity will pick up going forward, although if that does not prove to be the case we may have to adjust down our numbers a little. With no acquisitions included in management's $4.12-$4.18 a share guidance other than those already announced but dilutive divestments being included, we see management being a little conservative with its guidance, the reason for our estimate being above guidance. We note that the consensus number sits at $4.18 a share. While our estimate is six cents above the top end of guidance, we anticipate a level of future investment that will allow the company to exceed guidance. We in no way believe that management will be standing still and not making some new investments that are accretive, and as a result we find it hard to believe that management is not under promising, something that it has been pretty consistent in doing in the past. As a result, we believe that management is likely being overly conservative in their estimates for the year. Our Q3 estimate is $1.06 a share, with the assumption of only a very small amount of investment being made in the quarter. We are keeping our 2018 FFO estimate at $4.44, with a modest amount of investment activity for the year.

Valuation

VTR is currently trading at 15.9x our 2017 FFO forecast, which is below the 16.3X P/FFO multiple for a group of healthcare REITs which we track for comparison purposes (please see table below). VTR had consistently traded at a premium to its peers although is now trading a little below the group. We believe the historical premium has been a function of the company being an excellent long-term performer and allocator of capital, having a very well regarded management team and the company almost always reporting earnings above expectations, attributes that have not really changed. As a result, in our opinion, Ventas could very well warrant a premium to the group. With the ongoing elimination of the company's skilled nursing assets and move towards more private pay assets, one could assume that VTR's multiple could move up in comparison to historical numbers. Having said that, we do not believe that the shares are yet at a multiple that we find compelling enough to recommend and believe at current levels the shares are appropriately valued.

Health Care REITs		Closing Price	Current		2017E			2-Year Average	Growth Rate	Price / FFO	
Ranked By Market Cap.	Symbol	7/27/2017	Dividend	Yield	Payout Ratio	2017E	2018E	Growth Rate	18 /17	2017E	2018E
HCP, Inc.	HCP	$31.91	$1.48	4.6%	71.5%	$1.99	$2.07	-13.1%	4.0%	16.0x	15.4x
Welltower	HCN	$72.79	$3.48	4.8%	76.1%	$4.34	$4.57	0.2%	5.3%	16.8x	15.9x
Healthcare Realty	HR	$33.38	$1.20	3.6%	66.7%	$1.70	$1.80	5.1%	5.9%	19.6x	18.5x
National Health Investors	NHI	$76.72	$3.80	5.0%	70.4%	$5.20	$5.40	5.3%	3.8%	14.8x	14.2x
LTC Properties, Inc.	LTC	$51.05	$2.28	4.5%	69.3%	$3.13	$3.29	3.7%	5.1%	16.3x	15.5x
Health Care Sector Average		**$53.17**	**$2.45**	**4.6%**	**71.5%**	**$3.27**	**$3.43**	**0.8%**	**4.7%**	**16.3x**	**15.5x**
Ventas, Inc.	**VTR**	**$67.41**	**$3.10**	**4.6%**	**69.8%**	**$4.24**	**$4.44**	**3.7%**	**4.7%**	**15.9x**	**15.2x**

Note: HCP, LTC and NHI are rated Neutral by Hilliard Lyons,and HCN and HR are rated Underperform. Source: NAREIT, Baseline and Hilliard Lyons' estimates.

At this time, we are retaining our rating on Ventas at Neutral. The decline in price we saw earlier in the year with the rise in bond rates almost elicited an upgrade on VTR shares, although the quick reversal after bond rates began to fall again closed the window on that potential upgrade. The price action we have seen so far this year is very illustrative of how REIT share movements parallel those of bonds. While we see near term bond rates remaining low, longer term we are likely to see rate increases. As such, we may get an upgrade opportunity down the line, but at this point we are sitting on the sidelines. While fundamentals remain compelling in our view and the demographics around an investment in the group is beyond compelling, with the over 75 population, the major users of VTR's tenants services, growing several times the rate of the rest of the population, the price is above the level where we would suggest adding to positions. Having said that, given the quality and strength of VTR and its portfolio, and dividend yield, we see VTR as a core-holding in which investors can hold positions for modest long-term price appreciation and growing income.

Suitability

VTR has a suitability rating of 2 on our 1-4 scale. We find the company to have a very strong balance sheet. Its real estate ownership is also a positive factor, as is the company's property type, geographic and operator diversification, as well as the company's portfolio size, among the largest in the group. We also like the company's management and acquisition strategy. On the other hand, the company is exposed to operating risk through its taxable REIT subsidiary and could see some volatility around this operating ownership beyond the typical real estate cycles.

Additional information is available upon request.

Table 1. Consolidated Income Statement
(in thousands, except per share data)

	2014	2015	2016					2017E					2018E				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1A	Q2A	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Revenues:																	
Rental Income	$1,433,995	$1,502,112	$358,623	$354,206	$368,697	$394,650	$1,476,176	$395,222	$399,498	$402,221	$413,746	$1,610,687	$418,960	$435,148	$445,257	$457,902	$1,757,267
Resident fees and services	$1,552,951	$1,811,255	$463,976	$464,437	$461,974	$456,919	$1,847,306	$464,188	$460,243	$467,151	$475,097	$1,866,680	$477,273	$479,989	$482,721	$485,469	$1,925,452
MOB Service Revenue	$29,364	$41,492	$7,185	$5,504	$4,317	$4,064	$21,070	$3,406	$3,179	$3,227	$3,275	$13,087	$3,292	$3,306	$3,319	$3,336	$13,253
Interest Income from loans receivable	$55,169	$88,252	$22,386	$24,146	$31,566	$19,996	$98,094	$20,146	$32,368	$31,374	$31,374	$115,262	$31,374	$31,374	$31,374	$31,374	$125,496
Interest & other	$4,267	$1,115	$119	$111	$562	$84	$876	$481	$202	$250	$250	$1,183	$350	$160	$250	$260	$1,020
	$3,075,746	$3,444,226	$852,289	$848,404	$867,116	$875,713	$3,443,522	$883,443	$895,490	$904,223	$923,743	$3,606,899	$931,249	$949,977	$962,921	$978,342	$3,822,489
Expenses																	
Property level operating expense	$1,195,098	$1,383,463	$356,222	$351,955	$361,117	$365,468	$1,434,762	$368,987	$365,830	$371,152	$378,890	$1,484,859	$379,337	$381,351	$383,522	$387,065	$1,531,274
Interest Expense	$376,842	$415,008	$103,273	$103,665	$105,063	$107,739	$419,740	$108,804	$113,572	$114,921	$116,079	$453,376	$117,236	$119,512	$121,108	$122,824	$480,680
Depreciation & Amort.	826,911	959,763	236,387	221,961	208,387	232,189	898,924	217,783	224,108	220,714	221,371	883,976	222,782	224,434	225,458	226,216	898,890
Amortization of stock grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General, administrative and prof fees	121,746	128,042	31,726	32,094	31,567	31,488	126,875	33,961	33,282	32,733	32,793	132,769	35,481	36,194	35,147	34,731	141,552
MOB Service Costs	17,092	26,565	$3,451	$1,852	$974	$1,034	7,311	$738	$552	$560	$568	2,418	$576	$585	$593	$602	2,356
Rent reset costs																	
Reversal of continent liability																	
Merger related expense	45,051	109,823	1,632	7,224	16,217	(438)	24,635	2,056	6,043	5,000	5,000	18,099	7,500	7,500	4,000	4,000	23,000
Proceeds from litigation																	
Gain on Foreign currency hedge/other		10,387	4,168														
Other	38,925	8,804		2,303	2,430	701	5,434	1,188	1,848	2,400	1,250	6,686	1,200	2,450	2,600	1,500	7,750
Loss on extinguishment of debt	5,564	14,411	314	2,468	383	-	3,165	309	36	-	-	345	-	-	-	-	-
Total Expenses	$2,627,229	$3,056,266	$737,173	$723,522	$726,138	$738,181	$2,925,014	$733,826	$745,271	$747,480	$755,951	$2,982,528	$764,111	$772,027	$772,428	$776,938	$3,085,504
Income from Operations	$448,517	$387,960	$115,116	$124,882	$140,978	$137,532	$518,508	$149,617	$150,219	$156,743	$167,791	$624,371	$167,138	$177,950	$190,493	$201,404	$736,985
Income tax benefit	$8,732	$39,284	$8,421	$11,549	$8,537	$2,836	$31,343	$3,145	$2,159	$2,950	$3,150	$11,404	$3,150	$2,200	$2,800	$3,150	$11,300
Minority interests	($1,558)	($2,920)	($252)	$1,140	$199	$1,012	$2,099	$2,129	($1,243)	$0	$1,500	$2,386	$1,500	$0	$500	$1,500	$3,500
Income from Discontinued	$19,076	($6,490)	$25,695	$5,591	($262)	$0	$31,024	$43,236	$696	$0	$0	$43,932	$0	$0	$0	$0	$0
Other																	
(Loss)/Gain on sale of assets	$1,000	$0	$0	$0	$0	$66,257	$66,257	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Income Bef. Preferred div	$475,767	$417,834	$148,980	$143,162	$149,452	$207,637	$649,231	$198,127	$151,831	$159,693	$172,441	$682,093	$171,788	$180,150	$193,793	$206,054	$751,785
Preferred dividends	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Income for common $0	$475,767	$417,834	$148,980	$143,162	$149,452	$207,637	$649,231	$198,127	$151,831	$159,693	$172,441	$682,093	$171,788	$180,150	$193,793	$206,054	$751,785
Per share bef. Extra	$1.60	$1.25	$0.44	$0.42	$0.42	$0.58	$1.86	$0.55	$0.42	$0.44	$0.47	$1.89	$0.46	$0.48	$0.51	$0.54	$2.00
Extraordinary item	$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	$1.60	$1.25	$0.44	$0.42	$0.42	$0.58	$1.86	$0.55	$0.42	$0.44	$0.47	$1.89	$0.46	$0.48	$0.51	$0.54	$2.00
Quarterly dividend rate	$2.97	$3.10	$0.73	$0.73	$0.73	$0.80	$2.99	$0.80	$0.80	$0.80	$0.88	$3.28	$0.65	$0.65	$0.65	$0.65	$2.60
Shs Outstanding (diluted)	296,681,000	333,993,250	339,202,000	342,571,000	354,003,143	357,435,000	348,302,786	357,572,000	358,311,000	362,217,250	366,063,404	361,040,913	369,880,198	374,198,380	378,860,034	383,337,646	376,569,064

Source: Company reports and Hilliard Lyons estimates

Table 5. Funds From Operations Calculation

	2014 Year	2015 Year	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year	2017E Q1A	2017E Q2A	2017E Q3	2017E Q4	2017E Year	2018E Q1	2018E Q2	2018E Q3	2018E Q4	2018E Year
Net income for common shareholders	$475,767	$417,843	$148,980	$143,162	$149,452	$207,637	$649,231	$198,127	$151,831	$159,693	$172,441	$682,093	$171,788	$180,150	$193,793	$206,054	$751,785
Add Back:																	
Depreciation	$819,170	$967,766	$207,920	$214,055	$206,560	$229,810	$858,345	$215,961	$222,347	$220,714	$221,371	$880,393	$222,782	$224,434	$225,458	$226,216	$898,890
Other	$49,505	109,823	1,632	(1,422)	7,831	(3,688)	$4,353	(2,749)	5,151	5,000	5,000	$12,402	7,500	7,500	4,000	4,000	$23,000
Deduct:																	
Gain/loss on sales of real estate	($14,424)	$0	($5,230)	$0	$0	($66,424)	($71,654)	($43,289)	$0	$0	$0	($43,289)	$0	$0	$0	$0	$0
FFO Available for common	$1,330,018	$1,495,432	$353,302	$355,795	$363,843	$367,335	$1,440,275	$368,050	$379,329	$385,407	$398,813	$1,531,599	$402,070	$412,084	$423,251	$436,270	$1,673,676
Diluted FFO available for common	$1,330,350	$1,494,015	$353,385	$355,878	$363,926	$367,418	$1,440,607	$368,050	$379,329	$385,407	$398,813	$1,531,599	$402,070	$412,084	$423,251	$436,270	$1,673,676
Basic FFO per share	$4.49	$4.48	$1.04	$1.04	$1.03	$1.03	$4.14	$1.03	$1.06	$1.07	$1.09	$4.25	$1.09	$1.10	$1.12	$1.14	$4.45
Diluted FFO per share	$4.48	$4.47	$1.04	$1.04	$1.03	$1.03	$4.13	$1.03	$1.06	$1.06	$1.09	$4.24	$1.09	$1.10	$1.12	$1.14	$4.44
Shares, basic	296,167,000	333,479,250	338,688,000	342,057,000	353,672,000	356,921,000	347,834,500	357,058,000	357,797,000	361,703,250	365,549,404	360,526,913	369,366,198	373,684,380	378,346,034	382,823,646	376,055,064
Shares, diluted	296,681,000	333,993,250	339,202,000	342,571,000	354,186,000	357,435,000	348,393,500	357,572,000	358,311,000	362,217,250	366,063,404	361,040,913	369,880,198	374,198,380	378,860,034	383,337,646	376,569,064
Diluted FFO excluding one time items																	

Table 6. Funds Available for Distribution Calculation

	2014 Year	2015 Year	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year	2017E Q1A	2017E Q2A	2017E Q3	2017E Q4	2017E Year	2018E Q1	2018E Q2	2018E Q3	2018E Q4	2018E Year
FFO Available for common	$1,330,018	$1,495,432	$353,302	$355,795	$363,843	$367,335	$1,440,275	$368,050	$379,329	$385,407	$398,813	$1,531,599	$402,070	$412,084	$423,251	$436,270	$1,673,676
Less:																	
Recurring real estate CAPX	($86,000)	($86,000)	($18,500)	($20,000)	($22,500)	($25,000)	($86,000)	($27,500)	($30,000)	($31,000)	($32,000)	($120,500)	($33,000)	($34,500)	($36,000)	($38,000)	($141,500)
Straight-line adjustment (ACR)	($32,838)	($34,398)	($8,212)	($8,111)	($8,443)	($9,037)	($33,804)	($9,051)	($9,149)	($9,211)	($9,475)	($36,885)	($9,594)	($9,965)	($10,196)	($10,486)	($40,241)
Non-real estate depreciation	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Funds available for distribution	$1,211,180	$1,375,034	$326,590	$327,684	$332,900	$333,298	$1,320,471	$331,499	$340,180	$345,197	$357,338	$1,374,214	$359,476	$367,619	$377,055	$387,784	$1,491,934
Per share	$4.09	$4.12	$0.96	$0.96	$0.94	$0.93	$3.80	$0.93	$0.95	$0.95	$0.98	$3.81	$0.97	$0.98	$1.00	$1.01	$3.97

Source: Company reports and Hilliard Lyons estimates

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

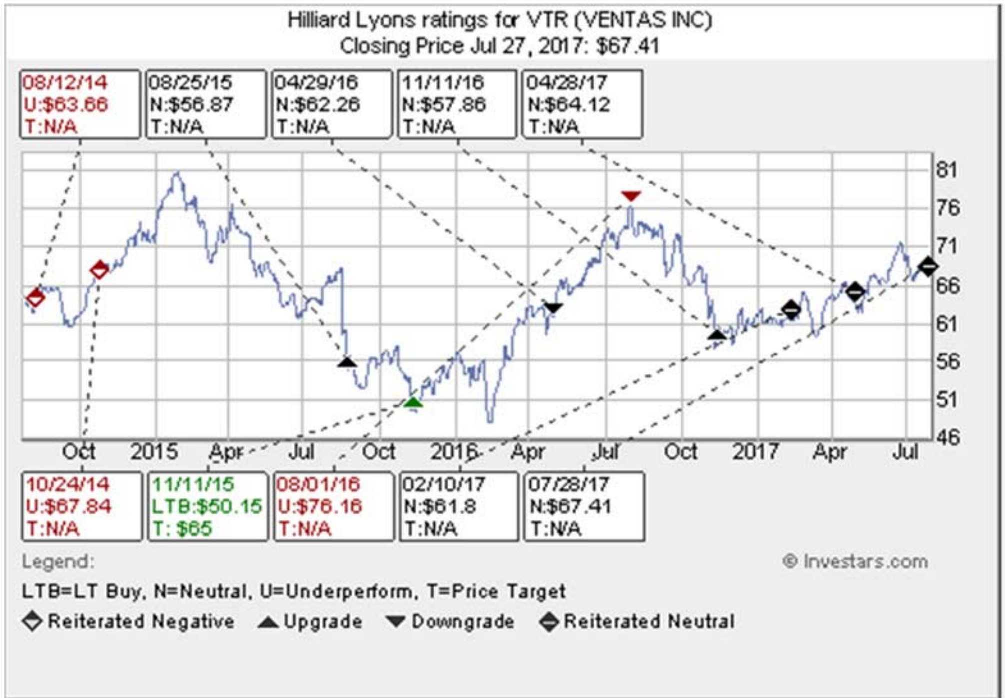
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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, generally 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 base.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017



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