HILLIARD LYONS

Healthcare Real Estate Investment Trusts

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COMPANY UPDATE/ESTIMATE CHANGE

Key Metrics

VTR - NYSE - as of 10/26/17		$61.10
Price Target		NA
52-Week Range	$56.20 -	$72.36
Shares Outstanding (mm)		357.8
Market Cap. ($mm)		$21,861.6
1-Mo. Average Daily Volume		2,280,000
Institutional Ownership		97.0%
Debt/Total Capital	Sep-17	32.0%
Est 3-year FFO Growth Rate		6.0%
Est 3-year Dividend Growth Rate		5.0%
Dividend	$	3.10
Dividend Yield		5.07%
Est. Fixed Charge Coverage		4.6X

Normalized FFO	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$1.04	--	$1.03	A	$1.09	$1.07
2Q	$1.04	--	$1.06	A	$1.10	$1.08
3Q	$1.03	--	$1.04	A	$1.12	$1.09
4Q	$1.03	$1.08	$1.05		$1.14	$1.12
Year	$4.13	$4.24	$4.17		$4.44	$4.36
P/E	14.8x		14.7x			14.0x

Revenue ($mm)

	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$ 852.3	--	$883.4	A	$ 931.2	$909.0
2Q	$ 848.4	--	$895.5	A	$ 950.0	$927.7
3Q	$ 867.1	--	$899.9	A	$ 962.9	$940.2
4Q	$ 875.7	$932.3	$903.4		$ 978.3	$955.6
Year	$3,443.5	$3,618.9	$3,582.2		$3,822.5	$3,732.5

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

Third Quarter Earnings Highlights

Investment Highlights

- VTR reported Q3 FFO of $1.04 a share, compared to the consensus of $1.04 and our estimate of $1.06. Divestitures continue to negatively impact the company's results with the recent asset sales as the company rationalizes its portfolio, and which had a more negative impact on results than we projected. Outside of the dilution from these divestitures, the company portfolio continued to show strong organic growth, with same store cash net operating income (NOI) up by 2.1%. The company adjusted its 2017 FFO guidance to $4.13 to $4.16 a share. We are fine-tuning our FFO estimate for the Q3 miss versus our estimate, although it remains above guidance at $4.17 a share.
- VTR shares have dropped in price since our last report and now trade at a much more reasonable valuation, although in light of likely interest rate increases by the Federal Reserve and the weakness at the senior housing operating portfolio, we see enough uncertainty for us to retain our rating on VTR at Neutral. VTR continues to concentrate on re-positioning its portfolio, with skilled nursing accounting for only 1% of NOI following its pending asset sales. This re-positioning should allow management to focus on higher growth sectors, while lessening its dependence on tenants with government income sources.
- Our rating for VTR remains Neutral. While the drop in the share price has pushed it closer to our preferred buying range, we remain somewhat worried about how investors will perceive the group with interest rates likely to rise over the coming years. Further, increased competition for the company's senior housing operating portfolio could depress near term cash flow growth, something we have pointed out in the past as a possible issue, and which is now rearing its head.

Note Important Disclosures on Pages 9-10.
Note Analyst Certification on Page 9.

Third Quarter Review

Rental income was $401.9 million versus $368.7 million in the year earlier period, a 9.0% increase due to acquisitions completed since last year and normal rental resets. Resident fees and services were $461.7 million versus $462.0 million in the year ago period, roughly equal. Total revenue was $899.9 million versus $867.1 million, a 3.8% increase.

Property level operating expenses were $376.2 million versus $361.1 million in last year's third period, an increase of 4.2%, compared to the flat number in the related revenue. Same store gross cash flow (less management fees) on the senior housing operating portfolio rose to $145.4 million from $145.0 million (including the partner's share) year over year. Occupancy in the stabilized portfolio declined 210 basis points from the year earlier period to 88.7%. The medical office building (MOB) operating portfolio experienced solid performance due to recent acquisitions, with total VTR NOI rising to $117.8 million from $99.4 million, while rent per square foot was up 2.0% at $31. G&A (general and administrative) expenses were $33.3 million compared to $31.6 million year-over-year, up 5.5%, a little above our expectations.

Interest expense was up 8.4% to $113.9 million, while depreciation expense rose to $213.4 million versus $208.4 million in the year ago period. During the quarter, the company recorded $0.8 million in merger-related expenses, compared to the $16.2 million reported in the third quarter of 2016. Ventas' net income applicable to common shareholders before non-operating items was $614.0 million compared to the $149.5 million earned in the year earlier period, driven up by a nearly $460 million gain on asset sales. Earnings per share were $1.71 in this year's third quarter and $0.42 last year.

For the quarter, "normalized" funds from operations, in which management excludes one-time expenses and gains, were $372.9 million versus $363.8 million, up 2.5% year-over-year. Normalized FFO were $1.04 versus $1.03 a share.

At quarter end, Ventas' debt to total assets on a book basis was 48.1% compared to 48.0% at yearend. The company continues to issue additional debt to finance investments, although no equity was issued this quarter, likely a function of the low share price. On a market basis, the company's debt to enterprise value sat at 33% at quarter end. The company has held this ratio reasonably steady. The company remains in an excellent position to be able to continue growing by using additional leverage in the near term. Cash and equivalents were $85.1 million at quarter end. The company continues to have a lack of near-term debt maturities, with only about $25 million due during the remainder of 2017. VTR had a total of $1.24 billion at quarter end drawn on its credit lines. The company only has about $923 million in debt due during 2018. Given its relatively low level of debt, we do not see any near-term liquidity issues with VTR.

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. 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 future 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.

Quarterly Income Statement

(in thousands)	3Q 2017	3Q 2016	% Change
Rental Income	$401,876	$368,697	9.0%
Resident Fees and Services	461,700	461,974	-0.1%
Medical Office Building Services Revenue	3,196	4,317	-26.0%
Interest Income from Loan Receivable	32,985	31,566	4.5%
Interest and Other Income	171	562	-69.6%
Total Revenue	899,928	867,116	3.8%
Property Level Operating Expenses	376,207	361,117	4.2%
Medical Office Building Service Costs	418	974	-57.1%
General and Administrative Expenses	33,317	31,567	5.5%
Foreign Currency Loss (Gain)	0	0	
Merger-related Expenses	804	16,217	
Litigation Expense, net	0	0	
Other	13,030	2,430	
(Gain) Loss on Extinguishment of Debt	511	383	
EBITDA	475,641	454,428	4.7%
Interest Expense	113,869	105,063	8.4%
Depreciation Expense	213,407	208,387	2.4%
Income (Loss) Before Discontinued Operations and Other Items	148,365	140,978	5.2%
Discontinued Operations (including gain on sale of assets)	458,261	(262)	
Income Tax Expense/Benefit	7,815	8,537	
Minority Interest	(483)	199	
Preferred Stock Dividends	0	0	
Net Income (Loss)	$613,958	$149,452	310.8%
Net EPS (diluted)	$1.71	$0.42	304.9%
Avg. Shares Outstanding (diluted)	359,333	354,186	1.5%

Funds From Operations	3Q 2017	3Q 2016	
Net Income	$613,958	$149,452	310.8%
Depreciation Expense	211,784	206,560	2.5%
Discontinued Operations - Depreciation	0	0	
Discontinued Operations - (Gains)	(459,248)	(144)	
Depreciation - Related to Minority Interest	(1,911)	(1,865)	
Other (adding/substracting one-time items)	8,270	9,840	
Normalized Funds From Operations	**$372,853**	**$363,843**	2.5%
Normalized FFO Per Share (diluted)	**$1.04**	**$1.03**	1.0%

Source: Company Reports

Consolidated Balance Sheet

(in thousands)	30-Sep-17	December 31, 2016
Real Estate Assets		
Land	$2,121,214	$2,089,591
Construction in progress	$306,095	$210,599
Buildings and Improvements	21,935,860	21,516,396
Acquired Lease Intangibles	1,536,476	1,510,629
	25,899,645	25,327,215
Less Accumulated Depreciation and Amortization	(5,434,772)	(4,932,461)
Net Investment in Real Estate Property	$20,464,873	$20,394,754
Loan Receivable, net	1,352,434	702,021
Total Net Real Estate Investments	**$21,817,307**	**$21,096,775**
Cash and Cash Equivalents	85,063	286,707
Investment in Unconsolidated Entities	117,185	95,921
Escrow Deposits and Restricted Cash	76,522	80,647
Deferred Financing Costs (net)	0	0
Notes Receivable-related Parties	0	0
Other Assets	1,643,718	1,606,550
Total Assets	**$23,739,795**	**$23,166,600**
Notes Payable and Other Debt	**$11,424,145**	**$11,127,326**
Accrued Interest	95,684	83,762
Accounts Payable and Other Accrued Liabilities	953,637	909,390
Deferred Income Taxes	296,272	316,641
Total Liabilities	**$12,769,738**	**$12,437,119**
Minority Interest	$238,717	$269,241
Common Stock	89,023	88,514
Capital in Excess of Par Value	13,034,527	12,917,002
Unearned Compensation on Restricted Stock	0	0
Accumulated Other Comprehensive Loss	(40,780)	(57,534)
Retained Earnings (deficit)	(2,351,430)	(2,487,695)
Treasury Stock	0	(47)
Total Shareholders' Equity	**10,731,340**	**10,460,240**
Total Liabilities and Shareholders' Equity	**$23,739,795**	**$23,166,600**

Balance Sheet Ratio Analysis	30-Sep-17	December 31, 2016
Net R/E Investments / Total Debt	191.0%	189.6%
Debt to Equity	106.5%	106.4%
Debt as % of Total Assets	48.1%	48.0%
Shareholders' Equity as % of Total Assets	45.2%	45.2%

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

Conference Call Discussion

On VTR's 10 AM conference call management noted the continued strength of the overall portfolio, although the weakness in the senior housing operating portfolio did taint that overall picture in our mind. Management also noted it continues to reduce its exposure to the skilled nursing (SNF) sector with the ongoing divestiture of these assets, selling another 29 of these properties in Q3 and Q4, with the remaining sales expected to be completed by the end of the year reducing SNF exposure to about 1% of the portfolio. Total asset disposals should approach $900 million for the year, inclusive of the $800 million in assets sold so far in 2017.

Management also noted its operating metrics, with its triple net lease portfolio experiencing a 3.8% same store growth in NOI, and showing an average cash flow coverage ratio of 1.6 times, steady with the previous quarter, although down year-over-year. Labor costs are putting pressure on operators here, although management is retaining guidance of 3-3.5% same store NOI growth for the entire portfolio. The company is forming a joint venture with an institutional investor including 70 of its private pay senior living assets, which should free up some additional capital.

The company's medical office building property portfolio reported results consistent with recent quarters, with occupancy down 10 basis points although the NOI margin was down 60 basis points. Overall, the portfolio produced $93.0 million in NOI, generating NOI growth of 1.2%. Occupancy in the life science portion of this portfolio was a very strong 97.5%, and management increased its same store NOI growth expectations for the portfolio for the full year to 1.5-2.0%.

The company did fall short of expectations on its senior housing operating portfolio, illustrating the risk inherent in these investments that we have noted many times in the past, with same store NOI growth of only 0.6%, with increased labor costs continuing to be an issue here. Management's same store NOI guidance for the entire senior housing operating portfolio is 0.5% to 1.5% with an expected NOI decline on the portfolio in Q4. We note that margins for the portfolio are down 20 basis points for last year's quarter. Competition has picked up as overbuilding has shown up in some of the company's markets. While absorption is keeping oversupply issues at bay to some degree, we see this as an issue over the next several years, and a potential risk.

Looking at reported numbers for the quarter and so far for the year, the two hurricanes that hit the company's operating areas resulted in $10 million or $0.03 a share in extraordinary expenses, which was excluded from normalized FFO. Also, the company generated gains exceeding $500 million on the sales of its SNF properties. Dilution from these sales impacted FFO by $0.04 so far in 2017, and will have a negative $0.07 a share impact for 2018.

On FFO guidance, the company narrowed its number to $4.13-$4.16 a share on expected same store NOI growth of 2-2.5%, with the bottom end of that range up 50 basis points. We still expect to see management end up above the high end of guidance, as they are not including any acquisitions in their number, and we anticipate some purchases will be forthcoming and management is typically very conservative in its guidance.

Acquisitions and Investment – During Q3 Ventas announced no major new investment activity, although it did undertake ongoing development/redevelopment activity and investments and a small purchase of a life science building. VTR invested about $160 million during the quarter. The company also completed the bulk of the previously announced divestiture of its skilled nursing facilities, selling 22 facilities for $488 million. The sale price received on the sale represented a very attractive 7% yield on current cash rent, a solid number in today's environment. Including various other asset sales and loan repayments, total dispositions for the quarter were $591 million. The remaining divestitures, amounting to over $200 million, is expected to be completed by year end with $82.5 million already completed in Q4.

Capital Market Activity – During the quarter the company undertook no major capital market activity, with the exception of closing a $400 million revolving construction credit facility to secure a new funding source. With the capital raised from the above noted asset sales, we expect to see little need for near term liquidity.

Fourth Quarter and 2018 Outlook

We are fine-tuning our adjusted 2017 FFO estimate to $4.17 a share, a penny above the top-end of the $4.13-$4.16 a share guidance. At this time, we believe our number is reasonable, as management tends to be conservative, and we are including a small amount of Q4 acquisitions in our number. The main reason for our reduction is the weakness at the company's senior housing operating portfolio. We note that consensus is $4.17 a share. Our Q4 estimate is now $1.05 a share. We are also fine-tuning our 2018 per share FFO estimate to $4.36 a share, which assumes just over $1.0 billion in net investment. We remain above the consensus of $4.26 a share.

Valuation

VTR is currently trading at 14.0x our 2018 FFO forecast, which is a little below the 14.3x P/FFO multiple for a group of healthcare REITs which we track for comparison purposes (please see table below). VTR has often traded at a premium to its peers and is now trading at a slight discount. We believe the historical premium has been a function of the company being an excellent long-term performer, having a very well regarded management team and the company almost always reporting earnings above expectations. In our opinion, Ventas likely still warrants a slight premium to the group, although the group is not exactly cheap and at a level above what we consider compelling at this point despite its recent drop on interest rate worries. VTR shares continue to trade above their historic norm in spite of the recent drop, and with a continuing rise in overall interest rates and worries about the Fed raising rates, we believe in the near term there is some price risk despite the more attractive valuation currently.

Health Care REITs Ranked By Market Cap.	Symbol	Closing Price 10/26/2017	Current Dividend	Yield	2017E Payout Ratio	2017E	2018E	2-Year Average Growth Rate	Growth Rate 18 /17	Price / FFO 2017E	Price / FFO 2018E
HCP, Inc.	HCP	$25.21	$1.48	5.9%	72.2%	$1.96	$2.05	-13.5%	4.6%	12.9x	12.3x
Welltower	HCN	$65.76	$3.48	5.3%	77.2%	$4.29	$4.51	-0.4%	5.1%	15.3x	14.6x
Healthcare Realty	HR	$31.80	$1.20	3.8%	68.6%	$1.60	$1.75	3.6%	9.4%	19.9x	18.2x
National Health Investors	NHI	$75.49	$3.80	5.0%	69.3%	$5.28	$5.48	6.1%	3.8%	14.3x	13.8x
LTC Properties, Inc.	LTC	$45.78	$2.28	5.0%	69.7%	$3.07	$3.27	3.4%	6.5%	14.9x	14.0x
Health Care Sector Average		**$48.81**	**$2.45**	**5.0%**	**71.7%**	**$3.24**	**$3.41**	**0.6%**	**5.3%**	**15.1x**	**14.3x**
Ventas, Inc.	**VTR**	**$61.10**	**$3.10**	**5.1%**	**71.1%**	**$4.17**	**$4.36**	**2.7%**	**4.6%**	**14.7x**	**14.0x**

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. While VTR's share price has recently declined we are still a little away from what we consider a compelling valuation. With the potential for bond rates to rise as the Fed raises rates, we believe that we could see more pressure on VTR shares, as well as the entire group, in the near term. 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 still 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, 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.

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	Q3A	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	$401,876	$403,286	$1,599,882	$406,625	$422,760	$432,551	$445,178	$1,707,114
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	$461,700	$464,937	$1,851,068	$467,066	$469,724	$472,397	$475,087	$1,884,273
MOB Service Revenue	$29,364	$41,492	$7,185	$5,504	$4,317	$4,064	$21,070	$3,406	$3,179	$3,196	$3,212	$12,993	$3,229	$3,242	$3,255	$3,272	$12,998
Interest Income from loans receivable	$55,169	$88,252	$22,386	$24,146	$31,566	$19,996	$98,094	$20,146	$32,368	$32,985	$31,759	$117,258	$31,759	$31,759	$31,759	$31,759	$127,035
Interest & other	$4,267	$1,115	$119	$111	$562	$84	$876	$481	$202	$171	$175	$1,029	$350	$180	$250	$260	$1,040
	$3,075,746	$3,444,226	$852,289	$848,404	$867,116	$875,713	$3,443,522	$883,443	$895,490	$899,928	$903,368	$3,582,229	$909,028	$927,664	$940,212	$955,556	$3,732,459
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	$376,207	$376,366	$1,487,390	$372,952	$375,544	$382,405	$382,445	$1,513,346
Interest Expense	$376,842	$415,008	$103,273	$103,665	$105,063	$107,739	$419,740	$108,804	$113,572	$113,869	$111,728	$447,973	$112,185	$114,100	$115,334	$116,625	$458,244
Depreciation & Amort.	826,911	959,763	236,387	221,961	208,387	232,189	898,924	217,783	224,108	213,407	220,727	876,025	220,912	222,574	223,617	224,393	891,495
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	33,317	33,244	133,804	34,634	35,344	34,318	33,922	138,218
MOB Service Costs	17,092	26,565	$3,451	$1,852	$974	$1,034	7,311	$738	$552	$418	$424	2,132	$430	$436	$443	$449	1,759
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	804	2,500	11,403	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	13,030	3,400	19,466	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	511	-	856	-	-	-	-	-
Total Expenses	$2,627,229	$3,056,266	$737,173	$723,522	$726,138	$738,181	$2,925,014	$733,826	$745,271	$751,563	$748,389	$2,979,049	$749,813	$757,948	$762,716	$763,335	$3,033,812
Income from Operations	$448,517	$387,960	$115,116	$124,882	$140,978	$137,532	$518,508	$149,617	$150,219	$148,365	$154,979	$603,180	$159,215	$169,716	$177,495	$192,221	$698,647
Income tax benefit	$8,732	$39,284	$8,421	$11,549	$8,537	$2,836	$31,343	$3,145	$2,159	$7,815	$2,350	$15,469	$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)	($483)	$0	$403	$500	$0	$0	$500	$1,000
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	$458,261	$0	$458,261	$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	$613,958	$157,329	$1,121,245	$162,865	$171,916	$180,295	$195,871	$710,947
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	$613,958	$157,329	$1,121,245	$162,865	$171,916	$180,295	$195,871	$710,947
Per share bef. Extra	$1.60	$1.25	$0.44	$0.42	$0.42	$0.58	$1.86	$0.55	$0.42	$1.71	$0.43	$3.12	$0.45	$0.47	$0.48	$0.52	$1.92
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	$1.71	$0.43	$3.12	$0.45	$0.47	$0.48	$0.52	$1.92
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	359,333,000	362,201,852	359,354,463	365,266,369	368,781,994	372,628,147	376,264,511	370,735,255

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 Q3A	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	$613,958	$157,329	$1,121,245	$162,865	$171,916	$180,295	$195,871	$710,947
Add Back:																	
Depreciation	$819,170	$967,766	$207,920	$214,055	$206,560	$229,810	$858,345	$215,961	$222,347	$209,873	218,727	$866,908	219,012	220,674	221,717	222,493	$883,895
Other	$49,505	109,823	1,632	(1,422)	7,831	(3,688)	$4,353	(2,749)	5,151	8,270	2,500	$13,172	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	($459,248)	$0	($502,537)	$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	$372,853	$378,556	$1,498,788	$389,376	$400,090	$406,012	$422,364	$1,617,842
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	$372,853	$378,556	$1,498,788	$389,376	$400,090	$406,012	$422,364	$1,617,842
Basic FFO per share	$4.49	$4.48	$1.04	$1.04	$1.03	$1.03	$4.14	$1.03	$1.06	$1.04	$1.05	$4.18	$1.07	$1.09	$1.09	$1.12	$4.37
Diluted FFO per share	$4.48	$4.47	$1.04	$1.04	$1.03	$1.03	$4.13	$1.03	$1.06	$1.04	$1.05	$4.17	$1.07	$1.08	$1.09	$1.12	$4.36
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	358,819,000	361,687,852	358,840,463	364,752,369	368,267,994	372,114,147	375,750,511	370,221,255
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	359,333,000	362,201,852	359,354,463	365,266,369	368,781,994	372,628,147	376,264,511	370,735,255
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 Q3A	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	$372,853	$378,556	$1,498,788	$389,376	$400,090	$406,012	$422,364	$1,617,842
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)	($9,203)	($9,235)	($36,637)	($9,312)	($9,681)	($9,905)	($10,195)	($39,093)
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	$332,650	$337,320	$1,341,650	$347,065	$355,909	$360,107	$374,170	$1,437,250
Per share	$4.09	$4.12	$0.96	$0.96	$0.94	$0.93	$3.80	$0.93	$0.95	$0.93	$0.93	$3.74	$0.95	$0.97	$0.97	$1.00	$3.88

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

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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 base.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	**# 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

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