Healthcare Real Estate Investment Trusts
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COMPANY UPDATE/ESTIMATE CHANGE

Ventas, Inc.

VTR -- NYSE – Neutral-2

Fourth Quarter Earnings

Investment Highlights

- Ventas reported normalized Q4 FFO of $1.03 a share, two cents below our estimate and compared to the consensus of $1.03. Full year normalized results were $4.16 per share. This number was negatively impacted compared to the year earlier period as a result of recent divestitures. Management initiated 2018 guidance of $3.95 to $4.05 a share, which includes $1.5 billion in additional divestitures, offset by some modest new investment. We are reducing our 2018 FFO estimate to $4.10 a share, which includes additional investments beyond management guidance.
- Healthcare REIT shares have been significantly harmed with other interest rate sensitive sectors due to higher interest rates and expectations for more increases. Higher labor costs on tenants as well as worries about overbuilding are also negatively impacting the group. We expect first half price pressure will push the group down a little more, especially in light of our opinion that interest rate increases could be more aggressive than expected.
- VTR did not close on any meaningful acquisitions in Q4, although it did announce its support of several transactions with tenants that should improve their financial positions. In 2017 VTR made $1.8 billion in acquisitions and investments.
- We actually went into the quarter anticipating raising our rating on VTR with the sharp drop in price, and what we believed was a low risk level, solid management team and improved fundamentals. With divestitures to continue and comps likely to be negative over the next year, we believe there may be some volatility in the share price. As such, at this point we are keeping VTR's rating at Neutral. We believe we may get a better time to upgrade the stock with the likelihood of near term interest rate increases which could place pressure on the group.

Key Metrics

VTR - NYSE - as of 2/8/18	$50.92
Price Target	NA
52-Week Range	$49.17 - $72.36
Shares Outstanding (mm)	358.7
Market Cap. ($mm)	$18,265.0
1-Mo. Average Daily Volume	2,280,000
Institutional Ownership	97.0%
Debt/Total Capital Dec-17	33.0%
Est 3-year FFO Growth Rate	6.0%
Est 3-year Dividend Growth Rate	5.0%
Dividend	$ 3.16
Dividend Yield	6.21%
Est. Fixed Charge Coverage	4.6X

Normalized FFO	2016		2017	Prior 2018E	Current 2018E
1Q	$1.04	--	$1.03	$1.07	$1.03
2Q	$1.04	--	$1.06	$1.08	$1.03
3Q	$1.03	--	$1.04	$1.09	$1.02
4Q	$1.03	--	$1.03	$1.12	$1.02
Year	$4.13		$4.16	$4.36	$4.10
P/E	12.3x		12.2x		12.4x

Revenue ($mm)

	2016		2017	Prior 2018E	Current 2018E
1Q	$ 852.3	--	$883.4	$ 909.0	$891.7
2Q	$ 848.4	--	$895.5	$ 927.7	$896.8
3Q	$ 867.1	--	$899.9	$ 940.2	$900.3
4Q	$ 875.7	--	$895.3	$ 955.6	$910.0
Year	$3,443.5		$3,574.1	$3,732.5	$3,598.8

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.*

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

Fourth Quarter Review

Rental income was $397.0 million versus $394.7 million, a 0.6% increase, mainly a result of normal rental bumps and investments, offset by some asset sales. Resident fees and services were $457.1 million versus $456.9 million in the year ago period. Total revenue was $895.3 million versus $875.7 million, a 2.2% increase. Total revenue for the year rose 3.8% to $3,574.1 million from $3,443.5 million in 2016, as normal rental increases and recent acquisitions, somewhat offset by divestitures, drove revenue higher.

Property level operating expenses were $372.0 million versus $365.5 million in last year's fourth period, an increase of 1.8%. Net operating income on these properties fell to $141.4 million from $142.0 million, as a decline in occupancy hurt bottom line results. Occupancy fell from 90.4% in the year earlier period to 88.6%, while the average revenue per occupied room (REVPOR) rose 3.0% to $5,728. G&A (general and administrative) expenses were $34.9 million compared to $31.5 million year-over-year, a 10.9% rise.

Interest expense was up 3.9% to $112.0 million from $107.7 million. Depreciation expense was basically flat as divestitures undertaken during the year offset investments and stood at $232.7 million versus $232.2 million in the year ago period. During the quarter, VTR recorded $1.6 million in merger-related expenses, compared to a $0.4 million credit reported in the fourth quarter of 2016. Ventas' net income applicable to common shareholders before extraordinary items was $136.5 million compared to the $137.5 million earned in the year ago period. Earnings per share were $1.09 in this year's fourth quarter and $0.58 last year.

For the quarter, "normalized" funds from operations, in which management excludes one-time expenses and gains, were $371.0 million versus $367.3 million, up 1.0% year-over-year. FFO (as defined by NAREIT) were $1.13 versus $1.04 a share, while "normalized" FFO were $1.03 versus $1.03 a share. Our estimates use "normalized" results. For the year the company reported FFO of $4.22 versus $4.16, while normalized FFO was $4.16 a share versus $4.13 in 2016.

At year-end, Ventas' debt to total assets was 47.1%, down from 48.0% at year-end 2016. The level of debt has stayed reasonably constant as recent acquisition activity has generally been offset by proceeds from asset sales. That could turn in 2018, as management anticipates using sales proceeds to reduce debt. Cash and equivalents stood at $81.4 million at year end 2017, down from $286.7 million at the end of 2016. VTR continues to have a lack of near term debt maturities, with $807.4 million due during 2018. 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 year-end was an estimated 34% compared to 33% at 2016 year-end.

Dividend – VTR raised its dividend six consecutive years, before reducing it in 2015 to account for the spin-off of the SNF properties into a separate company, although including the dividend from that company there was actually an increase. 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 and then pushed it up slightly in the just past fourth quarter to $0.79 or $3.16 a share annually. We anticipate the company will continue to raise the dividend on an ongoing basis in the future. Dividend increases are likely to approximate or be a little less than FFO growth. The company's payout ratio stands at 77% of our 2018 FFO estimate, just over the group payout ratio, and we believe that management has reached its target payout ratio.

Senior Housing Operating Portfolio – Total community NOI (real estate net operating income) for the Sunrise and Atria portfolios after management fees was $141.4 million for the fourth quarter of 2017, which was off from $142.0 million in the year ago period. Ventas noted that average occupancy for the same store communities was 88.6%, down about 180 basis points over the previous year. We believe that this is a function of overbuilding in some markets.

Quarterly Income Statement

(in thousands)	4Q 2017	4Q 2016	% Change
Rental Income	$397,002	$394,650	0.6%
Resident Fees and Services	457,101	456,919	0.0%
Medical Office Building Services Revenue	3,896	4,064	-4.1%
Interest Income from Loan Receivable	32,109	19,996	60.6%
Interest and Other Income	5,180	84	6066.7%
Total Revenue	895,288	875,713	2.2%
Property Level Operating Expenses	372,048	365,468	1.8%
Medical Office Building Service Costs	1,683	1,034	62.8%
General and Administrative Expenses	34,930	31,488	10.9%
Other	3,986	1,087	266.7%
Merger-related Expenses	1,632	(438)	
Litigation	0	0	
Reversal of Contingent Liability	0	0	
(Gain) Loss on Extinguishment of Debt	(102)	(386)	
EBITDA	481,111	477,460	0.8%
Interest Expense	111,951	107,739	3.9%
Depreciation Expense	232,650	232,189	0.2%
Income (Loss) Before Discontinued Operations and Other Items	136,510	137,532	-0.7%
Discontinued Operations (including gain on sale of assets)	214,970	66,257	
Income Tax Benefit	46,680	2,836	
Minority Interest	(5,606)	1,012	
Preferred Stock Dividends	0	0	
Net Income (Loss)	$392,554	$207,637	89.1%
Net EPS (diluted)	$1.09	$0.58	88.1%
Avg. Shares Outstanding (diluted)	359,184	357,435	0.5%

Funds From Operations	4Q 2017	4Q 2016	
Net Income	$392,554	$207,637	89.1%
Depreciation Expense	229,885	229,754	0.1%
Discontinued Operations - Depreciation	0	56	
Discontinued Operations - (Gains)	(214,997)	(66,424)	
Depreciation - Related to Minority Interest	0	0	
Other (adding/substracting one-time items)	(36,433)	(3,688)	
Normalized Funds From Operations	**$371,009**	**$367,335**	1.0%
Normalized FFO Per Share (diluted)	**$1.03**	**$1.03**	0.5%

Source: Company reports.

Consolidated Balance Sheet

(in thousands)	31-Dec-17	December 31, 2016
Real Estate Assets		
Land	$2,147,621	$2,089,591
Construction in progress	$343,129	$210,599
Buildings and Improvements	22,177,088	21,516,396
Acquired Lease Intangibles	1,537,995	1,510,629
	26,205,833	25,327,215
Less Accumulated Depreciation and Amortization	(5,617,453)	(4,932,461)
Net Investment in Real Estate Property	$20,588,380	$20,394,754
Loan Receivable, net	1,346,359	702,021
Total Net Real Estate Investments	**$21,934,739**	**$21,096,775**
Cash and Cash Equivalents	81,355	286,707
Investment in Unconsolidated Entities	123,639	95,921
Escrow Deposits and Restricted Cash	106,898	80,647
Deferred Financing Costs (net)	0	0
Notes Receivable-related Parties	0	0
Other Assets	1,707,910	1,606,550
Total Assets	**$23,954,541**	**$23,166,600**
Notes Payable and Other Debt	**$11,276,062**	**$11,127,326**
Accrued Interest	93,958	83,762
Accounts Payable and Other Accrued Liabilities	1,243,754	909,390
Deferred Income Taxes	250,092	316,641
Total Liabilities	**$12,863,866**	**$12,437,119**
Minority Interest	$224,449	$269,241
Common Stock	89,029	88,514
Capital in Excess of Par Value	13,053,057	12,917,002
Unearned Compensation on Restricted Stock	0	0
Accumulated Other Comprehensive Loss	(35,120)	(57,534)
Retained Earnings (deficit)	(2,240,698)	(2,487,695)
Treasury Stock	(42)	(47)
Total Shareholders' Equity	**10,866,226**	**10,460,240**
Total Liabilities and Shareholders' Equity	**$23,954,541**	**$23,166,600**

Balance Sheet Ratio Analysis	31-Dec-17	December 31, 2016
Net R/E Investments / Total Debt	194.5%	189.6%
Debt to Equity	103.8%	106.4%
Debt as % of Total Assets	47.1%	48.0%
Shareholders' Equity as % of Total Assets	45.4%	45.2%

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

Medical Office Building Portfolio – With the company's ongoing acquisition and development activity, medical office buildings (MOBs) remain a major source of revenue for VTR, and accounts for 24.7 million square feet of space. NOI rose from $115.5 million in 2016 Q4 to $120.8 million (excluding minority partner's shares) in 4Q'17. In looking at property fundamentals, occupancy of the portfolio fell slightly to 92.3% from 92.6%, while the rental rate was up a dollar at $31 a square foot.

Acquisitions and Investments - During Q4, Ventas undertook a small number of acquisitions, purchasing six properties for $281 million with a expected GAAP yield of 6%. It also continued its ongoing development and re-development activity during the quarter, mainly in the senior housing area, with total investment during the quarter just under $93 million. Beyond the acquisition activity, VTR announced that it was supporting the acquisition of major tenant Kindred (KND-$9.00) by a consortium of companies, and the capital raise by tenant Atria Senior Living, under which VTR's ownership in the company and its real estate will remain unchanged. VTR's acquisition activity so far in 2018 is pretty non-existent. During 2017 VTR sold properties and received repayments totaling more than $900 million with gains of over $700 million, including nearly $260 million in Q4. We note that the GAAP yield on those dispositions was 7.8%, and was thus somewhat dilutive with the yield on the properties purchased being lower.

Capital Market Activity – During the quarter Ventas undertook no significant capital markets activity, other than its ongoing equity issued under its ATM and dividend reinvestment plan. In the near term, we anticipate that the company will be using proceeds from asset sales as a source of investment capital, as VTR continues to recycle capital into areas that fit more with its strategy.

Conference Call Discussion – VTR's 10 AM conference call presented expected operating growth in the coming year below last year, with projected same store NOI growth of 0.5%-2.0% for 2018, with weak numbers expected in the company's operating portfolio driving the drop from 2017. As we have noted before, participating in the operating side of the business is a double edge sword, and this is indicative of that. Once again, the strongest growth this year is anticipated to come from the triple net portfolio which is anticipated to have same store NOI (SSNOI) growth of 3.0-4.0%, compared to the 3.7% generated in 2017. The senior housing operating portfolio is expected to generate SSNOI growth of -1 to -4%. The severe flu season (which results in senior housing properties losing tenants due to seniors going to the hospital and/or passing away) and heavier construction activity have resulted in lower occupancy. Management anticipates occupancy in 2018 declining 200 basis points and are also anticipating increased labor costs, up 400 basis points. We note that offsetting that somewhat has been pricing, which has remained reasonably strong. On the company's triple net portfolio, the coverage ratio stood at a solid 1.6 times.

Management discussed its potential dispositions, with $1.5 billion in higher yield assets targeted for sale in 2018. This includes a significant amount of loan pay-offs, which have very high yields (in the 9% area). As such, these sales are going to prove to be solidly dilutive, as management anticipates using the proceeds to pay off debt, which has yields well below the return on assets the company is divesting. These assets are non-strategic in nature and management seems to be building up its balance sheet to put itself in a strong position for future acquisition/investment activity. As far as investment activity for 2018, management seemed to indicate that development/joint venture activity (including, potentially with some of the assets expected to be divested) are likely to be longer duration in nature, with lower initial returns, but anticipated to see stronger growth than the assets being divested going forward.

As far as guidance, management initiated 2018 per share normalized FFO guidance at $3.95 to $4.05, which includes divestitures discussed above but does not include any additional investments/acquisitions beyond those. This is down from the year earlier numbers due to the dilutive impact of the asset sales/divestitures. Our estimates do include additional acquisitions beyond those included in guidance, part of the reason that we are above the guidance range offered by management.

Overall, VTR reported an OK quarter in light of the divestitures completed and investment activity coming in below our expectations. Guidance for 2018 seems cautious, but with the high level of divestitures expected to be completed during the year and some confusion around when those sales will actually close, that may be appropriate. We are going to be paying close attention to that portfolio's fundamentals, especially the senior housing operating portfolio. As we have said many times before, this business is higher risk than the company's normal triple net business, and with two years in a row of sub-average growth in SSNOI and an even worse year expected in 2018, we wonder whether the investment here is worth the risk in comparison to the traditional triple net business. We expect acquisition activity to be lower with management concentrating more on higher return development activity, especially as it divests some non-core, higher yielding assets. While we remain above guidance, the level of investment activity is going to be the key as to whether we are right on that front.

Q1 and 2018 Outlook

At this time we are dropping our 2018 FFO estimate to $4.10 a share. We are sitting below the consensus number of $4.20 a share, although we are above the top end of management's guidance. We expect that the consensus will come down with the guidance on divestiture activity. While our estimate is $0.05 above the top end of guidance, we believe the company will consummate over $1,500 million in additional acquisitions and new investment during the remainder of the year in addition to those already announced. Management specifically said on the conference call that they are not assuming any acquisitions in guidance other than those discussed earlier. While we believe it will become more difficult to purchase attractively priced properties due to increased competition for assets, we still anticipate some investment for the year and that it will be slightly higher return than recent transactions, especially as it is mostly financed with low cost debt. As a result, we believe that management is being conservative in their estimate for the year. We are initiating a 2019 per share FFO estimate of $4.30. Our Q1 2018 FFO estimate is $1.03 a share.

Valuation

VTR is currently trading at 12.4x our 2018 FFO forecast, which is about equal to the 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 in line with the group. 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. The re-characterization of the company's property portfolio has resulted in the company not doing as well recently, although this is a function of management divesting higher return, but lower growth and higher risk assets, putting itself in a better position to profit in the years ahead. As such, Ventas's current multiple is in line with the group and may be more appropriate. However, we note that once management finishes its current portfolio moves, it could very well again warrant a premium to the group. However, given the near term negative comps and messiness of this process, it may take a little time for this to occur, in our opinion.

Health Care REITs		Closing Price	Current		2017E			2-Year Average	Growth Rate	Price / FFO	
Ranked By Market Cap.	Symbol	2/8/2018	Dividend	Yield	Payout Ratio	2017E	2018E	Growth Rate	18 /17	2017E	2018E
HCP, Inc.	HCP	$22.64	$1.48	6.5%	74.4%	$1.96	$1.99	-14.8%	1.5%	11.6x	11.4x
Welltower	HCN	$54.67	$3.48	6.4%	78.4%	$4.29	$4.44	-1.2%	3.5%	12.7x	12.3x
Healthcare Realty	HR	$27.66	$1.20	4.3%	71.0%	$1.60	$1.69	1.8%	5.6%	17.3x	16.4x
National Health Investors	NHI	$64.60	$3.80	5.9%	70.4%	$5.28	$5.40	5.3%	2.3%	12.2x	12.0x
LTC Properties, Inc.	LTC	$37.53	$2.28	6.1%	70.2%	$3.07	$3.25	3.1%	5.9%	12.2x	11.5x
Health Care Sector Average		**$41.42**	**$2.45**	**5.9%**	**73.0%**	**$3.24**	**$3.35**	**-0.2%**	**3.5%**	**12.8x**	**12.3x**
Ventas, Inc.	**VTR**	**$50.92**	**$3.16**	**6.2%**	**77.1%**	**$4.17**	**$4.10**	**-0.4%**	**-1.7%**	**12.2x**	**12.4x**

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.

2017 Numbers for VTR are actual and not estimate.

Rating- At this time, we are retaining our opinion on Ventas at Neutral. We actually went into the quarter anticipating that we would be increasing our rating on VTR due to the sharp drop in price and our belief that the company's portfolio reorganization was largely complete. However, with more work to be done, there may be some time until investors are willing to offer VTR shares a premium multiple, in spite of the historical solid performance and management team. As such, we are retaining our Neutral rating. We believe the share price could show some volatility until the divestment process is behind the company and year over year comps turn positive.

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					2017					2018E				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	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	$401,876	$397,002	$1,593,598	$396,628	$399,264	$400,088	$407,082	$1,603,063
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	$457,101	$1,843,232	$459,194	$461,807	$464,436	$467,080	$1,852,517
MOB Service Revenue	$29,364	$41,492	$7,185	$5,504	$4,317	$4,064	$21,070	$3,406	$3,179	$3,196	$3,896	$13,677	$3,916	$3,932	$3,949	$3,969	$15,766
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	$32,109	$117,608	$31,616	$31,616	$31,616	$31,616	$126,464
Interest & other	$4,267	$1,115	$119	$111	$562	$84	$876	$481	$202	$171	$5,180	$6,034	$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	$895,288	$3,574,149	$891,704	$896,800	$900,339	$910,007	$3,598,849
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	$372,048	$1,483,072	$373,095	$373,602	$378,051	$379,503	$1,504,250
Interest Expense	$376,842	$415,008	$103,273	$103,665	$105,063	$107,739	$419,740	$108,804	$113,572	$113,869	$111,951	$448,196	$112,207	$114,459	$115,804	$117,262	$459,732
Depreciation & Amort.	826,911	959,763	236,387	221,961	208,387	232,189	898,924	217,783	224,108	213,407	232,650	887,948	223,989	222,857	220,601	219,876	887,323
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	34,930	135,490	34,509	34,168	33,763	36,218	138,658
MOB Service Costs	17,092	26,565	$3,451	$1,852	$974	$1,034	7,311	$738	$552	$418	$1,683	3,391	$1,707	$1,732	$1,757	$1,783	6,980
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	1,632	10,535	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	3,986	20,052	1,200	1,900	2,600	3,800	9,500
Loss on extinguishment of debt	5,564	14,411	314	2,468	383	-	3,165	309	36	511	(102)	754	-	-	-	-	-
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	$758,778	$2,989,438	$754,208	$756,218	$756,575	$762,442	$3,029,444
Income from Operations	$448,517	$387,960	$115,116	$124,882	$140,978	$137,532	$518,508	$149,617	$150,219	$148,365	$136,510	$584,711	$137,497	$140,581	$143,763	$147,565	$569,406
Income tax benefit	$8,732	$39,284	$8,421	$11,549	$8,537	$2,836	$31,343	$3,145	$2,159	$7,815	$46,680	$59,799	$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)	($5,606)	($5,203)	$0	$0	$0	$0	$0
Income from Discontinued	$19,076	($6,490)	$25,695	$5,591	($262)	$0	$31,024	$43,236	$696	$0	$214,970	$258,902	$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	$392,554	$1,356,470	$140,647	$142,781	$146,563	$150,715	$580,706
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	$392,554	$1,356,470	$140,647	$142,781	$146,563	$150,715	$580,706
Per share bef. Extra	$1.60	$1.25	$0.44	$0.42	$0.42	$0.58	$1.86	$0.55	$0.42	$1.71	$1.09	$3.78	$0.39	$0.39	$0.40	$0.41	$1.60
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	$1.09	$3.78	$0.39	$0.39	$0.40	$0.41	$1.60
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	359,184,000	358,600,000	360,365,818	361,526,532	362,666,883	363,787,573	362,086,702

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	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2017 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	$392,554	$1,356,470	$140,647	$142,781	$146,563	$150,715	$580,706
Add Back:																	
Depreciation	$819,170	$967,766	$207,920	$214,055	$206,560	$229,810	$858,345	$215,961	$222,347	$209,873	229,885	$878,066	222,089	220,957	218,701	217,976	$879,723
Other	$49,505	109,823	1,632	(1,422)	7,831	(3,688)	$4,353	(2,749)	5,151	8,270	(36,433)	($25,761)	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)	($214,997)	($717,534)	$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	$371,009	$1,491,241	$370,235	$371,239	$369,264	$372,691	$1,483,429
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	$371,009	$1,491,241	$370,235	$371,239	$369,264	$372,691	$1,483,429
Basic FFO per share	$4.49	$4.48	$1.04	$1.04	$1.03	$1.03	$4.14	$1.03	$1.06	$1.04	$1.03	$4.16	$1.03	$1.03	$1.02	$1.03	$4.10
Diluted FFO per share	$4.48	$4.47	$1.04	$1.04	$1.03	$1.03	$4.13	$1.03	$1.06	$1.04	$1.03	$4.16	$1.03	$1.03	$1.02	$1.02	$4.10
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	358,670,000	358,086,000	359,851,818	361,012,532	362,152,883	363,273,573	361,572,702
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	359,184,000	358,600,000	360,365,818	361,526,532	362,666,883	363,787,573	362,086,702
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	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2017 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	$371,009	$1,491,241	$370,235	$371,239	$369,264	$372,691	$1,483,429
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)	($9,091)	($36,493)	($9,083)	($9,143)	($9,162)	($9,322)	($36,710)
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	$329,918	$1,334,248	$328,152	$327,596	$324,102	$325,369	$1,305,219
Per share	$4.09	$4.12	$0.96	$0.96	$0.94	$0.93	$3.80	$0.93	$0.95	$0.93	$0.92	$3.73	$0.91	$0.91	$0.89	$0.90	$3.61

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

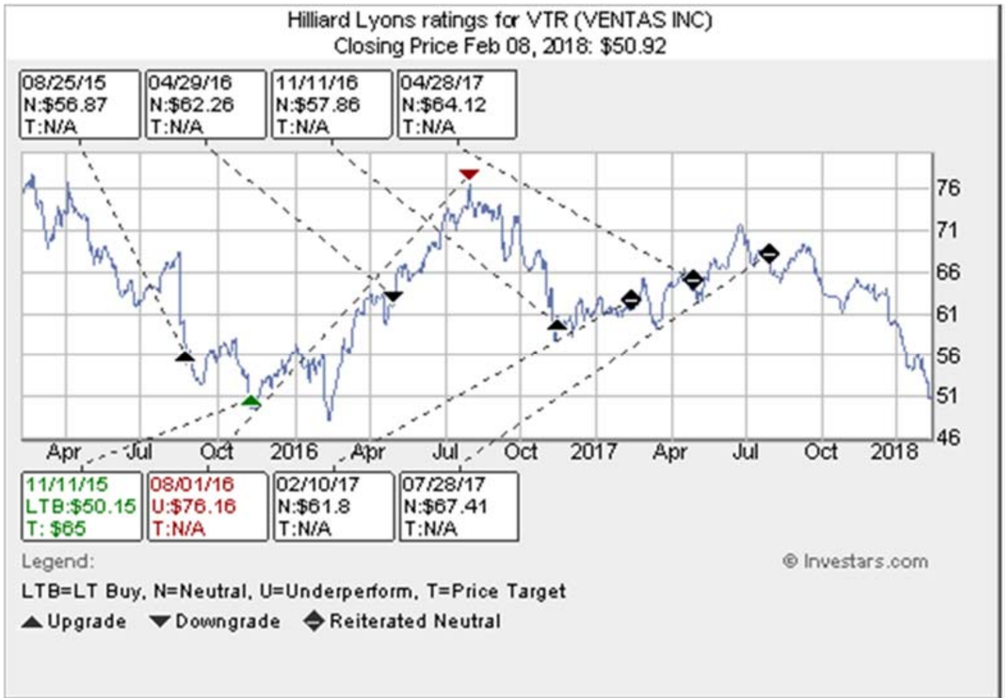
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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, 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	31	28%	10%	90%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 7 February 2018



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