





Dear Fellow Shareholders:

At the time of this writing, the world is grappling with the COVID-19 virus and its spread across borders. It seems somehow inappropriate to write about the challenges of 2019 in the context of what is happening right now. We in the senior housing business feel a sense of urgency given that our core business is caring for the senior population which is particularly at risk. I believe when history reflects back on our industry and its practices during this time, there will be operators who are hailed as heroes. Our operators are taking great pains to do everything in their power to protect residents from infection and are focused on keeping residents as safe and healthy as possible. Reputations are made during a crisis and I see operators making good decisions and taking action based on the principles they value - selflessly caring for their residents, nurturing a company culture that appreciates employees and providing guidance and comfort to the families of their residents.

Insofar as 2019 is concerned, our full year cash flow growth was below the high standards that we expect of ourselves. Normalized AFFO per share increased 1.3% which is below our annual goal of 5%. In late 2018 and early 2019, we made hard decisions including restructuring the master lease with one of our largest operating partners and replacing three operators in nine of our communities. We knew 2019 revenue growth was going to be difficult to achieve from the onset. We worked hard and gained momentum throughout the year and announced \$329 million in accretive investments which made up for the lost revenue. This helped us to reach the high end of our guidance for 2019 and put us in a much better position as we started 2020. We also announced a 5% dividend increase which marked the 11<sup>th</sup> straight year that NHI has increased the quarterly dividend by 5% or more.

Looking internally, you should know that NHI's management team and Board have deep experience managing during times of crisis. I believe our strong balance sheet and liquidity together with strong lender and market relationships puts us on firm footing. NHI has a strong team, a strong portfolio and with our operating partners will strive to navigate through this difficult period and integrate the past lessons we have learned into the fabric of the Company.

Stay Healthy-

A handwritten signature in blue ink, which appears to read "E. Mendelsohn". The signature is fluid and cursive, with a large loop at the end.

Eric Mendelsohn  
President and Chief Executive Officer



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-K**

(Mark One)

☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-10822

**National Health Investors Inc**

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization) 222 Robert Rose Drive Murfreesboro Tennessee (Address of principal executive offices)	62-1470956 (I.R.S. Employer Identification No.)  37129 (Zip Code)
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(615) 890-9100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	NHI	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files) Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of shares of common stock held by non-affiliates on June 30, 2019 (based on the closing price of these shares on the New York Stock Exchange) was approximately \$3,495,872,000. There were 44,591,660 shares of the registrant's common stock outstanding as of February 14, 2020.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive proxy statement for its 2020 annual meeting of stockholders are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14 of this Form 10-K.

## Table of Contents

	<u>Page</u>
<u>Part I.</u>	
Forward Looking Statements.	3
Item 1. Business.	4
Item 1A. Risk Factors.	15
Item 1B. Unresolved Staff Comments.	21
Item 2. Properties Owned or Associated with Mortgage Loan Investments.	22
Item 3. Legal Proceedings.	23
Item 4. Mine Safety Disclosures.	23
<u>Part II.</u>	
Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.	24
Item 6. Selected Financial Data.	26
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.	27
Item 8. Financial Statements and Supplementary Data.	56
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.	89
Item 9A. Controls and Procedures.	89
Item 9B. Other Information.	93
<u>Part III.</u>	
Item 10. Directors, Executive Officers and Corporate Governance.	94
Item 11. Executive Compensation.	94
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	94
Item 13. Certain Relationships and Related Transactions.	94
Item 14. Principal Accountant Fees and Services.	94
<u>Part IV.</u>	
Item 15. Exhibits and Financial Statement Schedules.	94
Item 16. Summary	98
Signatures.	99
Exhibit Index.	95

## PART I.

### Forward Looking Statements

References throughout this document to NHI or the Company include National Health Investors, Inc., and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission's "Plain English" guidelines, this Annual Report on Form 10-K has been written in the first person. In this document, the words "we", "our", "ours" and "us" refer only to National Health Investors, Inc. and its consolidated subsidiaries and not any other person. Unless the context indicates otherwise, references herein to "the Company" include all of our consolidated subsidiaries.

This Annual Report on Form 10-K and other materials we have filed or may file with the Securities and Exchange Commission (the "SEC"), as well as information included in oral statements made, or to be made, by our senior management contain certain "forward-looking" statements as that term is defined by the Private Securities Litigation Reform Act of 1995. All statements regarding our expected future financial position, results of operations, cash flows, funds from operations, continued performance improvements, ability to service and refinance our debt obligations, ability to finance growth opportunities, and similar statements including, without limitation, those containing words such as "may", "will", "believes", "anticipates", "expects", "intends", "estimates", "plans", and other similar expressions are forward-looking statements.

Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from those projected or contemplated in the forward-looking statements as a result of factors including, but not limited to, the following:

- \* We depend on the operating success of our tenants and borrowers for collection of our lease and note payments;
- \* We depend on the success of property development and construction activities, which may fail to achieve the operating results we expect;
- \* We are exposed to the risk that our tenants and borrowers may become subject to bankruptcy or insolvency proceedings;
- \* Certain tenants in our portfolio account for a significant percentage of the rent we expect to generate from our portfolio, and the failure of any of these tenants to meet their obligations to us could materially and adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders;
- \* We are exposed to the risk that the illiquidity of real estate investments could impede our ability to respond to adverse changes in the performance of our properties;
- \* We are exposed to risks related to governmental regulations and payors, principally Medicare and Medicaid, and the effect that lower reimbursement rates would have on our tenants' and borrowers' business;
- \* Legislative, regulatory, or administrative changes could adversely affect us or our security holders;
- \* We are exposed to the risk that the cash flows of our tenants and borrowers would be adversely affected by increased liability claims and liability insurance costs;
- \* We are exposed to risks associated with our investments in unconsolidated entities, including our lack of sole decision-making authority and our reliance on the financial condition of other interests;
- \* We are subject to additional risks related to healthcare operations associated with our investments in unconsolidated entities, which could have a material adverse effect on our results of operations;
- \* We are exposed to risks related to environmental laws and the costs associated with liabilities related to hazardous substances;
- \* We are exposed to the risk that we may not be fully indemnified by our lessees and borrowers against future litigation;
- \* We depend on the success of our future acquisitions and investments;
- \* We depend on our ability to reinvest cash in real estate investments in a timely manner and on acceptable terms;

- \* We may need to refinance existing debt or incur additional debt in the future, which may not be available on terms acceptable to us;
- \* We have covenants related to our indebtedness which impose certain operational limitations and a breach of those covenants could materially adversely affect our financial condition and results of operations;
- \* When interest rates increase, our common stock may decline in price;
- \* We depend on revenues derived mainly from fixed rate investments in real estate assets, while a portion of our debt used to finance those investments bears interest at variable rates;
- \* We are subject to risks related to changes in the method of determining LIBOR, or the replacement of LIBOR with an alternative reference rate, which may adversely affect interest rates on our current or future indebtedness and may otherwise adversely affect our financial condition and result of operations;
- \* We are exposed to the risk that our assets may be subject to impairment charges;
- \* We depend on the ability to continue to qualify for taxation as a Real Estate Investment Trust;
- \* Complying with REIT requirements may cause us to forego otherwise attractive acquisition opportunities or liquidate otherwise attractive investments, which could materially hinder our performance;
- \* We are subject to risks associated with our joint venture investment with Life Care Services for Timber Ridge, an Entrance Fee CCRC, associated with Type A benefits offered to the residents of the joint venture's Entrance Fee community and related accounting requirements;
- \* We have ownership limits in our charter with respect to our common stock and other classes of capital stock which may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders;
- \* We are subject to certain provisions of Maryland law and our charter and bylaws that could hinder, delay or prevent a change in control transaction, even if the transaction involves a premium price for our common stock or our stockholders believe such transaction to be otherwise in their best interests; and
- \* If our efforts to maintain the privacy and security of Company information are not successful, we could incur substantial costs and reputational damage, and could become subject to litigation and enforcement actions.

See the notes to the annual audited consolidated financial statements, and “Business” and “Risk Factors” under Item 1 and Item 1A therein for a further discussion of these and of various governmental regulations and other operating factors relating to the healthcare industry and the risk factors inherent in them. You should carefully consider these risks before making any investment decisions in the Company. These risks and uncertainties are not the only ones we face. There may be additional risks that we do not presently know of or that we currently deem immaterial. If any of the risks actually occur, our business, financial condition, results of operations, or cash flows could be materially adversely affected. In that case, the trading price of our shares of stock could decline and you may lose part or all of your investment. Given these risks and uncertainties, we can give no assurance that these forward-looking statements will, in fact, occur and, therefore, caution investors not to place undue reliance on them.

## **ITEM 1. BUSINESS**

### **General**

National Health Investors, Inc., established in 1991 as a Maryland corporation, is a self-managed real estate investment trust (“REIT”) specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical facility investments. Our portfolio consists of real estate investments in independent living facilities, assisted living facilities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. We fund our real estate investments primarily through: (1) operating cash flow, (2) debt offerings, including bank lines of credit and term debt, both unsecured and secured, and (3) the sale of equity securities.

At December 31, 2019, we had investments in real estate, mortgage and other notes receivable involving 238 facilities located in 34 states. These investments involve 157 senior housing properties, 76 skilled nursing facilities, 3 hospitals, 2 medical office

buildings and other notes receivable. These investments (excluding our corporate office of \$2,519,000) consisted of properties with an original cost of \$3,072,327,000, rented under triple-net leases to 32 lessees, and \$340,143,000 aggregate carrying value of mortgage and other notes receivable due from 11 borrowers.

Our investments in real estate and mortgage loans are secured by real estate located within the United States. We are managed as one reporting unit, rather than multiple reporting units, for internal reporting purposes and for internal decision making. Therefore, we have concluded that we operate as a single segment. Information about revenues from our tenants and borrowers, our net income, cash flows and balance sheet can be found in Item 8 of this Form 10-K.

## **Classification of Properties in our Portfolio**

### ***Senior Housing***

As of December 31, 2019, our portfolio included 146 senior housing properties (“SHO”) leased to operators and mortgage loans secured by 11 SHOs. The SHOs in our portfolio are either need-driven or discretionary for end users and consist of independent living facilities, assisted living facilities, senior living campuses, and entrance-fee communities which are more fully described below.

#### ***Need-Driven Senior Housing***

***Assisted Living Facilities.*** As of December 31, 2019, our portfolio included 90 assisted living facilities (“ALF”) leased to operators and mortgage loans secured by 8 ALFs. ALFs are free-standing facilities that provide basic room and board functions for elderly residents. As residents typically receive assistance with activities of daily living such as bathing, grooming, administering medication and memory care services, we consider these facilities to be need-driven senior housing. On-site staff personnel are available to assist in minor medical needs on an as-needed basis. Operators of ALFs are typically paid from private sources without assistance from government. ALFs may be licensed and regulated in some states, but generally do not require the issuance of a Certificate of Need (“CON”) as required for skilled nursing facilities.

***Senior Living Campuses.*** As of December 31, 2019, our portfolio included 14 senior living campuses (“SLC”) leased to operators. SLCs contain one or more buildings that include skilled nursing beds combined with an independent or assisted living facility that provides basic room and board functions for elderly residents. They may also provide assistance to residents with activities of daily living such as bathing, grooming and administering medication. On-site staff personnel are available to assist in minor medical needs on an as-needed basis. As the decision to transition to a senior living campus is typically more than a lifestyle choice and is usually driven by the need to receive some moderate level of care, we consider this facility type to be need-driven. Operators of SLCs are typically paid from private sources and from government programs such as Medicare and Medicaid for skilled nursing residents.

#### ***Discretionary Senior Housing***

***Independent Living Facilities.*** As of December 31, 2019, our portfolio included 32 independent living facilities (“ILF”) leased to operators. ILFs offer specially designed residential units for active senior adults and provide various ancillary services for their residents including restaurants, activity rooms and social areas. Services provided by ILF operators are generally paid from private sources without assistance from government payors. ILFs may be licensed and regulated in some states, but generally do not require the issuance of a CON as required for skilled nursing facilities. As ILFs typically do not provide assistance with activities of daily living, we consider the decision to transition to an ILF to be discretionary.

***Entrance-Fee Communities.*** As of December 31, 2019, our portfolio included 10 entrance-fee communities (“EFC”) leased to operators and mortgage loans secured by three EFCs. Entrance-fee communities, frequently referred to as continuing care retirement communities, or CCRCs, typically include a combination of detached cottages, an independent living facility, an assisted living facility and a skilled nursing facility on one campus. These communities appeal to residents because there is no need to relocate when health and medical needs change. EFCs are classified as either Type A, B, or C depending upon the amount of healthcare benefits included in the entrance fee. “Type A” EFCs, or “Lifecare” communities, such as the Sagewood community, which secures two of our mortgage loans, and Timber Ridge, held by us as of January 31, 2020, in a joint venture, include substantially all future healthcare costs in the payment of an Entrance Fee and thereafter payment of a set service fee paid monthly. The Entrance Fee is divided into a refundable and non-refundable portion depending upon the Resident’s chosen contract program. The service fee is determined at the time of move-in into an independent living (IL) unit and is subject to certain inflation-based adjustments regardless of the resident’s future care needs. A resident must move into an IL unit initially and not require care at the time of move-in. Thereafter the resident’s care requirements from assisted living to memory care to skilled nursing are provided for. Communities providing a

modified healthcare contract offering access to skilled nursing care but only paying for a maximum number of days are referred to as “Type B” EFCs. Finally, “Type C” EFCs, the type which is indicative of ten communities in our lease portfolio and one community securing a mortgage loan, are fee-for-service communities which do not provide any healthcare benefits and correspondingly have the lowest entrance fees. However, monthly fees may be higher to reflect the current healthcare components delivered to each resident. EFC licensure is state-specific, but generally skilled nursing beds included in our EFC portfolio are subject to state licensure and regulation. As the decision to transition to an EFC is typically made as a lifestyle choice and not as the result of a pressing medical concern, we consider the decision to transition to an EFC to be discretionary. Accordingly, the predominant source of revenue for operators of EFCs is from private payor sources.

## **Medical**

As of December 31, 2019, our portfolio included 77 medical facilities leased to operators and mortgage loans secured by 4 medical facilities. The medical facilities within our portfolio consist of skilled nursing facilities, hospitals and medical office buildings, which are more fully described below.

**Skilled Nursing Facilities.** As of December 31, 2019, our portfolio included 72 skilled nursing facilities (“SNF”) leased to operators and mortgage loans secured by 4 SNFs. SNFs provide some combination of skilled and intermediate nursing and rehabilitative care, including speech, physical and occupational therapy. As the decision to utilize the services of a SNF is typically made as the result of a pressing medical concern, we consider this to be a need-driven medical facility. The operators of the SNFs receive payment from a combination of private pay sources and government payors such as Medicaid and Medicare. SNFs are required to obtain state licenses and are highly regulated at the federal, state and local level. Operators in 11 of the 13 states in which we own SNFs must obtain a CON from the state before opening or expanding such facilities. Some SNFs also include assisted living beds.

**Hospitals.** As of December 31, 2019, our portfolio included 3 hospitals (“HOSP”) leased to operators. Hospitals provide a wide range of inpatient and outpatient services, including acute psychiatric and rehabilitation services, and are subject to extensive federal, state and local legislation and regulation. Hospitals undergo periodic inspections regarding standards of medical care, equipment and hygiene as a condition of licensure. Services provided by hospitals are generally paid for by a combination of private pay sources and government payors. As the decision to utilize the services of a hospital is typically made as the result of a pressing medical concern, we consider this to be a need-driven medical facility.

**Medical Office Buildings.** As of December 31, 2019, our portfolio included 2 medical office buildings (“MOB”) leased to operators. MOBs are specifically configured office buildings whose tenants are primarily physicians and other medical practitioners. As the decision to utilize the services of an MOB is typically made as the result of a pressing medical concern, we consider this to be a need-driven medical facility. MOBs differ from conventional office buildings due to the special requirements of the tenants. Each of our MOBs is leased to one lessee and is either physically attached to or located on an acute care hospital campus. The lessee sub-leases individual office space to the physicians or other medical practitioners. The lessee is responsible to us for the lease obligations of the entire building, regardless of their ability to sub-lease the individual office space.

## **Nature of Investments**

Our investments are typically structured as acquisitions of properties through purchase-leaseback transactions, acquisitions of properties from other real estate investors, loans or operations through structures allowed by the REIT Investment Diversification Empowerment Act of 2007 (“RIDEA”). We have provided construction loans for facilities for which we were already committed to provide long-term financing or for which the operator agreed to enter into a purchase option and lease with us upon completion of construction or after the facility is stabilized. The annual lease rates on our leases and the annual interest rates on our mortgage, construction and mezzanine loans ranged between 6% and 13% during 2019. We believe our lease and loan terms are competitive within our peer group. Typical characteristics of these transactions are as follows:

**Leases.** Our leases generally have an initial leasehold term of 10 to 15 years with one or more 5-year tenant renewal options. The leases are “triple net leases” under which the tenant is responsible for the payment of all taxes, utilities, insurance premiums, repairs and other charges relating to the operation of the properties, including required levels of capital expenditures each year. The tenant is obligated at its expense to keep all improvements, fixtures and other components of the properties covered by “all risk” insurance in an amount equal to at least the full replacement cost thereof, and to maintain specified minimum personal injury and property damage insurance, protecting us as well as the tenant. The leases also require the tenant to indemnify and hold us harmless from all claims resulting from the use, occupancy and related activities of each property by the tenant, and to indemnify us against all costs related to any release, discovery, clean-up and removal of hazardous substances or materials, or other environmental responsibility with respect to each facility.



Most of our existing leases contain annual escalators in rent payments. For financial statement purposes, rental income is recognized on a straight-line basis over the term of the lease where the lease contains fixed escalators. Certain of our operators hold purchase options allowing them to acquire properties they currently lease from NHI. When present, tenant purchase options generally give the lessee an option to purchase the underlying property for consideration determined by i) a sliding base dependent upon the extent of appreciation in the property plus a specified proportion of any appreciation; ii) our acquisition costs plus a specified proportion of any appreciation; iii) an agreed capitalization rate applied to the current rental; or iv) our acquisition costs plus a profit floor plus a specified proportion of any appreciation. Where stipulated above, appreciation may be established by independent appraisal.

Some of the obligations under the leases are guaranteed by the parent corporation of the lessee, if any, or affiliates or individual principals of the lessee. In some leases, a third-party manager will also guarantee some portion of the lease obligations. Some obligations are backed further by other collateral such as security deposits, trade receivables, equipment, furnishings and other personal property.

We monitor our triple-net lessee tenant credit quality and identify any material changes by performing the following activities:

- Obtaining financial statements on a monthly, quarterly and annual basis to assess the operational trends of our tenants and the financial position and capability of those tenants
- Calculating the operating cash flow for each of our tenants
- Calculating the lease service coverage ratio and other ratios pertinent to our tenants
- Obtaining property-level occupancy rates for our tenants
- Verifying the payment of real estate taxes by our tenants
- Obtaining certificates of insurance for each tenant
- Obtaining financial statements of our lessee guarantors on an annual basis
- Conducting a periodic inspection of our properties to ascertain proper maintenance, repair and upkeep
- Monitoring those tenants with indications of continuing and material deteriorating credit quality through discussions with our executive management and Board of Directors

***RIDEA Transactions.*** Our arrangement with an affiliate of Life Care Services, which we announced on January 7, 2020, and closed in January 2020, is structured to be compliant with the provisions of RIDEA, which permit NHI to receive rent payments through a triple-net lease between a property company and an operating company and give NHI the opportunity to capture additional value on the improving performance of the operating company through distributions to a Taxable REIT Subsidiary (“TRS”). Accordingly, the TRS holds our 25% equity interest in an unconsolidated operating company, and provides an organizational structure that allows the TRS to engage in a broad range of activities and share in revenues that would otherwise be non-qualifying income under the REIT gross income tests. The TRS is subject to state and federal income taxes.

***Mortgage loans.*** We have first mortgage loans with original maturities generally greater than 5 years, with varying amortization schedules from interest-only to fully-amortizing. Most of the loans are at a fixed interest rate; however, some interest rates increase based on a fixed schedule. In most cases, the owner of the facility is committed to make minimum annual capital expenditures for the purpose of maintaining or upgrading their respective facility. Additionally, most of our loans are collateralized by first or second mortgage liens and corporate or personal guarantees. Currently, our mortgage loans carry interest rates which range from 6% to 13%.

***Mezzanine loans.*** Frequently in situations calling for temporary financing or when our borrowers’ in-place lending arrangements prohibit the extension of first mortgage security, we typically accept a second mortgage position or extend credit based on corporate and/or personal guarantees. These mezzanine loans often combine with an NHI purchase option covering the subject property. Our mezzanine loans currently carry an interest rate of 10%.

***Construction loans.*** From time to time, we also provide construction loans that become mortgage loans upon the completion of the construction of the subject facility. We may also obtain a purchase option to acquire the facility at a future date and lease the facility back to the operator. During the term of the construction loan, funds are usually advanced pursuant to draw requests made by the borrower in accordance with the terms and conditions of the loan. Interest is typically assessed on these loans at rates equivalent to the eventual mortgage rate upon conversion. In addition to the security of the lien against the property, we will generally require additional security and collateral in the form of either payment and performance completion bonds or completion guarantees by the borrower’s parent, affiliates of the borrower or one or more of the individuals who control the borrower. We currently have construction loans bearing interest ranging from 7.25% to 9%.

**Other notes receivable.** We have provided a revolving credit facility to a borrower whose business is to provide bridge loans to owner-operators who are qualifying for long-term HUD financing secured by real estate. Our interest rate on the credit facility is 10%. We have provided loans to borrowers involved in the skilled nursing and senior housing industries who have pledged personal and business guarantees as security for the loans. The interest rates on these loans typically range from 8.25% to 10%.

**Investment in marketable securities.** From time to time we have invested a portion of our funds in various marketable securities with quoted market prices, including the common shares of other publicly-held REITs. We classify these highly-liquid securities as available-for-sale and carry the investments at their then quoted fair market value at the balance sheet date. We may choose to liquidate these investments to invest the proceeds into real estate assets. We currently have no investments in marketable securities.

## **Competition and Market Conditions**

We compete primarily with other REITs, private equity funds, banks and insurance companies in the acquisition, leasing and financing of health care real estate.

Operators of our facilities compete on a local and regional basis with operators of facilities that provide comparable services. Operators compete for residents and/or patients and staff based on quality of care, reputation, location and physical appearance of facilities, services offered, family preference, physicians, staff and price. Competition is with other operators as well as companies managing multiple facilities, some of which are substantially larger and have greater resources than the operators of our facilities. Some of these facilities are operated for profit, while others are owned by governmental agencies or tax exempt not-for-profit entities.

The SNFs which either secure our mortgage loans or we lease to third-party operators receive the majority of their revenues from Medicare, Medicaid and other government payors. From time to time, these facilities have experienced revenue reductions brought about by the enactment of legislation to reduce government costs. In particular, the establishment of a Medicare Prospective Payment System (“PPS”) for SNF services, to replace the cost-based reimbursement system, significantly reduced Medicare reimbursement to SNF providers. While Congress subsequently took steps to mitigate the impact of PPS on SNFs, other federal legislative policies have been adopted and continue to be proposed that would reduce the growth rate of Medicare and/or Medicaid payments to SNFs. Effective October 1, 2019, a Patient Driven Payment Model (“PDPM”) was adopted as a case-mix system for classifying patient information payment groups under PPS. The new model shifts care delivery under Medicare away from fee-for-service, which in the past has based reimbursement on the amount of care provided, to focus on value-based care, which will base reimbursement on clinical complexity and the resident’s conditions and care needs. On August 7, 2019, CMS adopted a net 2.4% increase to Medicare skilled nursing payments for the fiscal year beginning October 1, 2019. We believe a rate increase in line with inflation, along with general demographic growth among the oldest seniors, will help to stabilize lease coverages among our skilled nursing tenants at a time when they are implementing the PDPM. Changes in government reimbursement methodology that reduce reimbursement to levels that are insufficient to cover the operating costs of our lessees and borrowers could indirectly and adversely impact us.

Our senior housing properties generally rely on private-pay residents who may be negatively impacted in an economic downturn. For example, a resident may intend to sell his or her house in order to afford the cost of residing in an ILF or ALF. In addition, the success of these properties is often impacted by the existence of comparable, competing facilities in a local market.

## **Operator Diversification**

For the year ended December 31, 2019, approximately 23% of our portfolio revenue was from publicly-owned operators, 58% was from regional operators, 17% from privately owned national chains and 2% was from smaller operators. We consider the creditworthiness of the operator to be an important factor in underwriting the lease or loan investment, and we generally have the right to approve any changes in operators.

For the year ended December 31, 2019, tenants which provided more than 3% of our total revenues were (in alphabetical order): Bickford Senior Living; Chancellor Health Care; Discovery Senior Living; The Ensign Group; Health Services Management; Holiday Retirement; Life Care Services; National HealthCare Corporation; Senior Living Communities; and Senior Living Management. We make reference to the parent company whenever we describe our business with these tenants, their subsidiaries and/or affiliates regardless of the specific subsidiary entity indicated on the lease or loan documents.

## **Major Customers**

We have four operators, Holiday Retirement (“Holiday”), Senior Living Communities (“Senior Living”), National HealthCare Corporation (“NHC”) and Bickford Senior Living (“Bickford”), from whom we individually derive at least 10% of our total revenues, and 58% collectively.

### *Holiday*

As of December 31, 2019, we leased 26 independent living facilities to Holiday including a \$38,000,000 senior housing facility in Vero Beach, Florida which we acquired on January 31, 2019. The master lease, which matures in 2035, was amended in November 2018 and provides for annual lease escalators beginning November 1, 2020, with a floor of 2% and a ceiling of 3%. Of our total revenues, \$40,459,000 (13%), \$43,311,000 (15%) and \$43,817,000 (16%) were derived from Holiday for the years ended December 31, 2019, 2018 and 2017, respectively, including \$6,621,000, \$5,616,000 and \$7,397,000 in straight-line rent income, respectively. Our tenant operates the facilities pursuant to a management agreement with a Holiday-affiliated manager.

### *Senior Living*

As of December 31, 2019, we leased 10 retirement communities totaling 2,068 units to Senior Living. The 15-year master lease, which began in December 2014, contains two 5-year renewal options and provides for an annual escalator of 3%.

Of our total revenues, \$46,927,000 (15%), \$45,868,000 (16%) and \$45,735,000 (16%) in rental income were derived from Senior Living for the years ended December 31, 2019, 2018 and 2017, respectively, including \$4,934,000, \$5,436,000 and \$6,984,000 in straight-line rent income,

In December 2014, we provided a \$15,000,000 revolving line of credit, the maturity of which mirrors the 15-year term of the master lease. Borrowings are used to primarily finance construction projects within the Senior Living portfolio, including building additional units. The revolving line of credit facility, which may also be used to meet general working capital needs, was amended as of December 10, 2019, to reduce availability to \$12,000,000 with a further reduction in capacity to \$7,000,000 beginning January 1, 2022, through lease maturity in December 2029. Also effective December 10, 2019, a sub-limit on the availability of funding for working capital needs was established at \$10,000,000 for this loan, extending through January 1, 2022, at which time the limit is to be reduced to \$5,000,000. Amounts outstanding under the facility, \$5,174,000 at December 31, 2019, bear interest at an annual rate equal to the prevailing 10-year U.S. Treasury rate, 1.92% at December 31, 2019, plus 6%.

In March 2016, we extended two mezzanine loans of up to \$12,000,000 and \$2,000,000, respectively, to affiliates of Senior Living, to partially fund construction of a 186-unit senior living campus on Daniel Island in South Carolina, which opened in April 2018. The loans bear interest payable monthly at a 10% annual rate and mature in March 2021. The loans were fully drawn at December 31, 2019, and provide NHI with a fixed capitalization rate purchase option on the development upon its meeting certain operational metrics. The option is to remain open during the term of the loans, plus any extensions.

### *NHC*

We lease 42 facilities under two master leases to NHC, a publicly-held company. The facilities leased to NHC consist of 3 independent living facilities and 39 skilled nursing facilities (4 of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC). These facilities are leased to NHC under the terms of an amended master lease agreement originally dated October 17, 1991 (“the 1991 lease”), which includes our 35 legacy properties and a master lease agreement dated August 30, 2013 (“the 2013 lease”), which includes 7 skilled nursing facilities acquired in 2013.

The 1991 lease expiration is December 31, 2026. There are two additional 5-year renewal options, each at fair rental value as negotiated between the parties and determined without including the value attributable to any improvements to the leased property voluntarily made by NHC at its expense. Under the terms of the 1991 lease, the base annual rental is \$30,750,000 and rent escalates by 4% of the increase, if any, in each facility’s revenue over a 2007 base year. The 2013 lease provides for a base annual rental of \$3,450,000 and has a lease expiration of August 2028. Under the terms of the 2013 lease, rent escalates 4% of the increase, if any, in each facility’s revenue over the 2014 base year. For both the 1991 lease and the 2013 lease, we refer to this additional rent component as “percentage rent.” During the last three years of the 2013 lease, NHC will have the option to purchase the facilities for \$49,000,000.

Of our total revenues, \$38,131,000 (12%), \$37,843,000 (13%) and \$37,467,000 (13%) in rental income were derived from NHC for the years ended December 31, 2019, 2018 and 2017, respectively.

The chairman of our board of directors is also a director on NHC’s board of directors. As of December 31, 2019, NHC owned 1,630,642 shares of our common stock.

As of December 31, 2019, our Bickford lease portfolio consisted of the following (*dollars in thousands*):

	Lease Expiration				Total
	June 2023	September 2024	May 2031	April 2033	
Number of Properties	13	10	19	5	47
2019 Contractual Rent	\$ 11,468	\$ 9,442	\$ 21,838	\$ 4,918	\$ 47,666
2019 Straight Line Rent	358	467	2,903	860	4,588
2019 Lease Incentive Amortization	—	—	(724)	—	(724)
	<u>\$ 11,826</u>	<u>\$ 9,909</u>	<u>\$ 24,017</u>	<u>\$ 5,778</u>	<u>\$ 51,530</u>

On September 10, 2019, NHI amended a master lease, which matures in May 2031 and covers 14 Bickford properties, to change the annual escalator from a fixed percentage to a CPI-based escalator with a floor of 2% and a ceiling of 3%. A four-building portfolio in Minnesota that had been leased by Bickford through September 30, 2019, transitioned to 41 Management, LLC, on October 1, 2019. Also, as of October 1, 2019, a master lease covering ten buildings subject to HUD mortgages was modified to reflect a decrease in monthly rent and provide for CPI-based escalators.

On September 10, 2019, we acquired a 60-unit assisted living/memory care facility located in Gurnee, Illinois, from Bickford. The acquisition price was \$15,100,000, including \$100,000 in closing costs and the cancellation of an outstanding construction note receivable of \$14,035,000, including interest. We leased the building for a term of twelve years at an initial lease rate of 8%, with CPI escalators subject to floor and ceiling. We accounted for the transaction as an asset purchase.

Of our total revenues, \$52,570,000 (17%), \$50,093,000 (17%) and \$41,606,000 (15%) were recognized as rental income from Bickford for the years ended December 31, 2019, 2018 and 2017, respectively, including \$4,651,000, \$5,028,000 and \$5,102,000 in straight-line rent income, respectively.

At December 31, 2019, our construction loans to Bickford are summarized as follows:

Commencement	Rate	Maturity	Commitment	Drawn	Location
January 2017	9%	5 years	\$ 14,000,000	\$ (14,000,000)	Michigan
January 2018	9%	5 years	14,000,000	(11,804,000)	Virginia
July 2018	9%	5 years	14,700,000	(11,312,000)	Michigan
			<u>\$ 42,700,000</u>	<u>\$ (37,116,000)</u>	

On January 27, 2020, we acquired a 60-unit assisted living/memory care facility located in Shelby, Michigan, from Bickford. The acquisition price was \$15,100,000, including \$100,000 in closing costs, and the cancellation of an outstanding construction note receivable of \$14,091,000, including interest. We added the facility to an existing master lease for a term of twelve years at an initial lease rate of 8%, with CPI escalators subject to a floor and ceiling. We accounted for the transaction as an asset purchase.

The construction loans are secured by first mortgage liens on substantially all real and personal property as well as a pledge of any and all leases or agreements which may grant a right of use to the property. Usual and customary covenants extend to the agreements, including the borrower's obligation for payment of insurance and taxes. NHI has a fair market value purchase option on the properties at stabilization of the underlying operations. On these development projects, Bickford as borrower is entitled to up to \$2,000,000 per project in incentive loan draws based on the achievement of predetermined operational milestones and, if funded, will increase the principal amount and NHI's future purchase price and eventual NHI lease payment.

### Commitments and Contingencies

The following tables summarize information as of December 31, 2019 related to our outstanding commitments and contingencies which are more fully described in the notes to the consolidated financial statements.



	Asset Class	Type	Total	Funded	Remaining
Loan Commitments:					
LCS Sagewood Note A	SHO	Construction	\$ 118,800,000	\$ (77,340,000)	\$ 41,460,000
LCS Sagewood Note B	SHO	Construction	61,200,000	(45,938,000)	15,262,000
LCS Timber Ridge Note A	SHO	Construction	60,000,000	(59,350,000)	650,000
Bickford Senior Living	SHO	Construction	28,700,000	(23,116,000)	5,584,000
Senior Living Communities	SHO	Revolving Credit	12,000,000	(5,174,000)	6,826,000
41 Management	SHO	Construction	10,800,000	(6,045,000)	4,755,000
Discovery Senior Living	SHO	Working Capital	750,000	(175,000)	575,000
			<u>\$ 292,250,000</u>	<u>\$ (217,138,000)</u>	<u>\$ 75,112,000</u>

	Asset Class	Type	Total	Funded	Remaining
Development Commitments:					
Ignite Medical Resorts	SNF	Construction	\$ 25,350,000	\$ (16,903,000)	\$ 8,447,000
Woodland Village	SHO	Construction	7,515,000	(7,425,000)	90,000
Senior Living Communities	SHO	Renovation	9,930,000	(9,067,000)	863,000
Wingate Healthcare	SHO	Renovation	1,900,000	(357,000)	1,543,000
Discovery Senior Living	SHO	Renovation	900,000	—	900,000
Navion Senior Solutions	SHO	Construction	650,000	—	650,000
41 Management	SHO	Renovation	400,000	—	400,000
			<u>\$ 46,645,000</u>	<u>\$ (33,752,000)</u>	<u>\$ 12,893,000</u>

In addition to the commitments listed above, Discovery PropCo, discussed more fully in Note 2, has committed to funding up to \$2,000,000 for the purchase of condominium units located at one of the facilities. As of December 31, 2019, \$497,000 had been funded toward the commitment.

	Asset Class	Type	Total	Funded	Remaining
Contingencies:					
Comfort Care Senior Living	SHO	Lease Inducement	6,000,000	—	6,000,000
Wingate Healthcare	SHO	Lease Inducement	5,000,000	—	5,000,000
Navion Senior Solutions	SHO	Lease Inducement	4,850,000	(500,000)	4,350,000
Discovery Senior Living	SHO	Lease Inducement	4,000,000	—	4,000,000
Ignite Medical Resorts	SNF	Lease Inducement	2,000,000	—	2,000,000
			<u>\$ 21,850,000</u>	<u>\$ (500,000)</u>	<u>\$ 21,350,000</u>

## Sources of Revenues

**General.** Our revenues are derived primarily from rental income and mortgage and other note interest income. During 2019, rental income was \$294,182,000 (92.5%), and interest income from mortgages and other notes was \$22,835,000 (7.2%) on total revenue of \$318,081,000, an increase of 8.0% over 2018. Our revenues depend on the operating success of our tenants and borrowers whose source and amount of revenues are determined by (i) the licensed beds or other capacity of the facility, (ii) their occupancy rate, (iii) the extent to which the services provided at each facility are utilized by the residents and patients, (iv) the mix of private pay, Medicare and Medicaid patients, and (v) the rates paid by private payors and by the Medicare and Medicaid programs.

## Government Regulation

**Medicare and Medicaid.** A significant portion of the revenue of our SNF lessees and borrowers is derived from government funded reimbursement programs, such as Medicare and Medicaid. Reimbursement under these programs is subject to periodic payment review and other audit by federal and state authorities. Medicare base rates are uniform nationwide and reimburse skilled nursing facilities under PPS which is based on a predetermined, fixed amount. PPS is an acuity-based classification system that uses nursing and therapy indexes adjusted by geographical wage indexes to calculate per diem rates for each Medicare patient. Payment rates are updated annually and are generally adjusted each October when the federal fiscal year begins. Federal legislative policies have been adopted and continue to be proposed that would provide small increases in annual Medicare payments to skilled nursing facilities. For example, the Centers for Medicare and Medicaid Services (“CMS”) announced the Skilled Nursing Facilities

– PPS final rule for fiscal year 2020 which increased net Medicare payments to SNF operators by only 2.4% beginning October 1, 2019.

Most notably, the new Patient Driven Payment Model (“PDPM”), which replaced the existing RUGs IV model beginning in FY 2020 (effective October 1, 2019), focuses on a resident’s clinical condition and care needs, rather than the volume of care provided. PDPM is designed to move Medicare towards a more value-based, unified post-acute care payment system that prioritizes the unique care needs of patients and reduces administrative burdens, particularly for performing patient assessments. PDPM is a case-mix classifications system for classifying SNF patients in a Medicare Part A covered stay into payment groups under the SNF PPS.

Medicaid is a joint federal and state program designed to provide medical assistance to “eligible needy persons.” Medicaid programs are operated by state agencies that adopt their own medical reimbursement methodology and standards. Payment rates and covered services vary from state to state. In many instances, revenues from Medicaid programs are insufficient to cover the actual costs incurred in providing care to those patients. With regard to Medicaid payment increases to skilled nursing operators, changes in federal funding coupled with state budget problems have produced uncertainty. States will more than likely be unable to keep pace with SNF inflation. States are under pressure to pursue other alternatives to long term care such as community and home-based services. Furthermore, several of the states in which we have investments have actively sought to reduce or slow the increase of Medicaid spending for SNF care.

Medicare and Medicaid programs are highly regulated and subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations and administrative and judicial interpretations of existing law. Moreover, as health care facilities have experienced increasing pressure from private payors attempting to control health care costs, reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors. Healthcare reimbursement will likely continue to be of significant importance to federal and state programs. We cannot make any assessment as to the ultimate timing or the effect that any future legislative reforms may have on our lessees’ and borrowers’ costs of doing business and on the amount of reimbursement by government and other third-party payors. There can be no assurance that future payment rates for either government or private payors will be sufficient to cover cost increases in providing services to patients. Any changes in government or private payor reimbursement policies which reduce payments to levels that are insufficient to cover the cost of providing patient care could adversely affect the operating revenues of tenants and borrowers in our properties that rely on such payments, and thereby adversely affect their ability to make their lease or debt payments to us.

***Licensure and Certification.*** The health care industry is highly regulated by federal, state and local law and is directly affected by state and local licensing requirements, facility inspections, state and federal reimbursement policies, regulations concerning capital and other expenditures, certification requirements and other such laws, regulations and rules. Sanctions for failure to comply with these regulations and laws include (but are not limited to) loss of licensure, fines and loss of certification to participate in the Medicare and Medicaid programs, as well as potential criminal penalties. The failure of any tenant or borrower to comply with such laws, requirements and regulations could affect their ability to operate the facility or facilities and could adversely affect such tenant’s or borrower’s ability to make lease or debt payments to us.

In the past several years, due to rising health care costs, there has been an increased emphasis on detecting and eliminating fraud and abuse in the Medicare and Medicaid programs. Payment of any consideration in exchange for referral of Medicare and Medicaid patients is generally prohibited by federal statute, which subjects violators to severe penalties, including exclusion from the Medicare and Medicaid programs, fines and even prison sentences. In recent years, both federal and state governments have significantly increased investigation and enforcement activity to detect and punish wrongdoers. In addition, legislation has been adopted at both state and federal levels, which severely restrict the ability of physicians to refer patients to entities in which they have a financial interest.

It is anticipated that the trend toward increased investigation and enforcement activity in the area of fraud and abuse, as well as self-referral, will continue in future years. Certain of our investments are with lessees or borrowers that are partially or wholly owned by physicians. In the event that any lessee or borrower were to be found in violation of laws regarding fraud and abuse or self-referral, that lessee’s or borrower’s ability to operate the facility could be jeopardized, which could adversely affect the lessee’s or borrower’s ability to make lease or debt payments to us and could thereby adversely affect us.

***Certificates of Need.*** The SNFs and hospitals in which we invest are also generally subject to state statutes which may require regulatory approval in the form of a CON prior to the construction or expansion of facilities to accommodate new beds (or addition of new beds to existing facilities), the addition of services or certain capital expenditures. CON requirements are not uniform throughout the United States and are subject to change. We cannot predict the impact of regulatory changes with respect to CONs on the operations of our lessees and borrowers; however, in our primary market areas, a significant reduction in new construction of long-term care beds has occurred.

## Investment Policies

Our investment objectives are (i) to provide consistent and growing current income for distribution to our stockholders through investments primarily in healthcare related facilities or in the operations thereof through independent third-party management, (ii) to provide the opportunity to realize capital growth resulting from appreciation, if any, in the residual value of our portfolio properties, and (iii) to preserve and protect stockholders' capital through a balance of diversity, flexibility and liquidity. There can be no assurance that these objectives will be realized. Our investment policies include making investments in real estate, mortgage and other notes receivable, and joint ventures structured to comply with the provisions of RIDEA.

During 2019, we made commitments to fund new investments in real estate and loans totaling approximately \$329,000,000. In making new investments, we consider such factors as (i) the geographic area and type of property, (ii) the location, construction quality, condition and design of the property, (iii) the current and anticipated cash flow and its adequacy to meet operational needs, and lease or mortgage obligations to provide a competitive income return to our investors, (iv) the growth, tax and regulatory environments of the communities in which the properties are located, (v) occupancy and demand for similar facilities in the same or nearby communities, (vi) the quality, experience and creditworthiness of the management operating the facilities located on the property and (vii) the mix of private and government-sponsored residents. There can be no assurances that investments meeting our standards regarding these attributes will be found or closed.

We will not, without the approval of a majority of the Board of Directors and review of a committee comprised of independent directors, enter into any joint venture relationships with or acquire from or sell to any director, officer or employee of NHI, or any affiliate thereof, as the case may be, any of our assets or other property.

The Board of Directors, without the approval of the stockholders, may alter our investment policies if it determines that such a change is in our best interests and our stockholders' best interests. The methods of implementing our investment policies may vary as new investment and financing techniques are developed or for other reasons. Management may recommend changes in investment criteria from time to time.

Future investments in healthcare related facilities may utilize borrowed funds or issuance of equity when it is advisable in the opinion of the Board of Directors. We may negotiate lines of credit or arrange for other short or long-term borrowings from lenders. We may arrange for long-term borrowings from institutional investors or through public offerings. We have previously invested, and may in the future invest, in properties subject to existing loans or secured by mortgages, deeds of trust or similar liens with favorable terms or in mortgage investment pools.

## Executive Officers of the Company

The table below sets forth the name, position and age of each of our executive officers. Each executive officer is appointed by the Board of Directors, serves at its pleasure and holds office for a term of one year. There is no "family relationship" among any of the named executive officers or with any director. All information is given as of February 14, 2020:

<u>Name</u>	<u>Position</u>	<u>Age</u>
Eric Mendelsohn	President and Chief Executive Officer	58
Kristin S. Gaines	Chief Credit Officer	48
Kevin Pascoe	Chief Investment Officer	39
John Spaid	Chief Financial Officer	60
Ron Reel	Chief Accounting Officer	63

Eric Mendelsohn joined NHI in January 2015. He has over 15 years of healthcare real estate and financing experience. Previously, Mr. Mendelsohn was with Emeritus Senior Living for 9 years, most recently as a Senior Vice President of Corporate Development where he was responsible for the financing and acquisition of assisted living properties, home health care companies, administration of joint venture relationships and executing corporate finance strategies. Prior to Emeritus, he was with the University of Washington as a Transaction Officer where he worked on the development, acquisition and financing of research, clinical and medical properties and has been a practicing transaction attorney, representing lenders and landlords. Mr. Mendelsohn holds a Bachelor of Science from American University in International Relations, a Law Degree from Pepperdine University, and a Masters (LLM) in Banking and Finance from Boston University. Mr. Mendelsohn is a member of the Florida and Washington State Bar Associations.

Kristin S. Gaines was appointed NHI's Chief Credit Officer in February 2010. She joined NHI in 1998 as a Credit Analyst. During her tenure with NHI, Ms. Gaines has had a progressive career in the areas of finance and operations. Her experience has

resulted in a breadth of expertise in underwriting, portfolio oversight and real estate finance. Ms. Gaines holds an MBA and a Bachelor of Business Administration in Accounting from Middle Tennessee State University.

Kevin Pascoe joined NHI in June 2010. Mr. Pascoe oversees NHI's portfolio of assets, relationship management with existing tenants and conducts operational due diligence on NHI's existing investments and new investment opportunities. He has over 10 years of health care real estate background including his experience with General Electric - Healthcare Financial Services ("GE HFS") (2006 – 2010) where he most recently served as a Vice President. With GE HFS, he moved up through the organization while working on various assignments including relationship management, deal restructuring, and special assets. He also was awarded an assignment in the GE Capital Global Risk Rotation Program. Mr. Pascoe holds an MBA and a Bachelor of Business Administration in Economics from Middle Tennessee State University.

John Spaid was named Chief Financial Officer in November 2019. He joined NHI in March 2016 as Executive Vice President of Finance. He oversees the Company's banking relationships, financial transactions, accounting functions and SEC reporting. Mr. Spaid has over 30 years of experience in real estate, finance and senior housing. Previously, he was with Emeritus Senior Living as a Senior Vice President whose responsibilities included budget and forecasting, debt and lease obligation underwriting, merger and acquisition processes, financial modeling, due diligence, board and investor presentations, employee development and Sarbanes-Oxley compliance. Mr. Spaid has been an independent financial consultant and has also served as the CFO of a regional assisted living and memory care provider in Redmond, Washington. Mr. Spaid holds an MBA from the University of Michigan and a Bachelor of Business Administration from the University of Texas.

Ron Reel began working with NHI in a consulting role during the 2011 year-end close and continued periodically to provide expertise on various projects through 2013, when he joined NHI on a full-time basis as Controller. After six years as Controller, in November 2019, Mr. Reel was named Chief Accounting Officer for NHI. Mr. Reel was an audit partner in the Knoxville office of Rodefer Moss & Co, a regional accounting firm with ten offices in Tennessee, Indiana and Kentucky. Mr. Reel received his Bachelor of Science in Business Administration with a major in Accounting from the University of Tennessee in 1979 and is a CPA licensed in Tennessee.

We have a staff of 17, all reporting to our corporate office in Murfreesboro, TN. Essential services such as internal audit, tax compliance, information technology and legal services are outsourced to third-party professional firms.

## **Investor Information**

We publish our annual report on Form 10-K, quarterly reports on Form 10-Q, quarterly Supplemental Information, current reports on Form 8-K, and press releases to our website at [www.nhireit.com](http://www.nhireit.com). We have a policy of publishing these on the website within two (2) business days after public release or filing with the SEC.

We also maintain the following documents on our web site:

- The NHI Code of Business Conduct and Ethics which has been adopted for all employees, officers and directors of the Company.
- Information on our "NHI Valuesline" which allows all interested parties to communicate with NHI executive officers and directors. The toll free number is 877-880-2974 and the communications may be made anonymously, if desired.
- The NHI Restated Audit Committee Charter.
- The NHI Revised Compensation Committee Charter.
- The NHI Revised Nominating and Corporate Governance Committee Charter.
- The NHI Corporate Governance Guidelines.

We will furnish, free of charge, a copy of any of the above documents to any interested investor upon receipt of a written request.

Our transfer agent is Computershare. Computershare will assist registered owners with the NHI Dividend Reinvestment plan, change of address, transfer of ownership, payment of dividends, replacement of lost checks or stock certificates. Computershare's contact information is: Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078. The toll free number is 800-942-5909 and the website is [www.computershare.com](http://www.computershare.com).



The Annual Stockholders' meeting will be held at 12:00 p.m. local time on Wednesday, May 6, 2020 at The View at Fountains, 1500 Medical Center Parkway, Murfreesboro, TN.

## **ITEM 1A. RISK FACTORS**

### ***We depend on the operating success of our tenants and borrowers for collection of our lease and note payments.***

Revenues for the operators of our properties are primarily driven by occupancy, Medicare and Medicaid reimbursement and private pay rates. Revenues from government reimbursement have, and may continue to, come under pressure due to reimbursement cuts resulting from federal and state budget shortfalls and constraints. Periods of weak economic growth in the U.S. which affect housing sales, investment returns and personal incomes may adversely affect senior housing occupancy rates. An oversupply of senior housing real estate may also apply downward pressure to the occupancy rates our operators receive. Expenses for the facilities are driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Liability insurance and staffing costs continue to increase for our operators. Historically low unemployment has created significant wage pressure for our operators. To the extent any decrease in revenues and/or any increase in operating expenses results in a property not generating enough cash to make scheduled payments to us, our revenues, net income and funds from operations would be adversely affected. Such events and circumstances would cause us to evaluate whether there was an impairment of the real estate or mortgage loan that should be charged to earnings. Such impairment would be measured as the amount by which the carrying amount of the asset exceeded its fair value. Consequently, we might be unable to maintain or increase our current dividend and the market price of our stock may decline.

### ***We depend on the success of property development and construction activities, which may fail to achieve the operating results we expect.***

When we decide to invest in the renovation of an existing property or in the development of a new property, we make assumptions about the future potential cash flows of that property. We estimate our return based on expected occupancy, rental rates and future capital costs. If our projections prove to be inaccurate due to increased capital costs, lower occupancy or other factors, our investment in that property may not generate the cash flow we expected. Recently developed properties may take longer than expected to achieve stabilized operating levels, if at all. To the extent such facilities fail to reach stabilized operating levels or achieve stabilization later than expected, it could materially adversely affect our tenants' abilities to make payments to us under their leases and thus adversely affect our business and results of operations.

### ***We are exposed to the risk that our tenants and borrowers may become subject to bankruptcy or insolvency proceedings.***

Although our lease agreements provide us the right to evict a tenant/operator and demand immediate payment of rent and exercise other remedies, and our mortgage loans provide us the right to terminate any funding obligations, demand immediate repayment of principal and unpaid interest, foreclose on the collateral and exercise other remedies, the bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. A tenant or borrower in bankruptcy may be able to limit or delay our ability to collect unpaid rent in the case of a lease or to receive unpaid principal and/or interest in the case of a mortgage loan and to exercise other rights and remedies. For example, a lessee may reject its lease with us in a bankruptcy proceeding. In such a case, our claim against the lessee for unpaid and future rents would be limited by the statutory cap of the U.S. Bankruptcy Code. This statutory cap could be substantially less than the remaining rent owed under the lease, and any claim we have for unpaid rent might not be paid in full. In addition, a lessee may assert in a bankruptcy proceeding that its lease should be re-characterized as a financing agreement. If such a claim is successful, our rights and remedies as a lender, compared to a landlord, are generally more limited. We may be required to fund certain expenses (e.g. real estate taxes, maintenance and capital improvements) to preserve the value of a property, avoid the imposition of liens on a property and/or transition a property to a new tenant or borrower. In some instances, we have terminated our lease with a tenant and leased the facility to another tenant. In some of those situations, we provided working capital loans to, and limited indemnification of, the new tenant. If we cannot transition a leased facility to a new tenant, we may take possession of that property, which may expose us to certain successor liabilities. Should such events occur, our revenue and operating cash flow may be adversely affected.

### ***Certain tenants in our portfolio account for a significant percentage of the rent we expect to generate from our portfolio, and the failure of any of these tenants to meet their obligations to us could materially and adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.***

The successful performance of our real estate investments is materially dependent on the financial stability of our tenants/operators. As of December 31, 2019, approximately 58% of our total revenue is generated by Bickford (17%), Senior Living (16%), Holiday (13%), and NHC (12%). Payment defaults or a decline in the operating performance by these or other tenants/operators could materially and adversely affect our business, financial condition and results of operations and our ability to pay

expected dividends to our stockholders. In the event of a tenant default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing our property. Further, we may not be able to re-lease the property for the rent previously received, or at all, or lease terminations may cause us to sell the property at a loss. The result of any of the foregoing risks could materially and adversely affect our business, financial conditions and results of operations and our ability to make distributions to our stockholders.

***We are exposed to the risk that the illiquidity of real estate investments could impede our ability to respond to adverse changes in the performance of our properties.***

Real estate investments are relatively illiquid and, therefore, our ability to quickly sell or exchange any of our properties in response to changes in economic and other conditions may be limited. All of our properties are "special purpose" properties that cannot be readily converted to general residential, retail or office use. Facilities that participate in Medicare or Medicaid must meet extensive program requirements, including physical plant and operational requirements. Transfers of operations of facilities are subject to regulatory approvals not required for transfers of other types of real estate. Thus, if the operation of any of our properties becomes unprofitable due to competition, age of improvements or other factors such that our lessee or borrower becomes unable to meet its obligations on the lease or mortgage loan, the liquidation value of the property may be less than the net book value or the amount owed on any related mortgage loan, because the property may not be readily adaptable to other uses. The sale of the property or the replacement of an operator that has defaulted on its lease or loan could also be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator with a new operator licensed to manage the facility. No assurances can be given that we will recognize full value for any property that we are required to sell for liquidity reasons. Should such events occur, our results of operations and cash flows could be adversely affected.

***We are exposed to risks related to governmental regulations and payors, principally Medicare and Medicaid, and the effect that lower reimbursement rates would have on our tenants' and borrowers' business.***

Our tenants' and borrowers' businesses are affected by government reimbursement and the rates paid by private pay sources. To the extent that any of our facilities receive a significant portion of their revenues from governmental payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries, government funding restrictions (at a program level or with respect to specific facilities) and interruption or delays in payments due to any ongoing governmental investigations and audits at such facilities. In recent years, governmental payors have frozen or reduced payments to health care providers due to budgetary pressures. Such reductions in Medicare reimbursement will have an adverse effect on the financial operations of our borrowers and lessees who operate SNFs. Changes in health care reimbursement will likely continue to be of paramount importance to federal and state programs. The President and members of the U.S. Congress may approve or propose various spending cuts and tax reform initiatives that could result in changes (including substantial reductions in funding) to Medicare, Medicaid or Medicare Advantage Plans. In addition, a number of states are currently managing budget deficits, which may put pressure on states to decrease reimbursement rates for our tenants and operators with a goal of decreasing state expenditures under their state Medicaid programs. We cannot make any assessment as to the ultimate timing or effect any future legislative reforms may have on the financial condition of the health care industry. There can be no assurance that adequate reimbursement levels will continue to be available for services provided by any facility operator, whether the facility receives reimbursement from Medicare, Medicaid or private pay sources. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on an operator's liquidity, financial condition and results of operations, which could adversely affect the ability of an operator to meet its obligations to us. In addition, the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility.

***Legislative, regulatory, or administrative changes could adversely affect us or our security holders.***

The tax laws or regulations governing REITs or the administrative interpretations thereof may be amended at any time. We cannot predict if or when any new or amended law, regulation, or administrative interpretation will be adopted, promulgated, or become effective, and any such change may apply retroactively. The last significant legislation affecting REITs came with the passage of The Tax Cuts and Jobs Act, effective for tax years beginning in 2018. We and our security holders may be adversely affected by any new or amended law, regulation, or administrative interpretation.

Prospective investors are urged to consult with their tax advisors with respect to the status of the Tax Cuts and Jobs Act and any other regulatory or administrative developments and proposals and their potential effect on investment in our securities.

***We are exposed to the risk that the cash flows of our tenants and borrowers would be adversely affected by increased liability claims and liability insurance costs.***

ALF and SNF operators have experienced substantial increases in both the number and size of patient care liability claims in recent years, particularly in the states of Texas and Florida. As a result, general and professional liability costs have increased and may continue to increase. Nationwide, long-term care liability insurance rates are increasing because of large jury awards in states like Texas and Florida. Both Texas and Florida have now adopted SNF liability laws that modify or limit tort damages. Despite some of these reforms, the long-term care industry overall continues to experience very high general and professional liability costs. Insurance companies have responded to this claims crisis by severely restricting their capacity to write long-term care general and professional liability policies. No assurance can be given that the climate for long-term care general and professional liability insurance will improve in any of the foregoing states or any other states where the facility operators conduct business. Insurance companies may continue to reduce or stop writing general and professional liability policies for ALFs and SNFs. Thus, general and professional liability insurance coverage may be restricted, very costly or not available, which may adversely affect the facility operators' future operations, cash flows and financial condition and may have a material adverse effect on the facility operators' ability to meet their obligations to us.

***We are exposed to risks associated with our investments in unconsolidated entities, including our lack of sole decision-making authority and our reliance on the financial condition of other interests.***

Our investments in unconsolidated entities could be adversely affected by our lack of sole decision-making authority regarding major decisions, our reliance on the financial condition of other interests, any disputes that may arise between us and other partners, and our exposure to potential losses from the actions of partners. Risks of dealing with parties outside NHI include limitations on unilateral major decisions opposed by other interests, the prospect of divergent goals of ownership including disputes regarding management, ownership or disposition of a property, or limitations on the transfer of our interests without the consent of our partners. Risks of the unconsolidated entity extend to areas in which the financial health of our partners may impact our plans. Our partners might become bankrupt or fail to fund their share of required capital contributions, which may hinder significant action in the entity. We may disagree with our partners about decisions affecting a property or the entity itself, which could result in litigation or arbitration that increases our expenses, distracts our officers and directors and disrupts the day-to-day operations of the property, including by delaying important decisions until the dispute is resolved; and finally, we may suffer losses as a result of actions taken by our partners with respect to our investments.

***We are subject to additional risks related to healthcare operations associated with our investments in unconsolidated entities, which could have a material adverse effect on our results of operations.***

As of January 31, 2020, we have an investment in an unconsolidated entity that is structured to be in compliance with RIDEA. As such, we are exposed to various operational risks with respect to those operating properties that may increase our costs or adversely affect our ability to increase revenues. These risks include fluctuations in resident occupancy, operating expenses, economic conditions; competition; certification and inspection laws, regulations, and standards; the availability of and increases in cost of general and professional liability insurance coverage; litigation; federal, state and local taxes and regulations; costs associated with government investigations and enforcement actions; the availability and increases in cost of labor; and other risks applicable to any operating business. Any one or a combination of these factors may adversely affect our revenue and operations.

***We are exposed to risks related to environmental laws and the costs associated with liabilities related to hazardous substances.***

Under various federal and state laws, owners or operators of real property may be required to respond to the release of hazardous substances on the property and may be held liable for property damage, personal injuries or penalties that result from environmental contamination. These laws also expose us to the possibility that we may become liable to reimburse the government for damages and costs it incurs in connection with the contamination. Generally, such liability attaches to a person based on the person's relationship to the property. Our tenants or borrowers are primarily responsible for the condition of the property they occupy. Moreover, we review environmental site assessment of the properties that we purchase or encumber prior to taking an interest in them. Those assessments are designed to meet the "all appropriate inquiry" standard, which qualifies us for the innocent purchaser defense if environmental liabilities arise. Based upon such assessments, we do not believe that any of our properties are subject to material environmental contamination. However, environmental liabilities, including mold, may be present in our properties and we may incur costs to remediate contamination, which could have a material adverse effect on our business or financial condition.

***We are exposed to the risk that we may not be fully indemnified by our lessees and borrowers against future litigation.***

Our leases and notes require that the tenant/borrowers name us as an additional insured party on their insurance policies covering professional liability or personal injury claims. These instruments also require the tenant/borrower to indemnify and hold us harmless for all claims arising out of or incidental to the occupancy and use of each facility. We cannot give any assurance that these protective measures will completely eliminate any risk to us related to future litigation, the costs of which could have a material adverse impact on us.

***We depend on the success of our future acquisitions and investments.***

We are exposed to the risk that our future acquisitions may not prove to be successful. We could encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities, and newly acquired properties might require significant attention of NHI's management that would otherwise be devoted to our existing business. If we agree to provide construction funding to a borrower and the project is not completed, we may need to take steps to ensure completion of the project. Moreover, if we issue equity securities or incur additional debt, or both, to finance future acquisitions, it may reduce our per share financial results.

***We depend on our ability to reinvest cash in real estate investments in a timely manner and on acceptable terms.***

From time to time, we will have cash available from principal payments on our notes receivable and the sale of properties, including tenant purchase option exercises, under the terms of master leases or similar financial support arrangements. We must reinvest these proceeds, on a timely basis, in health care investments or in qualified short-term investments. We compete for real estate investments with a broad variety of potential investors. This competition for attractive investments may negatively affect our ability to make timely investments on terms acceptable to us. Delays in acquiring properties may negatively impact revenues and the amount of distributions to stockholders.

***We may need to refinance existing debt or incur additional debt in the future, which may not be available on terms acceptable to us.***

We operate with a policy of incurring debt when, in the opinion of our Board of Directors, it is advisable. Currently, we believe that our current liquidity, availability under our unsecured credit facility, and our capacity to service additional debt will enable us to meet our obligations, including dividends, and continue to make investments in healthcare real estate. While we currently have a low debt ratio, in the future, we may increase our borrowings. We may incur additional debt by borrowing under our unsecured credit facility, mortgaging properties we own and/or issuing debt securities in a public offering or in a private transaction. We believe we will be able to raise additional debt and equity capital at reasonable costs to refinance our existing indebtedness at or prior to its maturity. Our ability to raise reasonably priced capital is not guaranteed; we may be unable to raise reasonably priced capital because of reasons related to our business or for reasons beyond our control, such as market conditions. If our access to capital becomes limited, it could have an impact on our ability to refinance our debt obligations, fund dividend payments, acquire properties and fund acquisition activities.

***We have covenants related to our indebtedness which impose certain operational limitations and a breach of those covenants could materially adversely affect our financial condition and results of operations.***

The terms of our current indebtedness as well as debt instruments that the Company may enter into in the future are subject to customary financial and operational covenants. Among other things, these provisions require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. Our continued ability to incur debt and operate our business is subject to compliance with these covenants, which limit operational flexibility. Breaches of these covenants could result in a default under applicable debt instruments, even if payment obligations are satisfied. Financial and other covenants that limit our operational flexibility, as well as defaults resulting from a breach of any of these covenants in our debt instruments, could have a material adverse effect on our financial condition and results of operations.

***When interest rates increase, our common stock may decline in price.***

Our common stock, like other dividend stocks, is sensitive to changes in market interest rates. In response to changing interest rates the market price of our common stock may adjust like a long-term fixed-income security and, compared to shorter-term instruments, may have more volatility. A wide variety of market factors can cause interest rates to rise, including central bank monetary policy, an uptick in inflation and changes in general economic conditions. The risks associated with increasing rates are intensified given that interest rates have increased from historic lows and are expected to increase in the future, with unpredictable effects on capital markets and on the price of our common stock. Consequential effects of a general rise in interest rates may hamper our access to capital markets, affect the liquidity of our underlying investments in real estate, and, by extension, limit



management's effective range of responses to changing tenant circumstances or in answer to investment opportunities. Limited operational alternatives may further hinder our ability to maintain or increase our dividend, and the market price of our common stock may decline as the result.

***We depend on revenues derived mainly from fixed rate investments in real estate assets, while a portion of our debt used to finance those investments bears interest at variable rates.***

Our business model assumes that we can earn a spread between the returns earned from our investments in real estate as compared to our cost of debt and/or equity capital. Current interest rates on our debt are at low levels, and, as a result, the spread and our profitability on our investments have been at high levels. We are exposed to interest rate risk in the potential for a narrowing of our spread and profitability if interest rates increase in the future. Certain of our debt obligations are floating rate obligations with interest rates that vary with the movement of LIBOR or other indexes. Our revenues are derived mainly from fixed rate investments in real estate assets. Although our leases generally contain escalating rent clauses that provide a partial hedge against interest rate fluctuations, if interest rates rise, our interest costs for our existing floating rate debt and any new debt we incur would also increase. This increasing cost of debt could reduce our profitability by increasing the cost of financing our existing portfolio and our investment activity. Rising interest rates could limit our ability to refinance existing debt upon maturity or cause us to pay higher rates upon refinancing. We manage a portion of our exposure to interest rate risk by accessing debt with staggered maturities and through the use of derivative instruments, such as interest rate swap agreements with major financial institutions. Increased interest rates may also negatively affect the market price of our common stock and increase the cost of new equity capital.

***We are subject to risks related to changes in the method of determining LIBOR, or the replacement of LIBOR with an alternative reference rate, which may adversely affect interest rates on our current or future indebtedness and may otherwise adversely affect our financial condition and result of operations.***

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR"). This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. We have a significant number of debt instruments with attributes that are dependent on LIBOR. The transition from LIBOR to an alternative reference rate could have a material adverse effect on our liquidity, financial condition and results of operations.

***We are exposed to the risk that our assets may be subject to impairment charges.***

We regularly evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, operator performance and legal structure. If we determine that a significant impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have a material adverse effect on our reported results of operations in the period in which the impairment charge occurs.

***We depend on the ability to continue to qualify for taxation as a Real Estate Investment Trust.***

We intend to operate as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") and believe we have and will continue to operate in such a manner. Since REIT qualification requires us to meet a number of complex requirements, it is possible that we may fail to fulfill them. If we fail to qualify as a REIT:

- we will not be allowed a deduction for distributions to stockholders in computing our taxable income;
- we will be subject to corporate-level income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates;
- we could be subject to increased state and local income taxes; and
- unless we are entitled to relief under relevant statutory provisions, we will be disqualified from taxation as a REIT for the four taxable years following the year during which we fail to qualify as a REIT.

Because of all these factors, our failure to qualify as a REIT could also impair our ability to expand our business and could materially adversely affect the value of our common stock. The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in us. The federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the U.S. Internal Revenue Service (the "IRS") and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

***Complying with REIT requirements may cause us to forego otherwise attractive acquisition opportunities or liquidate otherwise attractive investments, which could materially hinder our performance.***

To qualify as a REIT for U.S. Federal income tax purposes, we must continually satisfy certain tests, including tests concerning the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. To meet these tests, we may be required to forego investments or acquisitions we might otherwise make. Thus, compliance with the REIT requirements may materially hinder our performance.

***We are subject to risks associated with our joint venture investment with Life Care Services for Timber Ridge, an Entrance Fee CCRC, associated with Type A benefits offered to the residents of the joint venture's Entrance Fee community and related accounting requirements.***

Effective January 31, 2020, we entered into a joint venture with Life Care Services (“LCS”) which consists of two parts, PropCo which owns the real estate and is owned 80% NHI / 20% LCS and OpCo which operates the property and is owned 25% NHI / 75% LCS. Rents received from the OpCo in the RIDEA structure are treated as qualifying rents from real property for REIT tax purposes only if (i) they are paid pursuant to a lease of a “qualified healthcare property” and (ii) the operator qualifies as an “eligible independent contractor,” as defined in the Internal Revenue Code of 1986, as amended (the “Code”). If either of these requirements are not satisfied, then the rents will not be qualifying rents.

As a result of the RIDEA structure, we have an investment in the operations of Timber Ridge. Timber Ridge is a Class A quality, Type A care CCRC. A Type A Entrance Fee community generally means the care of the resident is provided for upon payment of an Entrance Fee and thereafter payment of a set service fee paid monthly. The Entrance Fee is divided into a refundable and non-refundable portion depending upon the Resident’s chosen contract program. The service fee is determined at the time of move-in into an independent living (IL) unit and is subject to certain inflation based adjustments regardless of the resident’s future care needs. A resident must move into an IL unit initially and not require care at the time of move-in. However, thereafter the resident’s care requirements from assisted living to memory care to skilled nursing are provided for. The refundable portion of the upfront Entrance Fee is recorded as a liability on the financial statements of the OpCo. The non-refundable portion of the upfront Entrance Fee is recorded as deferred revenue and amortized over the actuarial life of the resident. We believe we have structured the joint venture in a way that does not require that the OpCo’s financial statements be consolidated into NHI, but if we are unable to properly maintain that structure or become required for any reason to consolidate the OpCo’s financial statements into ours, the results would have a material adverse impact on our financial results.

***We have ownership limits in our charter with respect to our common stock and other classes of capital stock which may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.***

Our charter, subject to certain exceptions, contains restrictions on the ownership and transfer of our common and preferred stock that are intended to assist us in preserving our qualification as a REIT. Our charter provides that any transfer that would cause NHI to be beneficially owned by fewer than 100 persons or would cause NHI to be “closely held” under the Internal Revenue Code would be void, which, subject to certain exceptions, results in no person or entity being allowed to own, actually or constructively, more than 9.9% of the outstanding shares of our stock. Our Board of Directors, in its sole discretion, may exempt a proposed transferee from the ownership limit and such an exemption has been granted through Excepted Holder Agreements to members of the Carl E. Adams family. Based on the Excepted Holder Agreements currently outstanding, the individual ownership limit for all other stockholders is approximately 7.5%. Our charter gives our Board of Directors broad powers to prohibit and rescind any attempted transfer in violation of the ownership limits. These ownership limits may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.

***We are subject to certain provisions of Maryland law and our charter and bylaws that could hinder, delay or prevent a change in control transaction, even if the transaction involves a premium price for our common stock or our stockholders believe such transaction to be otherwise in their best interests.***

The Maryland Business Combination Act provides that, unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuances of shares of stock and other specified transactions with an “interested stockholder” or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter, unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10% or more of the voting power of the outstanding stock of a Maryland corporation. Unless our Board of Directors takes action to exempt us, generally or with respect to certain

transactions, from this statute in the future, the Maryland Business Combination Act will be applicable to business combinations between us and other persons. The Company's charter and bylaws also contain certain provisions that could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of the Company. Such provisions could limit the price that certain investors might be willing to pay in the future for the common stock. These provisions include a staggered board of directors, blank check preferred stock, and the application of Maryland corporate law provisions on business combinations and control shares. The foregoing matters may, together or separately, have the effect of discouraging or making more difficult an acquisition or change of control of the Company.

***If our efforts to maintain the privacy and security of Company information are not successful, we could incur substantial costs and reputational damage, and could become subject to litigation and enforcement actions.***

Our business, like that of other REITs, involves the receipt, storage and transmission of information about our Company, our tenants and borrowers, and our employees, some of which is entrusted to third-party service providers and vendors. We also work with third-party service providers and vendors to provide technology, systems and services that we use in connection with the receipt, storage and transmission of this information.

Our information systems, and those of our third-party service providers and vendors, may be vulnerable to continually evolving cybersecurity risks. Unauthorized parties may attempt to gain access to these systems or our information through fraud or deception of our associates, third-party service providers or vendors. Hardware, software or applications we obtain from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are also constantly changing and evolving and may be difficult to anticipate or detect for long periods of time. We have implemented and regularly review and update processes and procedures to protect against unauthorized access to or use of secured data and to prevent data loss. However, the ever-evolving threats mean we and our third-party service providers and vendors must continually evaluate and adapt our respective systems and processes, and there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. Any significant compromise or breach of our data security, whether external or internal, or misuse of our data, could result in significant costs, fines, lawsuits, and damage to our reputation. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in significant additional costs.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES OWNED OR ASSOCIATED WITH MORTGAGE LOAN INVESTMENTS AS OF  
DECEMBER 31, 2019**

**PROPERTIES OWNED**

Location	SHO	SNF	HOSP & MOB	Investment
Alabama	1	2	—	\$ 17,260,000
Arizona	—	1	—	7,131,000
Arkansas	2	—	—	49,789,000
California	9	—	1	183,723,000
Colorado	1	—	—	7,600,000
Connecticut	3	—	—	132,918,000
Florida	8	10	1	251,027,000
Georgia	5	—	—	113,065,000
Idaho	4	—	—	29,373,000
Illinois	15	—	—	221,645,000
Indiana	11	—	—	136,867,000
Iowa	10	—	—	63,593,000
Kansas	2	—	—	42,072,000
Kentucky	—	1	1	20,746,000
Louisiana	5	—	—	39,569,000
Maryland	2	—	—	55,431,000
Massachusetts	1	4	—	64,387,000
Michigan	10	—	—	82,377,000
Minnesota	5	—	—	30,740,000
Missouri	1	5	—	27,757,000
Nebraska	4	—	—	34,278,000
New Hampshire	—	3	—	23,688,000
New Jersey	1	—	—	24,380,000
North Carolina	6	—	—	136,079,000
Ohio	8	—	—	131,884,000
Oklahoma	2	—	—	56,238,000
Oregon	8	3	—	134,572,000
Pennsylvania	2	—	—	28,446,000
South Carolina	6	4	—	335,632,000
Tennessee	3	16	1	91,913,000
Texas	2	21	1	322,416,000
Virginia	3	1	—	34,196,000
Washington	6	—	—	104,160,000
Wisconsin	1	1	—	37,375,000
	<u>147</u>	<u>72</u>	<u>5</u>	\$ 3,072,327,000
Corporate Office				2,519,000
				<u>\$ 3,074,846,000</u>

**ASSOCIATED WITH MORTGAGE LOAN INVESTMENTS**

Location	SHO	SNF	Investment
Arizona	1	—	\$ 121,809,000
Florida	1	—	10,000,000
Indiana	1	—	6,422,000
Michigan	2	—	25,312,000
New Hampshire	1	—	9,948,000
South Carolina	1	—	32,700,000
Virginia	1	4	18,979,000
Washington	1	—	59,166,000
Wisconsin	2	—	9,784,000
	<u>11</u>	<u>4</u>	<u>\$ 294,120,000</u>



## 10-YEAR LEASE EXPIRATIONS

The following table provides additional information on our leases which are scheduled to expire based on the maturity date contained in the most recent lease agreement or extension. We expect that, prior to maturity, we will negotiate new terms of a lease to either the current tenant or another qualified operator.

Year	Leases Expiring	Rentable Square Feet*	Number of Units/Beds	Annualized Gross Rent** (in thousands)	Percentage of Annualized Gross Rent
2020	6	27,017	407	\$ 2,559	1.0%
2021	7	—	567	3,896	1.5%
2022	4	—	156	4,311	1.6%
2023	15	—	852	14,549	5.4%
2024	13	—	913	12,586	4.7%
2025	3	61,500	132	2,769	1.0%
2026	35	—	4,897	34,227	12.7%
2027	4	—	407	6,832	2.5%
2028	11	—	1,331	10,364	3.9%
2029	31	—	4,149	69,978	26.1%
Thereafter	93	—	8,744	106,475	39.6%
					<u>100.0%</u>

\*Rentable Square Feet represents total square footage in two MOB investments.

\*\*Annualized Gross Rent refers to the amount of lease revenue that our portfolio would have generated in 2019 if all leases were in effect for the twelve-month calendar year, regardless of the commencement date, maturity date, or renewals.

## ITEM 3. LEGAL PROCEEDINGS

Our facilities are subject to claims and suits in the ordinary course of business. Our lessees and borrowers have indemnified, and are obligated to continue to indemnify us, against all liabilities arising from the operation of the facilities, and are further obligated to indemnify us against environmental or title problems affecting the real estate underlying such facilities. While there may be lawsuits pending against certain of the owners and/or lessees of the facilities, management believes that the ultimate resolution of all such pending proceedings will have no material adverse effect on our financial condition, results of operations or cash flows.

In June 2018, East Lake Capital Management LLC and certain related entities, including SH-Regency Leasing, LLC (“Regency”) (for three assisted living facilities in Tennessee, Indiana and North Carolina), filed suit against NHI in Texas seeking injunctive and declaratory relief and unspecified monetary damages. NHI responded with counterclaims and filed motions requesting the immediate appointment of a receiver and for pre-judgment possession. Resulting from these claims and counterclaims, on December 6, 2018, the parties entered into an agreement resulting in Regency vacating the facilities in December 2018. Litigation is ongoing.

The LaSalle Group defaulted on its rent payment in November 2018. We transitioned the properties to a new operator on April 16, 2019, with NHI to receive operating cash flow, after management fees, generated by the facilities pending stabilization. We also commenced litigation for the recovery of certain funds owed under the lease and against the principal executive personally, under a guaranty agreement. The LaSalle Group, the former operator of the properties, has declared bankruptcy under Chapter 11. In December 2019, we reached an agreement with TLG Family Management and Mitchell Warren, who, without making any admissions under a joint-liability settlement, have agreed to pay to NHI \$2,850,000 over a five-year period, consisting of sixty-one scheduled payments of varying amounts in full settlement of agreed judgments under manager and personal guarantees. We received the first installment of \$60,000 in December 2019.

## ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

## PART II.

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's charter contains certain provisions which are designed to ensure that the Company's status as a REIT is protected for federal income tax purposes. One of the provisions ensures that any transfer (of shares) which would cause NHI to be beneficially owned by fewer than 100 persons or would cause NHI to be "closely-held" under the Internal Revenue Code would be void which, subject to certain exceptions, result in no stockholder being allowed to own, either directly or indirectly pursuant to certain tax attribution rules, more than 9.9% of the Company's common stock with the exception of prior agreements in 1991 which were confirmed in writing in 2008 with the Company's founders Dr. Carl E. Adams and Jennie Mae Adams and their lineal descendants. Based on these agreements, the ownership limit for all other stockholders is approximately 7.5%. If a stockholder's stock ownership exceeds the limit, then such shares over the limit become Excess Stock within the meaning in the Company's charter and lose rights to vote and receive dividends in certain situations. Our charter gives our Board of Directors broad powers to prohibit and rescind any attempted transfer in violation of the ownership limits. In addition, W. Andrew Adams' Excess Holder Agreement also provides that he will not own shares of stock in any tenant of the Company if such ownership would cause the Company to constructively own more than a 9.9% interest in such tenant. The purpose of these provisions is to protect the Company's status as a REIT for tax purposes.

In order to qualify for the beneficial tax treatment accorded to a REIT, we must make distributions to holders of our common stock equal on an annual basis to at least 90% of our REIT taxable income (excluding net capital gains), as defined in the Internal Revenue Code. Cash available for distribution to our stockholders is primarily derived from interest payments received on our notes and from rental payments received under our leases. All distributions will be made by us at the discretion of the Board of Directors and will depend on our cash flow and earnings, our financial condition, bank covenants contained in our financing documents and such other factors as the Board of Directors deems relevant. Our REIT taxable income is calculated without reference to our cash flow. Therefore, under certain circumstances, we may not have received cash sufficient to pay our required distributions.

Our common stock is traded on the New York Stock Exchange under the symbol "NHI". As of February 14, 2020, there were 703 holders of record of shares and 47,830 beneficial owners of shares.

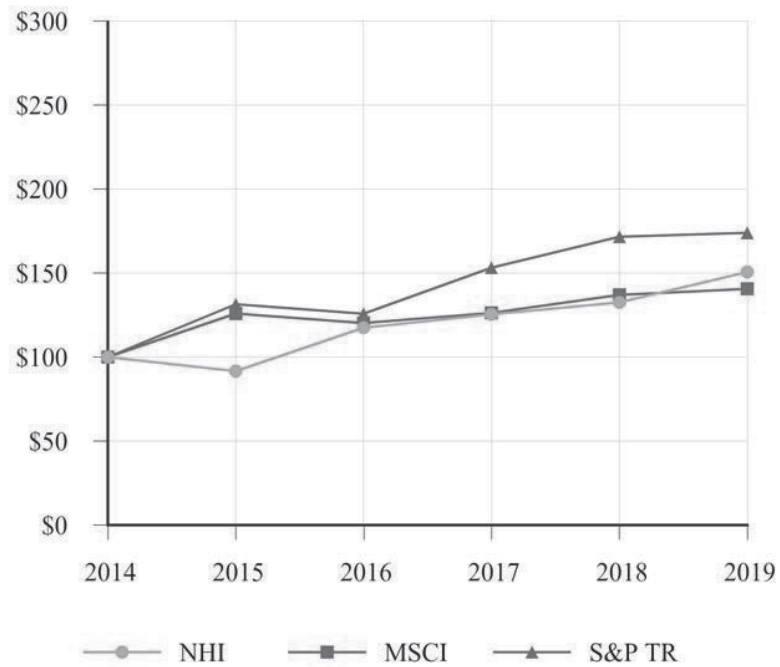
We currently maintain two equity compensation plans: the 2012 Stock Incentive Plan (the "2012 Plan") and the 2019 Stock Incentive Plan ("the 2019 Plan"). These plans, as amended, have been approved by our stockholders. The following table provides information as of December 31, 2019 about our common stock that may be issued upon the exercise of options under our existing equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	1,004,014	\$74.35	3,319,669 <sup>1</sup>
Equity compensation plans not approved by security holders	—	\$—	—

<sup>1</sup> Includes 319,669 shares remaining available for grant under the 2012 Plan and 3,000,000 shares available for grant under the 2019 Plan.

The following graph demonstrates the performance of the cumulative total return to the stockholders of our common stock during the previous five years in comparison to the cumulative total return on the MSCI US REIT Index and the Standard & Poor's 500 Stock Index. The MSCI US REIT Index is a free float-adjusted market capitalization weighted index that is comprised of Equity REIT securities. The MSCI US REIT Index includes securities with exposure to core real estate (e.g. residential and retail properties) as well as securities with exposure to other types of real estate (e.g. casinos, theaters).

## Comparison of Cumulative Total Return



	2014	2015	2016	2017	2018	2019
NHI	\$100.00	\$91.57	\$117.41	\$125.39	\$132.55	\$150.51
MSCI	\$100.00	\$125.84	\$120.09	\$126.18	\$137.03	\$140.48
S&P 500	\$100.00	\$131.49	\$125.72	\$153.17	\$171.49	\$173.86

## ITEM 6. SELECTED FINANCIAL DATA.

The following table represents our financial information for the five years ended December 31, 2019. This financial information has been derived from our historical financial statements including those for the most recent three years included elsewhere in this Annual Report on Form 10-K and should be read in conjunction with those consolidated financial statements, accompanying footnotes and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

(in thousands, except share and per share amounts)

STATEMENT OF INCOME DATA:	Years Ended December 31,				
	2019	2018	2017	2016	2015
Revenues	\$ 318,081	\$ 294,612	\$ 278,659	\$ 248,460	\$ 228,948
Income from continuing operations	\$ 160,449	\$ 154,333	\$ 159,365	\$ 152,716	\$ 150,314
Net income	\$ 160,449	\$ 154,333	\$ 159,365	\$ 152,716	\$ 150,314
Net loss (income) attributable to noncontrolling interest	7	—	—	(1,176)	(1,452)
Net income attributable to common stockholders	<u>\$ 160,456</u>	<u>\$ 154,333</u>	<u>\$ 159,365</u>	<u>\$ 151,540</u>	<u>\$ 148,862</u>
PER SHARE DATA:					
Basic earnings per common share:					
Net income attributable to common stockholders	\$ 3.70	\$ 3.68	\$ 3.90	\$ 3.88	\$ 3.96
Diluted earnings per common share:					
Net income attributable to common stockholders	\$ 3.67	\$ 3.67	\$ 3.87	\$ 3.87	\$ 3.95
OTHER DATA:					
Common shares outstanding, end of year	44,587,486	42,700,411	41,532,154	39,847,860	38,396,727
Weighted average common shares:					
Basic	43,417,828	41,943,873	40,894,219	39,013,412	37,604,594
Diluted	43,703,248	42,091,731	41,151,453	39,155,380	37,644,171
Regular dividends declared per common share	\$ 4.20	\$ 4.00	\$ 3.80	\$ 3.60	\$ 3.40
BALANCE SHEET DATA: (at year end)					
Real estate properties, net	\$ 2,560,393	\$ 2,366,882	\$ 2,285,701	\$ 2,159,774	\$ 1,836,807
Mortgages and other notes receivable, net	\$ 340,143	\$ 246,111	\$ 141,486	\$ 133,493	\$ 133,714
Investments in preferred stock and marketable securities	\$ —	\$ —	\$ —	\$ 11,745	\$ 72,744
Assets held for sale, net	\$ 18,420	\$ —	\$ —	\$ —	\$ 1,346
Total assets	\$ 3,042,235	\$ 2,750,570	\$ 2,545,821	\$ 2,403,633	\$ 2,133,218
Debt	\$ 1,440,465	\$ 1,281,675	\$ 1,145,497	\$ 1,115,981	\$ 914,443
Total liabilities	\$ 1,543,983	\$ 1,360,857	\$ 1,223,704	\$ 1,194,043	\$ 990,758
Total equity	\$ 1,498,252	\$ 1,389,713	\$ 1,322,117	\$ 1,209,590	\$ 1,142,460



## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis is based primarily on the consolidated financial statements of National Health Investors, Inc. for the periods presented and should be read together with the notes thereto contained in this Annual Report on Form 10-K. Other important factors are identified in "Item 1. Business" and "Item 1A. Risk Factors" above. This section of this Annual Report on Form 10-K generally discusses 2019 and 2018 items and year-to-year comparisons between 2019 and 2018. Discussions of 2017 items and year-to-year comparisons between 2018 and 2017 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

### Executive Overview

National Health Investors, Inc., established in 1991 as a Maryland corporation, is a self-managed REIT specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. Our portfolio consists of lease, mortgage and other note investments in independent living facilities, assisted living facilities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. Other investments include a joint venture structured to comply with the provisions of the REIT Investment Diversification Empowerment Act of 2007 ("RIDEA") through which we invested in facility operations managed by an independent third-party. We have funded our real estate investments primarily through: (1) operating cash flow, (2) debt offerings, including bank lines of credit and term debt, both unsecured and secured, and (3) the sale of equity securities.

### *Portfolio*

At December 31, 2019, we had investments in real estate, mortgage and other notes receivable involving 238 facilities located in 34 states. These investments involve 157 senior housing properties, 76 skilled nursing facilities, 3 hospitals, 2 medical office buildings and other notes receivable. These investments (excluding our corporate office of \$2,519,000) consisted of properties with an original cost of \$3,072,327,000 rented under triple-net leases to 32 lessees, and \$340,143,000 aggregate carrying value of mortgage and other notes receivable due from 11 borrowers.

Our investments in real estate are located within the United States and our investments in mortgage loans are secured by real estate located within the United States. We are managed as one unit for internal reporting and decision making. Therefore, our reporting reflects our financial position and operations as a single segment.

We classify the properties in our portfolio as either senior housing or medical properties. We further classify our senior housing properties as either need-driven (assisted living facilities and senior living campuses) or discretionary (independent living facilities and entrance-fee communities). Medical properties within our portfolio include skilled nursing facilities, medical office buildings and specialty hospitals.

*Senior Housing – Need-Driven* includes assisted living and memory care facilities ("ALF") and senior living campuses ("SLC") which primarily attract private payment for services from residents who require assistance with activities of daily living. Need-driven properties are subject to regulatory oversight.

*Senior Housing – Discretionary* includes independent living facilities ("ILF") and entrance-fee communities ("EFC") which primarily attract private payment for services from residents who are making the lifestyle choice of living in an age-restricted multi-family community that offers social programs, meals, housekeeping and in some cases access to healthcare services. Discretionary properties are subject to limited regulatory oversight. There is a correlation between demand for this type of community and the strength of the housing market.

*Medical Facilities* within our portfolio receive payment primarily from Medicare, Medicaid and health insurance. These properties include skilled nursing facilities ("SNF"), medical office buildings ("MOB") and hospitals that attract patients who have a need for acute or complex medical attention, preventative medicine, or rehabilitation services. Medical properties are subject to state and federal regulatory oversight and, in the case of hospitals, Joint Commission accreditation.

The following tables summarize our investments in real estate and mortgage and other notes receivable as of December 31, 2019 (*dollars in thousands*):

<b>Real Estate Properties</b>	<b>Properties</b>	<b>Beds/Sq. Ft.*</b>	<b>Revenue</b>	<b>%</b>	<b>Investment</b>
Senior Housing - Need-Driven					
Assisted Living	90	4,940	\$ 77,104	24.2%	\$ 908,741
Senior Living Campus	14	1,976	20,869	6.6%	304,593
Total Senior Housing - Need-Driven	104	6,916	97,973	30.8%	1,213,334
Senior Housing - Discretionary					
Independent Living	32	3,703	46,534	14.6%	599,321
Entrance-Fee Communities	10	2,306	51,201	16.1%	605,093
Total Senior Housing - Discretionary	42	6,009	97,735	30.7%	1,204,414
Total Senior Housing	146	12,925	195,708	61.5%	2,417,748
Medical Facilities					
Skilled Nursing Facilities	72	9,433	79,594	25.0%	588,122
Hospitals	3	207	7,991	2.5%	55,971
Medical Office Buildings	2	88,517	667	0.2%	10,486
Total Medical Facilities	77		88,252	27.7%	654,579
Total Real Estate Properties	223		283,960	89.2%	\$ 3,072,327
Current Year Disposals and Held for Sale			4,424		
Escrow Funds Received From Tenants			5,798		
Total Rental Income			294,182		
<b>Mortgage and Other Notes Receivable</b>					
Senior Housing - Need-Driven	8	487	4,592	1.5%	\$ 73,271
Senior Housing - Discretionary	3	1,105	13,337	4.2%	213,675
Medical Facilities	4	270	660	0.2%	7,174
Other Notes Receivable	—	—	4,246	1.3%	46,023
Total Mortgage and Other Notes Receivable	15	1,862	22,835	7.2%	\$ 340,143
Current Year Note Payoffs			863		
Other Income			201		
Total Revenue			\$ 318,081		
<b>Portfolio Summary</b>	<b>Properties</b>	<b>Beds/Sq. Ft.*</b>	<b>Revenue</b>	<b>%</b>	<b>Investment</b>
Real Estate Properties	223		\$ 283,960	92.6%	\$ 3,072,327
Mortgage and Other Notes Receivable	15		22,835	7.4%	340,143
Total Portfolio	238		\$ 306,795	100.0%	\$ 3,412,470
<b>Portfolio by Operator Type</b>					
Public	66		\$ 70,439	23.0%	\$ 511,294
National Chain (Privately-Owned)	28		52,572	17.1%	712,353
Regional	131		178,497	58.2%	2,071,507
Small	13		5,287	1.7%	117,316
Total Portfolio	238		\$ 306,795	100.0%	\$ 3,412,470

For the year ended December 31, 2019, our tenants who provided more than 3% of our total revenues were (parent company, in alphabetical order): Bickford Senior Living; Chancellor Health Care; Discovery Senior Living; The Ensign Group; Health Services Management; Holiday Retirement; Life Care Services; National HealthCare Corporation; Senior Living Communities; and Senior Living Management.

As of December 31, 2019, our average effective annualized rental income was \$8,427 per bed for SNFs, \$16,200 per unit for ALFs, \$12,689 per unit for ILFs, \$22,232 per unit for EFCs, \$38,604 per bed for hospitals, and \$8 per square foot for MOB.

#### Areas of Focus

We are evaluating and will likely make additional real estate and note investments in 2020 while we continue to monitor and improve our existing properties. We seek tenants who will become mission-oriented partners in relationships where our business

goals are aligned. This approach fuels what we believe is, enduring growth for those partners and for NHI. Within the context of our growth model, we rely on cost-effective access to debt and equity capital to finance the acquisitions that drive our earnings. There is significant competition for healthcare assets from other REITs, both public and private, and from private equity sources. Large-scale portfolios continue to command premium pricing, due to the continued abundance of private and foreign buyers seeking to invest in healthcare real estate. This combination of circumstances creates pressure on our ability to execute acquisitions and negotiate leases that generate meaningful earnings growth for our shareholders. We emphasize growth with our existing tenants and borrowers as a way to mitigate the impact of competition.

With lower capitalization rates for existing healthcare facilities, there has been increased interest in constructing new facilities in hopes of generating better returns on invested capital. Using our relationship-driven model, we continue to look for opportunities to support new and existing tenants and borrowers with the capital needed to expand existing facilities and to initiate ground-up development of new facilities. We concentrate our efforts in those markets where there is both a demonstrated demand for a particular product type and where we perceive we have a competitive advantage. The projects we agree to finance have attractive upside potential and are expected to provide above-average returns to our shareholders to mitigate the risks inherent with property development and construction.

Following three 25 basis-point increases in 2017, the Federal Open Market Committee of the Federal Reserve announced four further interest rate increases during 2018. On July 31, 2019, the Federal Reserve lowered its benchmark interest rate 25 bps and on September 19, 2019, lowered it an additional 25 bps. On October 30, 2019, the Federal Reserve lowered its benchmark interest rate another 25 bps and indicated a target range for the federal funds rate of 1.50% to 1.75% percent. The actual path the federal funds rate takes will depend on the changing economic outlook as informed by incoming data. Considering that the vote approving the rate cut was split with two committee members voting to maintain the target range, we do not see this as the beginning of a rate-cutting cycle. Previous changes in the federal funds rate have been a primary source of much volatility in REIT equity markets. As a result, there has been pressure on the spread between our cost of capital and the returns we earn. We expect that pressure to be partially mitigated by market forces that would tend to result in higher capitalization rates for healthcare assets and higher lease rates indicative of historical levels. Managing long-term risk involves trade-offs with the competing alternative goal of maximizing short-term profitability. Our intention is to strike an appropriate balance between these competing interests within the context of our investor profile. If interest rates rise, our share price may decline as investors adjust prices to reflect a dividend yield that is sufficiently in excess of a risk-free rate.

For the year ended December 31, 2019, approximately 25.2% of our revenue was derived from operators of our skilled nursing facilities that receive a significant portion of their revenue from governmental payors, primarily Medicare and Medicaid. Such revenues are subject annually to statutory and regulatory changes and in recent years have been reduced due to federal and state budgetary pressures. Over the past five years, we have selectively diversified our portfolio by directing a significant portion of our investments into properties which do not rely primarily on Medicare and Medicaid reimbursement, but rather on private pay sources (assisted living and memory care facilities, senior living campuses, independent living facilities and entrance-fee communities). We will occasionally acquire skilled nursing facilities in good physical condition with a proven operator and strong local market fundamentals, because diversification implies a periodic rebalancing, but our recent investment focus has been on acquiring need-driven and discretionary senior housing assets.

For individual tenant revenue as a percentage of total lease revenue, Bickford is our largest assisted living tenant, an affiliate of Holiday is our largest independent living tenant, NHC is our largest skilled nursing tenant and Senior Living Communities is our largest entrance-fee community tenant. Our shift toward private payor facilities, as well as our expansion into the discretionary senior housing market, has further resulted in a portfolio whose current composition is relatively balanced between medical facilities, need-driven and discretionary senior housing.

We manage our business with a goal of increasing the regular annual dividends paid to shareholders. Our Board of Directors approves a regular quarterly dividend which is reflective of expected taxable income on a recurring basis. Our transactions that are infrequent and non-recurring that generate additional taxable income have been distributed to shareholders in the form of special dividends. Taxable income is determined in accordance with the Internal Revenue Code and differs from net income for financial statements purposes determined in accordance with U.S. generally accepted accounting principles. Our goal of increasing annual dividends requires a careful balance between identification of high-quality lease and mortgage assets in which to invest and the cost of our capital with which to fund such investments. We consider the competing interests of short and long-term debt (interest rates, maturities and other terms) versus the higher cost of new equity. We accept some level of risk associated with leveraging our investments. We intend to continue to make new investments that meet our underwriting criteria and where the spreads over our cost of capital will generate sufficient returns to our shareholders.

Our dividends per share for the last three years are as follows:

2019	2018	2017
\$ 4.20	\$ 4.00	\$ 3.80

Our investments in healthcare real estate have been partially accomplished by our ability to effectively leverage our balance sheet. However, we continue to maintain a lower-leverage balance sheet when compared with many in our peer group. We believe that our fixed charge coverage ratio, which is the ratio of Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, excluding real estate asset impairments and gains on dispositions) to fixed charges (interest expense at contractual rates net of capitalized interest and principal payments on debt), and the ratio of consolidated net debt to Adjusted EBITDA are meaningful measures of our ability to service our debt. We use these two measures as a useful basis to compare the strength of our balance sheet with those in our peer group. We also believe this gives us a competitive advantage when accessing debt markets.

We calculate our fixed charge coverage ratio as approximately 5.4x for the year ended December 31, 2019 (see our discussion below under the heading *Adjusted EBITDA* along with a reconciliation to our net income). Giving effect to our acquisitions and financings on an annualized basis, our consolidated net debt to Adjusted EBITDA ratio is approximately 4.7x for the year ended December 31, 2019 (*dollars in thousands*):

Consolidated Total Debt	\$ 1,440,465
Less: cash and cash equivalents	(5,215)
Consolidated Net Debt	<u>\$ 1,435,250</u>
Adjusted EBITDA	\$ 298,437
Annualized impact of recent investments	6,298
	<u>\$ 304,735</u>
Consolidated Net Debt to Adjusted EBITDA	4.7x

According to the Administration on Aging (“AoA”) of the US Department of Health and Human Services, in 2017, the latest year for which data is available, 50.9 million people were age 65 or older in the United States (a 34% increase over the last ten years). Census estimates showed that, by 2040, those 65 or older are expected to constitute 21.6% of the population. The population aged 85 and above is projected to rise from 6.4 million in 2016 to 14.4 million in the US by 2040 (a 123% increase). The median value of homes owned by older homeowners age 75 and over was \$175,000 (with a median purchase price of \$65,000). In comparison, the median home value of all homeowners was \$200,000. Of the 12.9 million households headed by persons age 75 and over in 2017, 76% were owners.

Equipped with the basics of financial security, many will be economically able to enter the market for senior housing. These strong demographic trends provide the context for continued growth in senior housing in 2020 and the years ahead. We plan to fund any new real estate and mortgage investments during 2020 using our liquid assets and debt financing. As the weight of additional debt resulting from new acquisitions suggests the need to rebalance our capital structure, we would then expect to access the capital markets through an at-the-market (“ATM”) or other equity offering. Our disciplined investment strategy implemented through measured increments of debt and equity sets the stage for access to capital at the lowest possible rates, annual dividend growth, continued low leverage, a portfolio of diversified, high-quality assets, and business relationships with experienced operators whom we make our priority, continue to be the key drivers of our business plan.

### Critical Accounting Policies

#### *Estimates*

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. If actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations, liquidity and/or financial condition.

We consider an accounting estimate or assumption critical if:



1. the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
2. the impact of the estimates and assumptions on financial condition or operating performance is material.

### *Valuations and Impairments*

Our tenants and borrowers who operate SNFs derive their revenues primarily from Medicare, Medicaid and other government programs. Amounts paid under these government programs are subject to legislative and government budget constraints. From time to time, there may be material changes in government reimbursement. In the past, SNFs have experienced material reductions in government reimbursement.

The long-term health care industry has experienced significant professional liability claims which have resulted in an increase in the cost of insurance to cover potential claims. In previous years, these factors have combined to cause a number of bankruptcy filings, bankruptcy court rulings and court judgments affecting our lessees and borrowers. In prior years, we have determined that impairment of certain of our loan investments had occurred as a result of these events.

We evaluate the recoverability of the carrying values of our properties on a property-by-property basis. We review our properties for recoverability when events or circumstances, including significant physical changes in the property, significant adverse changes in general economic conditions and significant deteriorations of the underlying cash flows of the property, indicate that the carrying amount of the property may not be recoverable. The need to recognize an impairment charge is based on estimated undiscounted future cash flows from a property compared to the carrying value of that property. If recognition of an impairment charge is necessary, it is measured as the amount by which the carrying amount of the property exceeds the fair value of the property.

Lease accounting standards require that, for purposes of lease classification, we assess whether the lease, by its terms, transfers substantially all of the fair value of the asset under lease. This consideration will drive accounting for the alternative classifications among either operating, sales, or direct financing types of leases. For classification purposes, we distinguish cash flows that follow under terms of the lease from those that will derive, subsequent to the lease, from the ultimate disposition or re-deployment of the asset. From this segregation of the sources of cash flow, we are able to establish whether the lease is, in essence, a sale or financing in its having transferred substantially all of the fair value of the leased asset. Accordingly, management's projected residual values represent significant assumptions in our accounting for leases.

While we do not incorporate residual value guarantees in our lease provisions, the contractual structure of other provisions provides a basis for expectations of realizable value from our properties, upon expiration of their lease terms. We additionally consider historical, demographic and market trends in developing our estimates. For each new lease, we discount our estimate of unguaranteed residual value and include this amount along with the stream of lease payments (also discounted) called for in the lease. We assess the stream of lease payments and the value deriving from eventual return of our property to establish whether the lease payments themselves comprise a return of substantially all of the fair value of the property under lease. We do not use a "bright line" in considering what constitutes "substantially all of the fair value," but we undertake heightened vigilance in our assessment when the lease payments approach 90% of the composition of all future cash flows expected from the asset.

For our mortgage and other notes receivable, we evaluate the estimated collectibility of contractual loan payments and general economic conditions on an instrument-by-instrument basis. We review our notes receivable for ability to realize on such notes when events or circumstances, including the non-receipt of contractual principal and interest payments, significant deteriorations of the financial condition of the borrower and significant adverse changes in general economic conditions, indicate that the carrying amount of the note receivable may not be recoverable. If necessary, impairment is measured as the amount by which the carrying amount exceeds the fair value as measured by the discounted cash flows expected to be received under the note receivable or, if foreclosure is probable, the fair value of the collateral securing the note receivable. For fiscal periods beginning after December 15, 2019, our evaluation of the notes receivable in which we have invested will shift to a current expected loss approach. Under this new approach, which differs from the legacy incurred loss model, we will estimate credit losses over the entire contractual term of the instrument from the date of initial recognition of that instrument. In developing our expectation of losses, we will consider financial assets that share similar risk characteristics such as rate, age, type, location on a collective basis. Other note investments which do not share common features will continue to be evaluated on an instrument-by-instrument basis.

The determination of fair value and whether a shortfall in operating revenues or the existence of operating losses is indicative of a loss in value that is other than temporary involves significant judgment. Our estimates consider all available evidence including, as appropriate, the present value of the expected future cash flows discounted at market rates, general economic conditions and trends, the duration of the fair value deficiency, and any other relevant factors. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

While we believe that the carrying amounts of our properties are recoverable and our notes receivable and other investments are realizable, it is possible that future events could require us to make significant adjustments or revisions to these estimates.

### *Revenue Recognition*

We collect rent and interest from our tenants and borrowers. Generally, our policy is to recognize income on an accrual basis as earned. However, when we determine, based on current collections and the lack of expected future collections, that rent or interest is not probable of collection until received, our policy is to recognize rental or interest income when assured, which we consider to be the period in which cash is received or accrued on the basis of tenant security deposits available to us for the recognition of lease revenue in the period in which it was earned. We identify investments as nonperforming if a required payment is not received within 30 days of the date it is due. This policy could cause our revenues to vary significantly from period to period. Rental income from minimum lease payments under our leases is recognized on a straight-line basis to the extent that future lease payments are considered collectible. Lease payments that depend on a factor directly related to future use of the property, such as an increase in annual revenues over base year revenues, are considered to be contingent rentals and are included in rental income when they are determinable and earned.

### *REIT Qualification*

As part of the process of preparing our consolidated financial statements, significant management judgment is required to evaluate our compliance with REIT requirements. Our determinations are based on interpretation of tax laws, and our conclusions may have an impact on the income tax expense recognized. We believe that we have operated our business so as to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will be able to so qualify at all times. As of January 31, 2020, we began participating in a taxable REIT subsidiary under a joint venture structured to comply with the provisions of the RIDEA through which we invested in facility operations managed by independent third-parties. We record income tax expense or benefit with respect to the subsidiary which is taxed under provisions similar to those applicable to regular corporations. Aside from such income taxes that may be applicable to the taxable income in our taxable REIT subsidiary, we are not subject to U.S. federal income tax, provided that we continue to qualify as a REIT and make distributions to stockholders equal to or in excess of our taxable income. This treatment substantially eliminates the “double taxation” (at the corporate and stockholder levels) that typically applies to corporate dividends. Our failure to continue to qualify under the applicable REIT qualification rules and regulations would cause us to owe state and federal income taxes and would have a material adverse impact on our financial position, results of operations and cash flows.

### *Principles of Consolidation*

The consolidated financial statements include our accounts, the accounts of our wholly-owned subsidiaries and the accounts of joint ventures in which we own a majority voting interest with the ability to control operations and where no substantive participating rights or substantive kick-out rights have been granted to the noncontrolling interests. In addition, we consolidate a legal entity deemed to be a variable interest entity (“VIE”) when we determine that we are the VIE’s primary beneficiary. All material inter-company transactions and balances have been eliminated in consolidation.

We apply Financial Accounting Standards Board (“FASB”) guidance for our arrangements with VIEs which requires us to identify entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of the VIE. A VIE is broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity’s activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity’s activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity’s activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. We may change our assessment of a VIE due to events such as modifications of contractual arrangements that affect the characteristics or adequacy of the entity’s equity investments at risk and the disposal of all or a portion of an interest held by the primary beneficiary.

### *Real Estate Properties*

Real property we develop is recorded at cost, including the capitalization of interest during construction. The cost of real property investments we acquire is allocated to net tangible and identifiable intangible assets and liabilities based on their relative fair values. We make estimates as part of our allocation of the purchase price of acquisitions to the various components of the acquisition based upon the fair value of each component. For properties acquired in transactions accounted for as asset purchases,

the purchase price, which includes transaction costs, is allocated based on the relative fair values of the assets and liabilities acquired. Cost includes the amount of contingent consideration, if any, deemed to be probable at the acquisition date. Contingent consideration is deemed to be probable to the extent that a significant reversal in amounts recognized is not likely to occur when the uncertainty associated with the contingent consideration is subsequently resolved. The most significant components of our allocations are typically the allocation of fair value to land, equipment, buildings and other improvements, and intangible assets and liabilities, if any. Our estimates of the values of these components will affect the amount of depreciation and amortization we record over the estimated useful life of the property acquired or the remaining lease term.

Our leases are typically structured as “triple net leases” on single-tenant properties having an initial leasehold term of 10 to 15 years with one or more 5-year renewal options. As such, there may be reporting periods in which we experience few, if any, lease renewals or expirations. During the year ended December 31, 2019, we modified a master lease governing ten properties held by Bickford and subject to HUD-guaranteed mortgages as well as another Bickford master lease covering thirteen properties. There were no additional renewing or expiring leases.

Most of our existing leases contain annual escalators in rent payments. For financial statement purposes, rental income is recognized on a straight-line basis over the term of the lease. Certain of our operators hold purchase options allowing them to acquire properties they currently lease from NHI. Typically, for options open or coming open in the short term, we are engaged in negotiations to continue as lessor or in some other capacity.

We adjust rental income for the amortization of payment of contingent lease incentives. Amortization of these payments against revenues was \$845,000, \$387,000 and \$119,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

### Major Tenants

As discussed in Note 2 to the consolidated financial statements, we have four lessees (including their affiliated entities, which are the legal tenants) from whom we individually derive at least 10% of our rental income as follows (*dollars in thousands*):

	Asset Class	Original	Rental Income					Lease Renewal
		Investment	Year Ended December 31,					
		Amount	2019		2018			
Senior Living Communities	EFC	\$ 573,631	\$ 46,927	16%	\$ 45,868	16%	2029	
Bickford Senior Living	ALF	519,276	52,570	18%	50,093	18%	Various	
Holiday Retirement	ILF	531,378	40,459	14%	43,311	15%	2035	
National HealthCare Corporation	SNF	171,297	38,131	13%	37,843	13%	2026	
All others	Various	1,276,745	116,095	39%	103,698	38%	Various	
		<u>\$ 3,072,327</u>	<u>\$ 294,182</u>		<u>\$ 280,813</u>			

Straight-line rent of \$4,934,000 and \$5,436,000 was recognized from the Senior Living lease for the years ended December 31, 2019 and 2018, respectively. Straight-line rent of \$4,651,000 and \$5,028,000 was recognized from the Bickford leases for the years ended December 31, 2019 and 2018, respectively. Straight-line rent of \$6,621,000 and \$5,616,000 was recognized from the Holiday lease for the years ended December 31, 2019 and 2018, respectively. For NHC, rent escalations are based on a percentage increase in revenue over a base year and do not give rise to non-cash, straight-line rental income.

### *Bickford*

We are closely monitoring the occupancy and financial performance of our major customer Bickford. Their management is focused on improving occupancy in the Company’s facilities and have been successful through 2019. Bickford is also an active developer of new facilities in underserved markets.

The following table summarizes the average portfolio occupancy for the periods indicated, excluding development properties in operation less than 24 months, notes receivable, assets held for sale and the four Minnesota properties recently transitioned to a new operator. Same-store (SS) occupancy excludes properties that have been operated by Bickford for less than 24 months.

	Property Count	4Q18	1Q19	2Q19	3Q19	4Q19	December 2019
Bickford	45	84.5%	83.1%	84.5%	86.0%	86.1%	85.3%
Bickford (SS)	40	86.1%	84.6%	86.5%	88.4%	88.4%	87.5%

In addition to closely monitoring the occupancy and financial performance of Bickford, NHI has either completed or is currently undertaking certain measures which we believe will improve the financial and operational strength of Bickford. Examples of these measures include:

- The contemplated sale of two assisted living communities to Bickford. NHI expects to sell the buildings, which are currently classified as held for sale, to Bickford by the end of Q1 2020. NHI will in turn provide a senior note to Bickford for the purchase of these facilities which largely preserves cash flow generated from these communities until they are refinanced by Bickford.
- The transition of four properties in Minnesota to another existing NHI operator. NHI transitioned the lease of these four properties on October 1, 2019 which were outside of Bickford's existing geographic footprint. We believe this transition better aligns Bickford with markets in which they have deeper experience and improves their longer term cash flow. The transition eliminates Bickford's purchase option while extending the lease by seven years with renewal options.
- The amendment to lease escalators on certain Bickford properties. Effective September 1, 2019, NHI amended a master lease covering 14 Bickford properties. Included in the amendment, NHI changed the annual escalator from a fixed percentage to a CPI-based escalator with a floor of 2% and a ceiling of 3%.
- NHI's purchase option price on the Gurnee community was reduced to \$15.1 million while the initial yield was reduced to 8.0%. As noted in Note 2 to the consolidated financial statements, NHI exercised the purchase option on the Gurnee, IL facility on September 10, 2019. NHI exercised a similar purchase option on a 60-unit Bickford-developed community in Shelby, MI as discussed in the Note 15 to the consolidated financial statements.
- For our Bickford communities secured by HUD financing, as of October 1, 2019, we amended the master lease to better align rates with the current market, a change of approximately \$100,000 per quarter or 0.1% of our total revenues. Included in the amendment, NHI changed the annual escalator from a fixed percentage to a CPI-based escalator with a floor of 2% and a ceiling of 3%.

#### Tenant Monitoring

Our operators report to us the results of their operations on a periodic basis, which we in turn subject to further analysis as a means of monitoring potential concerns within our portfolio. We have identified EBITDARM (earnings before interest, taxes, depreciation, amortization, rent and management fees) as the most elemental barometer of success for our tenants, based on results they have reported to us. We believe EBITDARM is useful in our most fundamental analyses, as it is a property-level measure of our operators' success, by eliminating the effects of the operator's method of acquiring the use of its assets (interest and rent), its non-cash expenses (depreciation and amortization), expenses that are dependent on its level of success (income taxes), and also excluding the effect of the operator's payment of its management fees, as typically those fees are contractually subordinate to our lease payment. For operators of our entrance-fee communities, our calculation of EBITDARM includes other cash flow adjustments typical of the industry which may include, but are not limited to, net cash flows from entrance fees; amortization of deferred entrance fees; adjustments for tenant rent obligations, depreciation and amortization; and management fee true-ups. The eliminations and adjustments reflect covenants in our leases and provide a comparable basis for assessing our various relationships.

We believe that EBITDARM is a useful way to analyze the cash potential of a group of assets. From EBITDARM we calculate a coverage ratio (EBITDARM/Cash Rent), measuring the ability of the operator to meet its monthly obligation. In addition to EBITDARM and the coverage ratio, we rely on, a careful balance sheet analysis, and other analytical procedures to help us identify potential areas of concern relative to our operators' ability to generate sufficient liquidity to meet their obligations, including their obligation to continue to pay the amount due to us. Typical among our operators is a varying lag in reporting to us the results of their operations. Across our portfolio, however, our operators report their results, typically within either 30 or 45 days and at the latest, within ninety days of month's end. For computational purposes, we exclude development and lease-up properties that have been in operation less than 24 months and selected immaterial properties identified in 2019 as available for sale. For stabilized acquisitions in the portfolio less than 24 months and renewing leases with changes in scheduled rent, we include pro forma cash rent. Same-store portfolio coverage excludes properties that have transitioned operators in past 24 months.



The results by asset type are presented below on a trailing twelve-month basis, as of September 30, 2019 and 2018 (the most recent periods available):

#### Total Portfolio

	SHO	SNF	HOSP	MOB	TOTAL	
Properties	129	74	3	2	208	
3Q18	1.23x	2.55x	1.66x	4.12x	1.65x	
3Q19	1.14x	2.73x	1.95x	5.61x	1.66x	

	Need Driven	Need Driven excl. Bickford	Discretionary	Discretionary excl. SLC & Holiday	Medical	Medical excl. NHC
Properties	91	46	38	3	79	37
3Q18	1.17x	1.18x	1.29x	2.24x	2.48x	1.58x
3Q19	1.10x	1.13x	1.19x	1.61x	2.68x	1.92x

	NHC	SLC	Bickford	Holiday
Properties	42	9	45	26
3Q18	3.67x	1.28x	1.15x	1.18x
3Q19	3.69x	1.10x	1.07x	1.21x

#### Same-Store Portfolio

	SHO	SNF	HOSP	MOB	Total	
Properties	117	74	2	2	195	
3Q18	1.24x	2.55x	1.21x	4.12x	1.66x	
3Q19	1.16x	2.73x	1.60x	5.61x	1.68x	

	Need Driven	Need Driven excl. Bickford	Discretionary	Discretionary excl. SLC & Holiday	Medical	Medical excl. NHC
Properties	80	40	37	2	78	36
3Q18	1.20x	1.19x	1.29x	2.37x	2.48x	1.52x
3Q19	1.13x	1.15x	1.19x	1.72x	2.68x	1.88x

	NHC	SLC	Bickford	Holiday
Properties	42	9	40	26
3Q18	3.67x	1.28x	1.20x	1.18x
3Q19	3.69x	1.10x	1.12x	1.21x

NHC based on corporate-level FCCR and includes 3 independent living facilities

Fluctuations in portfolio coverage are a result of market and economic trends, local market competition, and regulatory factors as well as the operational success of our tenants. We use the results of individual leases to inform our decision making with respect to specific tenants, but trends described above by property type and operator bear analysis. Our Need-Driven SHO portfolio shows a decline brought about primarily by a softening in occupancy within particular markets, as well as rising wage pressures. For many of the affected operators, as is typical of our portfolio in general, NHI has security deposits in place and/or corporate guarantees should actual cash rental shortfalls eventually materialize. In certain instances, our operators may increase their security deposits with us in an amount equal to the coverage shortfall, and, upon subsequent compliance with the required lease coverage ratio, the operator would then be entitled to a full refund. The metrics presented in the tables above give no effect to the presence of these security deposits. For Skilled Nursing, coverage in the Medical category of our portfolio has improved due to the impact of four new Ensign developments reaching stabilization. Each MOB's coverage is driven by the underlying

performance of its on-campus hospital as the tenant or guarantor under the lease. As a result, it is typical for MOB operations to have large fluctuations in coverage resulting from hospital operations.

### Potential Effects of Medicare Reimbursement

Our SNF operators receive a significant portion of their revenues from governmental payors, primarily Medicare (federal) and Medicaid (states). Changes in reimbursement rates and limits on the scope of services reimbursed to skilled nursing facilities could have a material impact on the operators' liquidity and financial condition. On August 1, 2018, the Centers for Medicare and Medicaid Services ("CMS") announced the CMS Skilled Nursing Prospective Payment System ("PPS") final rule whereby, effective October 1, 2019, a Patient Driven Payment Model ("PDPM") was adopted as a case-mix system for classifying patient information payment groups under PPS. The new model shifts care delivery under Medicare away from fee-for-service, which in the past has based reimbursement on the amount of care provided, to focus on value-based care, which will base reimbursement on clinical complexity and the resident's conditions and care needs. On August 7, 2019, CMS adopted a net 2.4% increase to Medicare skilled nursing payments for the fiscal year beginning October 1, 2019. We believe a rate increase in line with inflation, along with general demographic growth among the oldest seniors, will help to stabilize lease coverages among our skilled nursing tenants at a time when they are implementing the PDPM. Changes in government reimbursement methodology that reduce reimbursement to levels that are insufficient to cover the operating costs of our lessees and borrowers could indirectly and adversely impact us.

We currently estimate that our borrowers and lessees will find these Medicare increases to be adequate in the near term due to their credit quality, profitability and their debt or lease coverage ratios, although no assurances can be given as to what the ultimate effect that PDPM increases on an annual basis will have on each of our borrowers and lessees. According to industry studies, state Medicaid funding is not expected to keep pace with inflation. Any future acquisitions by NHI of skilled nursing facilities are planned on a selective basis, with emphasis on operator quality and newer construction.

### Investment Highlights

Since January 1, 2019, we have made or announced the following real estate and note investments (*dollars in thousands*):

	<u>Date</u>	<u>Properties</u>	<u>Asset Class</u>	<u>Amount</u>
2019				
Lease Investments				
Wingate Healthcare	January 2019	1	SHO	\$ 52,200
Holiday Retirement	January 2019	1	SHO	38,000
Comfort Care Senior Living	April 2019	1	SHO	10,800
Comfort Care Senior Living	May 2019	1	SHO	13,500
Discovery Senior Living	May 2019	6	SHO	127,917
Cappella Living Solutions	July 2019	1	SHO	7,600
Bickford Senior Living	September 2019	1	SHO	15,100
41 Management	December 2019	1	SHO	9,340
Note Investments				
Senior Living Communities	June 2019	1	SHO	32,700
41 Management	June 2019	1	SHO	10,800
Discovery Senior Living	July 2019	1	SHO	750
Discovery Senior Living	August 2019	1	SHO	6,423
41 Management	December 2019	1	SHO	3,870
				<u>\$ 329,000</u>
2020				
Life Care Services - RIDEA	January 2020	1	SHO	\$ 138,392
Bickford Senior Living	January 2020	1	SHO	15,100
				<u>\$ 153,492</u>

### *Wingate*

On January 15, 2019, we acquired a 267-unit senior living campus in Massachusetts for a purchase price of \$50,300,000, including closing costs of \$300,000. The facility is being leased to Wingate Healthcare, Inc. ("Wingate") for a term of 10 years,

with three five-year renewal options, at an initial lease rate of 7.5% plus annual fixed escalators. We have committed to the additional funding of up to \$1,900,000 in capital improvements, and the lease provides for incentive payments up to \$5,000,000 to become available beginning in 2020 upon the attainment of certain operating metrics. NHI has a right of first offer on two additional Wingate-operated facilities. We accounted for the transaction as an asset purchase.

#### *Holiday*

In November 2018, we entered into a lease amendment and guaranty release (“the Agreement”) with an affiliate of Holiday Retirement (“Holiday”). Among other provisions, the Agreement decreased base rent beginning in 2019 from \$39,000,000 to \$31,500,000, extended the term of the original lease through 2035, improved the credit position of the tenant and increased required minimum capital expenditure per unit. As consideration for amending provisions included in the original 2013 lease, Holiday agreed to pay NHI \$55,125,000 in cash or real estate and forfeit \$10,637,000 of their original \$21,275,000 security deposit.

On January 31, 2019, we acquired a senior housing facility in Vero Beach, Florida from Holiday consisting of 157 independent living and 71 assisted living units in exchange for \$38,000,000 toward the \$55,125,000 receivable arising from the lease amendment, discussed above. The property was added to the master lease at a 6.71% lease rate. Under the restructured master lease, annual lease escalators ranging from 2% to 3%, based on portfolio revenue growth, will go into effect on November 1, 2020. Holiday settled the remaining commitment to NHI with cash of \$17,125,000 at closing. Receipt of the Vero Beach property and collection of remaining commitment in cash was recognized as adjustments to outstanding Holiday lease receivable and resulted in the change of our straight-line receivable from Holiday at the beginning of the year into a straight-line payable, which is included in the accompanying Consolidated Balance Sheet at December 31, 2019 as “deferred income.”

#### *Comfort Care*

On April 30, 2019, we acquired a newly-constructed 60-unit assisted living facility in Shelby, Michigan which has 14 newly-constructed memory care units currently undergoing stabilization. The total commitment of \$10,800,000 includes \$9,560,000 funded at closing with the remaining amount to be funded once certain post closing and construction requirements are met. On May 20, 2019, we acquired a property in Brighton, Michigan, consisting of 73 assisted living/memory care units. The purchase price for the Brighton acquisition was \$13,500,000, inclusive of \$13,000,000 funded at closing with the remaining amount to be funded once certain post closing and construction requirements are met. We leased the properties to Comfort Care Senior Living (“Comfort Care”), under leases which provide for initial lease rate of 7.75%, with annual fixed escalators beginning in year three over the term of ten years plus two five-year renewal options. Each lease includes a \$3,000,000 earnout incentive which will be added to the lease base if funded. We accounted for the acquisitions as asset purchases.

#### *Discovery*

On May 31, 2019, we invested \$25,028,000 in cash for a 97.5% equity interest in a consolidated subsidiary (“Discovery PropCo”), which simultaneously acquired from a third party six senior housing facilities comprising 145 independent-living units, 356 assisted-living units and 95 memory-care units, for a total of 596 units. Discovery Senior Housing Investor XXIV, LLC, (“Discovery”) contributed \$631,000 for its non-controlling 2.5% equity interest. We invested an additional \$102,258,000 as a preferred equity contribution, for a total NHI investment of \$127,286,000. The additional equity contribution of \$102,258,000 carries a preference in liquidation as well as in the distribution of operating cash flow. Total cash of \$127,917,000 invested in Discovery PropCo included approximately \$1,067,000 in closing costs.

The facilities were leased by Discovery PropCo to an affiliate of Discovery for a term of ten years with two five-year renewal periods at an initial lease rate of 6.5% with fixed annual escalators through the fifth year of the initial lease term followed by CPI-based escalators, subject to floor and ceiling, thereafter.

Discovery is eligible, beginning in 2023, for up to \$4,000,000 of lease inducement payments upon meeting specified performance metrics. Inducement payments funded under the agreement will be added to the lease base. Additionally, PropCo has committed to Discovery for funding up to \$2,000,000 toward the purchase of condominium units located at one of the facilities, \$969,000 of which has been funded in total as a result of transactions in November 2019 and January 2020. The total purchase price for the properties acquired, as discussed above, was allocated to the tangible assets based upon their relative fair values consisting of \$6,301,000 to the land and \$121,616,000 to the buildings and improvements. We accounted for the transaction as an asset purchase.

As the managing member, NHI manages Discovery PropCo, subject to certain consent rights of Discovery for significant business decisions. Because of our control of Discovery PropCo, we include its assets, liabilities, noncontrolling interest and operations in our consolidated financial statements.

On August 30, 2019, NHI extended a senior mortgage loan of \$6,423,000 at 7% annual interest to affiliates of Discovery to acquire a senior housing facility in Indiana for which Discovery PropCo, will have the option to purchase at stabilization. The facility consists of 52 assisted living units and 22 memory care units. As discussed below under the caption “Tenant Transitioning,” effective July 1, 2019, NHI provided an additional working capital loan for amounts up to \$750,000 at an interest rate of 6.5%.

#### *Cappella*

On July 23, 2019, for \$7,600,000 including \$100,000 of closing costs, we acquired a 54-unit assisted living facility in Pueblo, Colorado. We leased the facility to Christian Living Services, Inc., d/b/a Cappella Living Solutions, for a term of fifteen years at an initial lease rate of 7.25%, with CPI escalators subject to floor and ceiling. We accounted for this transaction as an asset purchase.

#### *Bickford*

On September 10, 2019, we acquired a 60-unit assisted living/memory care facility located in Gurnee, Illinois, from Bickford. The acquisition price was \$15,100,000, including \$100,000 in closing costs, and the cancellation of an outstanding construction note receivable of \$14,035,000, including interest. We leased the building for a term of twelve years at an initial lease rate of 8%, with CPI escalators subject to a floor and ceiling. We accounted for the transaction as an asset purchase.

As part of a geographical realignment by Bickford, we transitioned four Minnesota properties on October 1, 2019, to 41 Management, discussed below. Bickford has agreed to fund a monthly lease termination fee through December 2020, totaling \$734,000. Additionally, two Bickford properties were reclassified during the year as held-for-sale.

On January 27, 2020, we acquired a 60-unit assisted living/memory care facility located in Shelby, Michigan, from Bickford. The acquisition price was \$15,100,000, including \$100,000 in closing costs, and the cancellation of an outstanding construction note receivable of \$14,091,000, including interest. We added the facility to an existing master lease for a term of twelve years at an initial lease rate of 8%, with CPI escalators subject to a floor and ceiling. We accounted for the transaction as an asset purchase.

#### *41 Management*

On June 14, 2019, we committed to providing first mortgage financing to 41 Management, LLC for up to \$10,800,000 to fund the construction of a 51-unit assisted living facility in Wisconsin. The loan carries an interest rate of 8.50% for its term of five years, subject to two renewals of one year each. The agreement includes a purchase option, which is to open upon stabilization of the facility. Additional security on the loan includes personal and corporate guarantees and the funding of a \$2,400,000 working capital escrow. The total amount funded on the note was \$6,045,000 as of December 31, 2019.

On December 20, 2019, we extended a second mortgage loan of \$3,870,000 to 41 Management to refinance the subordinated debt on a newly constructed 43-unit assisted living/memory care facility in Wisconsin. The loan provides for interest of 13% and a one-year maturity plus two renewal terms at the option of the borrower. The loan is secured by corporate and personal guarantees. Upon stabilization, NHI has the option to purchase the facility at fair market value based on a metric-driven formula.

As part of Bickford’s geographical realignment mentioned above, we transitioned four Minnesota properties on October 1, 2019, to 41 Management. The transitioned properties are under a master lease which calls for total first-year rent of \$906,000 and includes our commitment to make available up to \$400,000 in targeted improvements. The lease term of 15 years has two renewal options of five years each and an initial rate of 7.0%. Under the master lease, escalators are fixed at 2.5%, and the lease is secured by corporate and personal guarantees. On December 27, 2019, for a cash purchase price of \$9,340,000, including closing costs of \$140,000, we acquired a 48 unit assisted living and memory care facility in the St. Paul, Minnesota area. The St. Paul facility was added to the existing master lease described above. We accounted for the St. Paul transaction as an asset purchase.

#### *Senior Living Communities*

On June 25, 2019, we provided a mortgage loan of \$32,700,000 to Senior Living for the acquisition of a 248-unit continuing care retirement community in Columbia, South Carolina. The financing is for a term of five years with two one year extensions and carries an interest rate of 7.25%. Additionally, the loan conveys to NHI a purchase option at a stated minimum price of \$38,250,000, subject to adjustment for market conditions.

#### *Life Care Services*

On January 31, 2020, in a joint venture transaction, we acquired an 80% interest in a 401-unit Continuing Care Retirement Community (CCRC) comprising 330 independent living units, 26 assisted living/memory care units and 45 skilled nursing beds.

Additionally, the transaction conveyed to NHI a 25% interest in the operations of the community. The transaction arose as the culmination of a relationship beginning in 2015 in which NHI provided LCS Timber Ridge, LLC, (“LCS”), and its JV partner, Westminster-LCS, LLC, (“Westminster”), with a senior mortgage loan on the Timber Ridge campus in the Seattle area. Proceeds of the loan were used to facilitate expansion of the community to 401 units. By terms of the 2015 agreement, NHI acquired a fair-value purchase option on the property.

Consideration given for NHI’s interest in the joint venture was \$124,989,000 and included assignment from the divesting owners of debt having a current carrying value of \$59,350,000. To fund the transaction, NHI provided an additional loan of \$21,650,000, leaving total debt in the project of \$81,000,000, bearing interest to NHI at 5.75%. Further, NHI paid \$43,114,000 for an 80% equity stake in the property company (“PropCo”), and we provided initial capitalization totaling \$875,000 for the operating company (“OpCo”). LCS paid \$10,778,000 for its 20% equity stake in PropCo and provided \$2,625,000 in initial capitalization of the operations in return for a 75% equity participation in OpCo.

The lease between PropCo and OpCo carries a rate of 6.75% for an initial term of seven years plus renewal options and has a CPI-based lease escalator, subject to floor and ceiling. Including interest payments on debt funded by NHI and our lease participation in the PropCo JV, as detailed above, NHI is entitled to \$8,216,000 in the first twelve months plus 25% of the remaining OpCo cash flow. The total enterprise capitalization was \$138,392,000 for the OpCo and PropCo entities, as discussed above, of which \$124,989,000 was allocated to our interest in the tangible assets of PropCo and equity interest in OpCo, based upon their relative fair values.

#### Other Portfolio Activity

##### *Tenant Transitioning*

We have completed the contractual transition of three lease portfolios to new tenants following a period of non-compliance by the former operators. The portfolios consist of three former SH-Regency Leasing, LLC (“Regency”) buildings, five former LaSalle Group buildings and one facility formerly leased to Landmark Senior Living (“Landmark”). To expedite stabilization of the facilities, we committed to specified income-generating capital expenditures for the re-branding and refurbishment of certain of these properties. The new leases for the former Regency and LaSalle facilities each specify initial periods during which rental income to NHI shall be based on net operating income (“NOI”), after deduction of management fees. Following the initial periods, each lease converts to a structured payment based on a fair-value calculation.

The former Regency buildings have been leased to three operators, Senior Living Communities, Discovery, and Vitality MC TN, LLC (“Vitality”). Of our total revenues, \$1,277,000 (0.4%), \$5,103,000 (1.7%) and \$5,466,000 (2.0%) in rental income were derived from the three former Regency buildings for the years ended December 31, 2019, 2018 and 2017, respectively.

Effective July 1, 2019 we transitioned one of the three Regency buildings located in Indiana, an independent living/assisted living facility, to Discovery in conjunction with our other properties in transition. The triple-net lease matures in June 2024 with two five-year options to extend. Rent is initially based on net operating income. Beginning in 2022, rent is to reset to the greater of \$1,400,000 or fair value as provided by formula. For the duration of the lease, the rent, as reset, is subject to a 2.5% escalator. Concurrent with Discovery’s entrance into the lease, NHI provided a working capital loan for amounts up to \$750,000 at an interest rate of 6.5% and a \$900,000 capital improvement commitment to fund improvements to the facility. The loan extends during the term of the lease.

On April 16, 2019, Chancellor Health Care leased the five former LaSalle Group buildings. Our lease agreement with Chancellor provides for NHI to receive 100% of net operating cash flow generated by the facilities, after management fees, pending stabilization of the operations of the facility. During the first quarter of 2019, we also commenced litigation for the recovery of certain funds owed by LaSalle Group under the lease and against the principal executive personally under the guaranty agreement. Of our total revenues, \$1,162,000 (0.4%), \$4,455,000 (1.5%) and \$4,184,000 (1.5%) in rental income were derived from the five former LaSalle Group buildings for the years ended December 31, 2019, 2018 and 2017, respectively.

In February 2019, we transitioned a non-performing single-property lease in Wisconsin with Landmark to BAKA Enterprises, temporarily acting under a management agreement with Landmark. Under the terms of a short-term agreement, NHI received 95% of net operating cash flow, after management fees, as generated by the facilities. We have entered into a new lease with an initial term of 8 years and a fixed payment schedule through October 2022. In November 2022, the lease indicates a reset of rent to fair market rental value as agreed with the tenant. Of our total revenues, \$1,204,000 (0.4%), \$1,085,000 (0.4%) and \$1,957,000 (0.4%) were derived from the former Landmark property for the years ended December 31, 2019, 2018 and 2017 respectively, including \$625,000 received during 2019 as a settlement payment.



As we seek to stabilize the operations of these facilities, if our resulting tenants or operating partners do not have adequate liquidity to accept the risks and rewards of a tenant-lessee, NHI might be deemed the primary beneficiary of the operations and might be required to consolidate those statements of financial position and results of operations of the managers or operating partners into our consolidated financial statements.

The following table summarizes the transition properties during the year ended December 31, 2019:

Former Tenant / Facility Name (New Tenant)	Units	State	Occupancy			
			March <sup>1</sup>	June <sup>1</sup>	September <sup>1</sup>	December <sup>1</sup>
SH-Regency Leasing, LLC						
The Cypress of College Park (Discovery)	148	IN	19.6%	18.9%	16.2%	15.5%
The Charlotte (SLC)	99	NC	—%	—%	13.0%	21.0%
Maybelle Carter (Vitality)	135	TN	73.3%	77.6%	78.5%	80.1%
LaSalle Autumn Leaves (Chancellor)	196	IL/TX	73.5%	66.1%	66.0%	65.9%
Landmark Senior Living (BAKA)	120	WI	67.6%	72.2%	68.3%	66.9%
	<u>698</u>		50.7%	50.1%	50.8%	51.8%

<sup>1</sup> 2019 Monthly Average

#### *Assets Held for Sale*

In September 2019, we classified a portfolio of eight assisted living properties located in Arizona (4), Tennessee (3) and South Carolina (1) as held for sale, after the current tenant expressed an intention to exercise its purchase option on the properties. Of our total revenues, \$4,250,000 (1.3%) in rental income were derived from this eight-property portfolio for the years ended December 31, 2019, 2018 and 2017. The purchase option called for the parties to split any appreciation on a 50/50 basis above \$37,520,000. During the fourth quarter of 2019, NHI and the tenant reached preliminary agreement on a fair valuation of \$41,000,000 for the properties, and, accordingly, on January 22, 2020, we disposed of the properties at the specified mid-point of \$39,260,000. With the expectation of deferring, for tax purposes, our gain recognition from this disposition, we have engaged a qualified intermediary to effect a like-kind exchange under §1031 of the Internal Revenue Code.

We identified two assisted living properties for disposal and began active marketing of the properties. The buildings are smaller than are typical of our portfolio and are no longer considered to be an appropriate investment for NHI. In January 2019 we ceased recording depreciation on the properties, and we booked an adjustment to lease revenues to write off the associated \$124,000 in straight-line receivables. We recognized an impairment loss of \$2,500,000 to write down the properties to their estimated net realizable value. We have classified the assets as held for sale on the Consolidated Balance Sheet at December 31, 2019.

#### Tenant Purchase Options

Certain of our operators hold purchase options allowing them to acquire properties they currently lease from NHI. For options open or coming open in the near future, we are engaged in preliminary negotiations to continue as lessor or in some other capacity.

A summary of these tenant options, excluding properties classified as held for sale, is presented below (*dollars in thousands*):

Asset Type	Number of Properties	Lease Expiration	1st Option Open Year	Option Basis	Contractual Rent
MOB	1	February 2025	Open	i	\$ 306
HOSP	1	March 2025	2020	iv	\$ 1,957
HOSP	1	September 2027	2021	ii	\$ 2,760
SHO	2	May 2031	2021	iv	\$ 5,063
HOSP	1	June 2022	2022	i	\$ 3,502
SNF	7	August 2028	2025	iii	\$ 3,671
SNF	1	September 2028	2028	iii	\$ 472

Tenant purchase options generally give the lessee an option to purchase the underlying property for consideration determined by i) greater of fixed base price or fair market value; ii) a fixed base price plus a specified share in any appreciation; iii) fixed base price; or iv) a fixed capitalization rate on lease revenue.

#### Real Estate and Mortgage Write-downs

Our borrowers and tenants experience periods of significant financial pressures and difficulties similar to those encountered by other health care providers. Governments at both the federal and state levels have enacted legislation to lower, or at least slow, the growth in payments to health care providers. Furthermore, the cost of professional liability insurance has increased significantly during this same period. Since our inception in 1991, a number of our facility operators and mortgage loan borrowers have undergone bankruptcy. Others have been forced to surrender properties to us in lieu of foreclosure or, for certain periods, have failed to make timely payments on their obligations to us.

While we continually monitor our portfolio to identify potential tenant delinquencies, in some cases, a tenant may not stay current with its rent obligation to the Company. In limited cases, when a tenant becomes delinquent on their rent obligations, NHI employs a variety of strategies including installment payment plans designed to bring the tenant current on their obligation within a short period of time (usually less than 12 months). We are currently engaged with tenants employing such payment plans which comprise lease revenue of less than 1% of our total rental income. No rent concessions have been offered.

We believe that the current carrying amounts of our real estate properties are recoverable and that mortgage notes receivable are realizable and supported by the value of the underlying collateral. However, it is possible that future events could require us to make significant adjustments to these carrying amounts.

## Results of Operations

The significant items affecting revenues and expenses are described below (*in thousands*):

	Years ended December 31,		Period Change	
	2019	2018	\$	%
Revenues:				
Rental income				
SLC leased to Wingate Healthcare	\$ 3,642	\$ —	\$ 3,642	NM
SHOs leased to Discovery Senior Living	8,370	5,321	3,049	57.3 %
ALFs leased to Bickford Senior Living	46,749	44,778	1,971	4.4 %
ALFs leased to Comfort Care Senior Living	2,377	662	1,715	NM
SNFs leased to Ensign Group	23,719	22,339	1,380	6.2 %
ALFs leased to Brookdale Senior Living	1,341	5,612	(4,271)	(76.1)%
ILFs leased to an affiliate of Holiday Retirement	33,837	37,695	(3,858)	(10.2)%
SHOs leased to Chancellor Health Care	9,186	11,494	(2,308)	(20.1)%
SLC leased to Vitality Senior Living	172	1,648	(1,476)	(89.6)%
Other new and existing leases	132,131	128,191	3,940	3.1 %
Assets held for sale	4,776	286	4,490	NM
	266,300	258,026	8,274	3.2 %
Straight-line rent adjustments, new and existing leases	22,084	22,787	(703)	(3.1)%
Escrow funds received from tenants for property taxes and insurance	5,798	—	5,798	NM
Total Rental Income	294,182	280,813	13,369	4.8 %
Interest income from mortgage and other notes				
Life Care Services mortgages and construction loans	12,113	4,592	7,521	NM
Bickford construction loans	2,603	1,030	1,573	NM
Senior Living Communities mortgage and other notes	2,970	1,528	1,442	94.4 %
Bickford construction loan (Gurnee, IL) <sup>1</sup>	863	1,170	(307)	(26.2)%
Other existing mortgages and notes	5,149	4,901	248	5.1 %
Total Interest Income from Mortgage and Other Notes	23,698	13,221	10,477	79.2 %
Other income	201	578	(377)	NM
Total Revenue	318,081	294,612	23,469	8.0 %
Expenses:				
Depreciation				
SHOs leased to Discovery Senior Living	4,026	1,934	2,092	NM
SLC leased to Wingate Healthcare	1,395	—	1,395	NM
ILFs leased to an affiliate of Holiday Retirement	13,885	12,918	967	NM
ALFs leased to Comfort Care Senior Living	904	232	672	NM
Other new and existing assets	56,606	56,265	341	0.6 %
Total Depreciation	76,816	71,349	5,467	7.7 %
Interest	56,299	49,055	7,244	14.8 %
Payroll and related compensation expenses	5,812	6,318	(506)	(8.0)%
Non-cash share-based compensation expense	3,646	2,490	1,156	46.4 %
Loan and realty losses	2,440	5,115	(2,675)	(52.3)%
Property taxes and insurance on leased properties	5,798	—	5,798	NM
Other expenses	5,998	5,214	784	15.0 %
	156,809	139,541	17,268	12.4 %
Income before loss on convertible note retirement	161,272	155,071	6,201	4.0 %
Loss on convertible note retirement	(823)	(738)	(85)	11.5 %
Net income	160,449	154,333	6,116	4.0 %
Less: net loss attributable to noncontrolling interest	7	—	7	NM
Net income attributable to common stockholders	\$ 160,456	\$ 154,333	\$ 6,123	4.0 %

NM - not meaningful

Rental income by tenant reflects portfolio transitions effected during 2019

<sup>1</sup> construction loan cancelled as part of property purchase transaction discussed at Note 2

Financial highlights of the year ended December 31, 2019, compared to 2018 were as follows:

- Rental income received from our tenants increased \$13,369,000, or 4.8%, primarily as a result of new investments funded since December 2018. Included in the year-over-year increase in rental income, escrow funds received from tenants totaling \$5,798,000 were used to pay property taxes and insurance, which is typical of triple net leases. *Narrow-Scope Improvements for Lessors under ASU 2018-20* requires these items to be included as revenue and expense in our condensed consolidated financial statements beginning with the 2019 period.
- The increase in rental income includes a \$703,000 decrease in straight-line rent adjustments. Generally, future increases in rental income depend on our ability to make new investments that meet our underwriting criteria.
- Interest income from mortgage and other notes increased \$10,477,000, primarily due to interest income received on loans to Life Care Services, Bickford Senior Living and Senior Living Communities.
- Depreciation expense increased \$5,467,000 primarily due to new real estate investments completed since December 2018.
- Interest expense, including amortization of debt discount and issuance costs, increased \$7,244,000 primarily as a result of the September 2018 conversion of \$300,000,000 of debt initially drawn on our revolving facility into a five-year term loan and the impact of additional borrowings on our revolving credit facility.
- Payroll and related compensation expenses decreased \$506,000 due primarily to the timing and amount of incentive compensation related to achieving certain company goals.
- Non-cash share-based compensation expense increased \$1,156,000 due primarily to fluctuations in the valuation assumptions used in the Black-Scholes pricing model.
- Loan and realty losses include \$2,500,000 recorded as a writedown related to two facilities classified as held for sale.
- The following table summarizes our real estate under lease to transitioning tenants (in thousands):

	Years Ended		Period Change	
	December 31,			
	2019	2018	\$	%
Revenues:				
Rental income				
SHOs leased to Chancellor Health Care	\$ 1,162	\$ 4,455	\$ (3,293)	(73.9)%
SHO leased to Senior Living Communities	725	1,382	(657)	(47.5)%
SHO leased to Discovery Senior Living	380	1,982	(1,602)	(80.8)%
SLC leased to Vitality Senior Living	172	1,739	(1,567)	(90.1)%
ALF leased to BAKA Enterprises <sup>1</sup>	1,204	1,085	119	11.0 %
Total Revenues	3,643	10,643	(7,000)	(65.8)%
Expenses:				
Depreciation				
SHOs leased to Chancellor Health Care	1,623	1,623	—	— %
SHO leased to Senior Living Communities	527	492	35	7.1 %
SHO leased to Discovery Senior Living	684	690	(6)	(0.9)%
SLC leased to Vitality Senior Living	616	622	(6)	(1.0)%
ALF leased to BAKA Enterprises	581	581	—	— %
Total Depreciation	4,031	4,008	23	0.6 %
Legal	491	—	491	NM
Franchise, excise and other taxes	660	—	660	NM
	5,182	4,008	1,174	29.3 %
Net income (loss)	\$ (1,539)	\$ 6,635	\$ (8,174)	NM

<sup>1</sup> includes \$625,000 received during 2019 as a settlement payment

## Liquidity and Capital Resources

### Sources and Uses of Funds

Our primary sources of cash include rent payments, principal and interest payments on mortgage and other notes receivable, proceeds from the sales of real property, net proceeds from offerings of equity securities and borrowings from our term loans and revolving credit facility. Our primary uses of cash include debt service payments (both principal and interest), new investments in real estate and notes receivable, dividend distributions to our shareholders and general corporate overhead.

These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows as summarized below (*dollars in thousands*):

	Year Ended		One Year Change		Year Ended		One Year Change	
	12/31/2019	12/31/2018	\$	%	12/31/2017	\$	%	
Cash and cash equivalents and restricted cash, January 1	\$ 9,912	\$ 8,075	\$ 1,837	NM	8,878	\$ (803)	(9.0)%	
Net cash provided by operating activities	240,955	207,869	33,086	15.9%	198,095	9,774	4.9 %	
Net cash used in investing activities	(342,521)	(250,290)	(92,231)	NM	(163,846)	(86,444)	52.8 %	
Net cash provided by (used in) financing activities	107,323	44,258	63,065	NM	(35,052)	79,310	(226.3)%	
Cash and cash equivalents and restricted cash, December 31	<u>\$ 15,669</u>	<u>\$ 9,912</u>	<u>\$ 5,757</u>	58.1%	<u>8,075</u>	<u>\$ 1,837</u>	NM	

*Operating Activities* – Net cash provided by operating activities for the years ended December 31, 2019 and 2018 increased primarily as a result of the collection of lease and interest payments on new real estate and note investments completed during 2018 and 2019. Working capital changes contributed an additional \$19,271,000 to operating cash flow that included approximately \$17,125,000 in cash receipts in settlement of a Holiday receivable, charged to deferred revenues and straight line rent receivables related to the Holiday restructure.

*Investing Activities* – Net cash flows used in investing activities for the year ended December 31, 2019 were comprised primarily of \$345,418,000 of investments in real estate and notes, and was partially offset by the collection of principal on mortgage and other notes receivable of \$2,897,000. Net cash flows used in investing activities for the year ended December 31, 2018 increased primarily due to \$254,636,000 of investments in real estate and notes, which were partially offset by collection of notes receivable.

*Financing Activities* – Net cash provided by financing activities for the years ended December 31, 2019 compared to the same period in 2018 is primarily the result of (1) net proceeds of \$95,774,000 from the issuance of common shares in 2019, (2) \$29,985,000 used to complete targeted repurchases of a portion of our outstanding convertible notes during 2018 and \$22,468,000 for the same purpose in 2019 (3) dividend payments which increased \$14,348,000 in 2019 over the same period in 2018.

### Liquidity

Apart from operations, a primary source of our liquidity is our unsecured bank credit facility. At December 31, 2019, we had \$250,000,000 available to draw on our revolving credit facility.

Our bank credit facility is a combination of our Credit Agreement dated as of August 3, 2017 (the "2017 Agreement") and the Term Loan Agreement dated as of September 17, 2018 (the "2018 Agreement"). Together these agreements establish our unsecured \$1,100,000,000 bank credit facility, which consists of \$250,000,000 and \$300,000,000 term loans and a \$550,000,000 revolving credit facility. The \$250,000,000 term loan and \$550,000,000 revolving facility mature in August 2022, and the \$300,000,000 term loan matures in September 2023.

The revolving facility fee is currently 20 basis points per annum, and based on our current leverage ratios, the facility presently provides for floating interest on the revolver and the term loans at 30-day LIBOR plus 120 bps and a blended 132 bps, respectively. At December 31, 2019 and December 2018, 30-day LIBOR was 176 and 252 bps, respectively. Within the facility, the employment of interest rate swaps for a portion of our fixed term debt leaves only \$240,000,000 of our revolving credit facility exposed to interest rate risk through June 2020, when our \$80,000,000 and \$130,000,000 swaps expire. Our swaps and the financial instruments to which they relate are described in the table below, under the caption "Interest Rate Swap Agreements." The current interest spreads and facility fee reflect our leverage-ratio compliance based on the applicable margin for LIBOR loans, measuring debt to "Total Asset Value," at Level 3 in the Interest Rate Schedule provided below in abridged format:

### Interest Rate Schedule



Level	Leverage Ratio	LIBOR Margin			Facility Fee
		Revolver	\$300m Term Loan	\$250m Term Loan	
1	< 0.35	1.10%	1.20%	1.25%	0.15%
2	≥ 0.35 & < 0.40	1.15%	1.25%	1.30%	0.20%
3	≥ 0.40 & < 0.45	1.20%	1.30%	1.35%	0.20%
4	≥ 0.45 & < 0.50	1.25%	1.40%	1.45%	0.25%

Beyond the applicable ratios detailed above, increasing levels of leverage (not shown) will subject our debt to defined increases in interest rates and fees.

LIBOR is scheduled for discontinuation by December 2021. In the United States, the Alternative Reference Rates Committee, a group convened by the Federal Reserve Board and the Federal Reserve Bank of New York has identified the Secured Overnight Financing Rate as its preferred alternative rate for USD LIBOR. The Company continues to monitor the establishment of a new replacement index with the assistance of its banking advisors.

If a suitable replacement to LIBOR is not identified, the bank facilities provide for rate alternatives which have historically been disadvantageous. Upon the discontinuation of LIBOR, interest expense and the credit spread determined in the Company's bank facilities using a new index rate may materially change interest expense relative to what it would have been if LIBOR had not been discontinued.

The Company will continue to monitor the progress of a LIBOR replacement index rate and will seek to modify its existing bank facilities once the new index rate is sufficiently established within the capital markets.

The 2017 Agreement requires that we calculate specified financial statement metrics and meet or exceed a variety of financial ratios, which are usual and customary in nature. These ratios are calculated quarterly and as of December 31, 2019, were within required limits. The calculation of our leverage ratio involves intermediate determinations of our "total indebtedness" and of our "total asset value," as defined.

Aside from a more favorable rate, the 2018 Agreement generally calls for the same covenants and financial statement metrics required for compliance with terms of the 2017 Agreement. Although we are currently eligible under the 2017 and 2018 Agreements to transact in our unsecured bank credit facilities at the respective scheduled rates represented by Level 3, the movement of our leverage ratio into Level 4 at current levels of debt would result in additional annual interest charges of \$1,300,000, assuming an average revolver balance of approximately \$200,000,000. Further movement of our leverage ratio beyond levels currently contemplated by management would be subject to escalating increases in interest. If, in addition to changes in the leverage ratio, certain qualitative indicators of our risk profile were to materially change, further interest-rate escalations may result.

In November 2015, Fitch Ratings issued to us a private monitored credit rating of BBB- with a 'Stable' rating outlook. In December 2018 and again on October 31, 2019, Fitch Ratings affirmed their BBB- rating and 'Stable' rating outlook. NHI has elected to make this rating public and to that effect, on November 4, 2019, Fitch Ratings announced a public issuer credit rating of BBB- with an outlook of 'Stable'. On the same day, S&P Global Ratings announced our public issuer credit rating of BBB- with an outlook of 'Stable'. The ratings from both agencies were provided on NHI as an issuer as well as on our senior unsecured debt. Our unsecured bank credit facility includes an option to shift from the leverage-based LIBOR margin schedule in the table above to a ratings-based LIBOR margin schedule. Shifting to a ratings-based LIBOR margin schedule potentially reduces volatility of our interest cost during periods of time when our leverage may fluctuate modestly. Our decision to move to a ratings-based margin schedule will be based on several factors including the relative cost of the ratings-based versus leverage-based margin schedules, and our desire to have a more stable interest cost if our leverage modestly changes as compared to the existing leverage-based margin schedule. Our unsecured private placement term loan agreements include a rate increase provision that is effective if any rating agency lowers our credit rating below investment grade and our compliance leverage increases to 50% or more.

Our at-the-market ("ATM") offering represents an additional source of liquidity. Through the program in 2019, we issued 1,209,522 common shares, with an average price for shares sold of \$80.58, resulting after commissions and legal and accounting costs in net proceeds of \$95,774,000. Cash from these issuances was initially used to pay down our revolving credit facility.

As we anticipate a continuation of our activity in the ATM program in 2020, we intend to use the proceeds for general corporate purposes, which may include future acquisitions and repayment of indebtedness, including borrowings under our credit facility. Acquisitions, if any, whose magnitude would entail an equity match unable to be efficiently sourced through the ATM would likely trigger a prospectus supplement and an underwritten or overnight offering of NHI common stock, rather than placement through the ATM. Previous offerings made under the ATM program were pursuant to a prospectus dated February 22, 2017, which constituted

part of NHI's effective shelf registration statement previously filed with the Securities and Exchange Commission. Since the effective registration statement covering the ATM program expires in 2020, the Company intends to file a new shelf registration statement and approve a new ATM program to replace the expiring program.

Traditionally, debt financing, equity proceeds, operating and financing cash flows derived from proceeds of lease and mortgage collections, loan payoffs and the recovery of previous write-downs, have been used to satisfy our operational and investing needs and to provide a return to our shareholders. We expect to continue to access these sources of capital to meet those operational and investing needs, which are necessary to maintain and cultivate our funding sources and have generally fallen into three categories: debt service, the payment of dividends, REIT operating expenses, and new real estate investments.

The following table summarizes the share issuances since inception of our ATM as of December 31, 2019:

Year	Shares	Weighted Average Share Price	Net Proceeds
2015	830,506	\$ 60.33	\$ 49,389,000
2016	1,395,642	\$ 75.79	104,190,000
2017	1,661,161	\$ 74.87	122,500,000
2018	1,112,363	\$ 74.84	82,001,000
2019	1,209,522	\$ 80.58	95,999,000
	<u>6,209,194</u>		<u>\$ 454,079,000</u>

The table above does not include indirect legal and accounting costs associated with updating and maintaining our shelf registration statement.

Our use of ATM proceeds rebalanced our leverage in response to our acquisitions and keeps our options flexible for further expansion. We continue to explore various other funding sources including bank term loans, convertible debt, traditional equity placement, unsecured bonds and senior notes, debt private placement, public debt and secured government agency financing. We view our ATM program as an effective way to match-fund our smaller acquisitions by exercising control over the timing and size of transactions and achieving a more favorable cost of capital as compared to larger follow-on offerings.

We anticipate continued use of proceeds from the ATM program for general corporate purposes, which may include future acquisitions and repayment of indebtedness, including borrowings under our credit facility. Acquisitions, if any, whose magnitude would entail an equity match unable to be efficiently sourced through the ATM would likely trigger a prospectus supplement and an overnight or marketed offering of NHI common stock, rather than placement through the ATM.

We expect that borrowings on our revolving credit facility, borrowings on term loans, and our ATM program will allow us to continue to make real estate investments in 2020 and beyond. Recent actions by the federal government to reduce the federal funds rate may temporarily reduce anticipated upward pressure on our historically low cost of debt capital. If the federal government decides to reverse this trend as it seeks to hold inflation to acceptable levels, we can expect that our cost of debt capital will increase in the mid-term.

Concurrent with the amendments to our credit facility and with the exception of specific debt-coverage ratios, covenants pertaining to our private placement term loans were generally conformed with those governing the credit facility.

Beginning in December 2019, through the issuance of unregistered common stock and cash in retirement of \$60,000,000 of our convertible notes, we funded our Timber Ridge acquisition, which closed January 2020. Settlement of the notes requires management to allocate the consideration we ultimately pay between the debt component and the equity conversion feature as though they were separate instruments. The allocation is effected by fair valuing the debt component first, with any remainder allocated to the conversion feature. Amounts expended to settle the notes are recognized first as a settlement of the notes at our carrying value and then are recognized in income to the extent the portion allocated to the debt instrument differs from carrying value. The remainder of the allocation, if any, is treated as settlement of equity and adjusted through our capital in excess of par account.

A roll-forward for 2019 of our convertible note balances, including the effect of year-to-date amortization, net of issuance costs, is presented below:

	December 31, 2018	Exchange	Amortization	December 31, 2019
Face Amount	\$ 120,000	\$ (60,000)	\$ —	\$ 60,000
Discount	(1,391)	\$ 328	\$ 760	(303)
Issuance Costs	(910)	\$ 210	\$ 505	(195)
Carrying Value	<u>\$ 117,699</u>			<u>\$ 59,502</u>

Total consideration given in the exchange of \$73,102,000 included the issuance of 626,397 shares of NHI common stock with a fair value of \$51,002,000 and cash disbursed of \$22,100,000.

Total consideration given in the exchange was allocated as \$60,285,000 to the note retirement with the remaining expenditure of \$12,816,000 allocated to retirement of the equity feature of the notes. A loss of \$823,000 for the year ended December 31, 2019, resulted from the excess allocation of cash expenditures over the book value of the notes retired, net of discount and issuance costs.

As of December 31, 2019, our \$60,000,000 of senior unsecured convertible notes were convertible at a rate of 14.62 shares of common stock per \$1,000 principal amount, representing a conversion price of approximately \$68.39 per share for a total of 877,356 remaining underlying shares. For the year ended December 31, 2019, dilution resulting from the conversion option within our convertible debt is 210,224 shares. If NHI's current share price increases above the adjusted \$68.39 conversion price, further dilution will be attributable to the conversion feature. On December 31, 2019, the value of the convertible debt, computed as if the debt were immediately eligible for conversion, exceeded its face amount by \$11,487,000.

We may continue from time to time to seek to retire or purchase some of our outstanding convertible notes through cash open market purchases, privately-negotiated transactions or otherwise. As with our 2019 repurchases, amounts and timing of further repurchases or exchanges, if any, will be dependent on prevailing market conditions, liquidity requirements, contractual restrictions and other factors.

When we take on new debt or when we modify or replace existing debt, we incur debt issuance costs. These costs are subject to amortization over the term of the new debt instrument and may result in the write-off of fees associated with debt which has been replaced or modified. Sustaining long-term dividend growth will require that we consider all sources of capital mentioned above, with the goal of maintaining a low-leverage balance sheet and staggered debt maturities as mitigation against potential adverse changes in the business of our industry, tenants and borrowers.

#### Interest Rate Swap Agreements

To mitigate our exposure to interest rate risk, we have the following interest rate swap contracts in place to hedge against floating rates on our bank term loans and a portion of our revolving credit facility as of December 31, 2019 (*dollars in thousands*):

Date Entered	Maturity Date	Fixed Rate	Rate Index	Notional Amount	Fair Value (Liability)
June 2013	June 2020	3.46%	1-month LIBOR	\$ 80,000,000	\$ (177)
March 2014	June 2020	3.51%	1-month LIBOR	\$ 130,000,000	\$ (316)
March 2019	December 2021	3.51%	1-month LIBOR	\$ 100,000,000	\$ (1,318)
March 2019	December 2021	3.52%	1-month LIBOR	\$ 100,000,000	\$ (1,344)
June 2019	December 2021	2.89%	1-month LIBOR	\$ 150,000,000	\$ (200)
June 2019	December 2021	2.93%	1-month LIBOR	\$ 50,000,000	\$ (79)

For instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative has been reported as a component of other comprehensive income ("OCI"), and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness have been recognized in earnings. With the 2017 Agreement, discussed above, we introduced into the credit facility a LIBOR floor not present in the hedges which resulted in hedge inefficiency of approximately \$353,000 for the year ended December 31, 2017, which we credited to interest expense.

On January 1, 2018 we adopted ASU 2017-12 Derivatives and Hedging: *Targeted Improvements to Accounting for Hedging Activities*, as discussed in the Notes to the consolidated financial statements. The transition method is a modified retrospective approach that required the Company to recognize the cumulative effect of initially applying the ASU as an adjustment to accumulated other comprehensive income with a corresponding adjustment to retained earnings as of the beginning of 2018. The

primary provision in the ASU requiring adjustment to our beginning retained earnings is the change in timing and income statement line item for ineffectiveness related to cash flow hedges. Upon the adoption of the new standard, we reversed cumulative ineffectiveness occurring in the last six months of 2017, resulting in a retroactive net charge to retained earnings and a credit to accumulated other comprehensive income of \$235,000 as of January 1, 2018. Upon adoption of the ASU, the Company achieved a better alignment of its financial reporting for hedging activities with the economic objectives of those activities.

### Dividend Policy

We intend to comply with REIT dividend requirements that we distribute at least 90% of our annual taxable income for the year ending December 31, 2019 and thereafter. Dividends declared for the fourth quarter of each fiscal year are paid by the end of the following January and are, with some exceptions, treated for tax purposes as having been paid in the fiscal year just ended as provided in IRS Code Sec. 857(b)(8). We may need to declare a special dividend when we compute our REIT taxable income in an amount that exceeds our regular dividends for the fiscal year.

### *Off Balance Sheet Arrangements*

We currently have no outstanding guarantees. As described in Note 1 to the consolidated financial statements, our leases, mortgages and other notes receivable with certain entities represent variable interests in those enterprises. However, because we do not control these entities, nor do we have any role in their day-to-day management, we are not their primary beneficiary and therefore do not consolidate their financial statements. Except as discussed under *Contractual Obligations* and *Commitments and Contingencies* below, we have no further material obligations arising from our transactions with these entities, and we believe our maximum exposure to loss at December 31, 2019, due to this involvement would be limited to our contractual commitments and contingent liabilities and the amount of our current investments with them, as detailed further in Notes 1, 2, 3 and 6 to the consolidated financial statements. As of December 31, 2019, we furnished no direct support to any of these entities.

In March 2014 we issued convertible notes, which have a carrying amount of \$59,502,000 as of December 31, 2019, with the conversion feature being intended to broaden the Company's credit profile and as a means to obtain a more favorable coupon rate. For this feature we calculate the dilutive effect using market prices prevailing over the reporting period. Because the dilution calculation is market-driven, and per share guidance we provide is based on diluted amounts, the theoretical effects of the conversion feature result in per share unpredictability.

Additional disclosure requirements also give widely ranging results depending on market price variability. The notes will be freely convertible in the last six months of their contractual life, beginning in the fourth quarter of 2020; however, generally accepted accounting principles require us to periodically report the amount by which the notes' convertible value exceeds their principal amount, without regard to the current availability of the conversion feature. Further, the mechanics of the calculation require the use of an end-of-period stock price, so that using that amount for the remaining notes outstanding of \$60,000,000 at December 31, 2019, delivers an excess of \$11,487,000, whereas the use of another price point would give a different result.

The conversion feature is generally available to the noteholders entering the last six months of the notes' term but may also become actionable if the market price of NHI's common stock should, for 20 of 30 consecutive trading days within a calendar quarter, sustain a level in excess of 130% of the adjusted conversion price, or \$88.90 per share, down from \$93.55 per share, initially. The notes are "optional net-share settlement" instruments, meaning that NHI has the ability and intent to settle the principal amount of the indebtedness in cash, with possible dilutive share issuances for any excess, at NHI's option. Settlement of the notes requires management to allocate the consideration we ultimately pay between the debt component and the equity conversion feature as though they were separate instruments. The allocation is effected by valuing the debt component first, with any remainder allocated to the conversion feature. Amounts expended to settle the notes will be recognized first as a settlement of the notes at par and then will be recognized in income to the extent the portion allocated to the debt instrument differs from par value. The remainder of the allocation, if any, will be treated as settlement of equity and adjusted through our paid in capital account.

### *Contractual Obligations*

As of December 31, 2019, our contractual payment obligations were as follows (*in thousands*):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt, including interest <sup>1</sup>	\$ 1,500,478	\$ 51,959	\$ 613,274	\$ 552,808	\$ 282,437
Development commitments	12,893	12,893	—	—	—
Loan commitments	75,112	75,112	—	—	—
	<u>\$ 1,588,483</u>	<u>\$ 139,964</u>	<u>\$ 613,274</u>	<u>\$ 552,808</u>	<u>\$ 282,437</u>

<sup>1</sup> Interest is calculated based on the weighted average interest rate of outstanding debt balances as of December 31, 2019. The calculation also includes a facility fee of .20%.

### *Commitments and Contingencies*

The following tables summarize information as of December 31, 2019 related to our outstanding commitments and contingencies which are more fully described in the notes to the consolidated financial statements.

	Asset Class	Type	Total	Funded	Remaining
<b>Loan Commitments:</b>					
LCS Sagewood Note A	SHO	Construction	\$ 118,800,000	\$ (77,340,000)	\$ 41,460,000
LCS Sagewood Note B	SHO	Construction	61,200,000	(45,938,000)	15,262,000
LCS Timber Ridge Note A	SHO	Construction	60,000,000	(59,350,000)	650,000
Bickford Senior Living	SHO	Construction	28,700,000	(23,116,000)	5,584,000
Senior Living Communities	SHO	Revolving Credit	12,000,000	(5,174,000)	6,826,000
41 Management	SHO	Construction	10,800,000	(6,045,000)	4,755,000
Discovery Senior Living	SHO	Working Capital	750,000	(175,000)	575,000
			<u>\$ 292,250,000</u>	<u>\$ (217,138,000)</u>	<u>\$ 75,112,000</u>

See Note 3 to our consolidated financial statements for full details of our loan commitments. As provided above, loans funded do not include the effects of discounts or commitment fees.

	Asset Class	Type	Total	Funded	Remaining
<b>Development Commitments:</b>					
Ignite Medical Resorts	SNF	Construction	\$ 25,350,000	\$ (16,903,000)	\$ 8,447,000
Woodland Village	SHO	Renovation	7,515,000	(7,425,000)	90,000
Senior Living Communities	SHO	Renovation	9,930,000	(9,067,000)	863,000
Wingate Healthcare	SHO	Renovation	1,900,000	(357,000)	1,543,000
Discovery Senior Living	SHO	Renovation	900,000	—	900,000
Navion Senior Solutions	SHO	Construction	650,000	—	650,000
41 Management	SHO	Construction	400,000	—	400,000
			<u>\$ 46,645,000</u>	<u>\$ (33,752,000)</u>	<u>\$ 12,893,000</u>

In addition to the commitments listed above, Discovery PropCo has committed to Discovery for funding up to \$2,000,000 for the purchase of condominium units located at one of the facilities. As of December 31, 2019, \$497,000 has been funded toward the commitment.

	Asset Class	Type	Total	Funded	Remaining
<b>Contingencies:</b>					
Comfort Care Senior Living	SHO	Lease Inducement	6,000,000	—	6,000,000
Wingate Healthcare	SHO	Lease Inducement	5,000,000	—	5,000,000
Navion Senior Solutions	SHO	Lease Inducement	4,850,000	(500,000)	4,350,000
Discovery Senior Living	SHO	Lease Inducement	4,000,000	—	4,000,000
Ignite Medical Resorts	SNF	Lease Inducement	2,000,000	—	2,000,000
			<u>\$ 21,850,000</u>	<u>\$ (500,000)</u>	<u>\$ 21,350,000</u>

### Litigation



Our facilities are subject to claims and suits in the ordinary course of business. Our lessees and borrowers have indemnified, and are obligated to continue to indemnify us, against all liabilities arising from the operation of the facilities, and are further obligated to indemnify us against environmental or title problems affecting the real estate underlying such facilities. While there may be lawsuits pending against certain of the owners and/or lessees of the facilities, management believes that the ultimate resolution of all such pending proceedings will have no material adverse effect on our financial condition, results of operations or cash flows.

In June 2018, East Lake Capital Management LLC and certain related entities, including Regency (for three assisted living facilities in Tennessee, Indiana and North Carolina), filed suit against NHI in Texas seeking injunctive and declaratory relief and unspecified monetary damages. NHI responded with counterclaims and filed motions requesting the immediate appointment of a receiver and for pre-judgment possession. Resulting from these claims and counterclaims, on December 6, 2018, the parties entered into an agreement resulting in Regency vacating the facilities in December 2018. Litigation is ongoing.

The LaSalle Group defaulted on its rent payment in November 2018. We transitioned the properties to a new operator on April 16, 2019, with NHI to receive operating cash flow, after management fees, generated by the facilities pending stabilization. We also commenced litigation for the recovery of certain funds owed under the lease and against the principal executive personally, under a guaranty agreement. The LaSalle Group, the former operator of the properties, has declared bankruptcy under Chapter 11. In December 2019, we reached an agreement with TLG Family Management and Mitchell Warren, who, without making any admissions under a joint-liability settlement, have agreed to pay to NHI \$2,850,000 over a five-year period, consisting of sixty-one scheduled payments of varying amounts in full settlement of agreed judgments under manager and personal guarantees. We received the first installment of \$60,000 in December 2019.

## FFO, AFFO & FAD

These supplemental operating performance measures may not be comparable to similarly titled measures used by other REITs. Consequently, our Funds From Operations (“FFO”), Normalized FFO, Normalized Adjusted Funds From Operations (“AFFO”) and Normalized Funds Available for Distribution (“FAD”) may not provide a meaningful measure of our performance as compared to that of other REITs. Since other REITs may not use our definition of these operating performance measures, caution should be exercised when comparing our Company’s FFO, Normalized FFO, Normalized AFFO and Normalized FAD to that of other REITs. These financial performance measures do not represent cash generated from operating activities in accordance with generally accepted accounting principles (“GAAP”) (these measures do not include changes in operating assets and liabilities) and therefore should not be considered an alternative to net earnings as an indication of operating performance, or to net cash flow from operating activities as determined by GAAP as a measure of liquidity, and are not necessarily indicative of cash available to fund cash needs.

### *Funds From Operations - FFO*

Our FFO per diluted common share for the year ended December 31, 2019 increased \$0.13 (2.4%) over the same period in 2018 due primarily to the impact of new investments completed since December 2018. FFO, as defined by the National Association of Real Estate Investment Trusts (“NAREIT”) and applied by us, is net income (computed in accordance with GAAP), excluding gains (or losses) from sales of real estate property, impairments of real estate, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures, if any. The Company’s computation of FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or have a different interpretation of the current NAREIT definition from that of the Company; therefore, caution should be exercised when comparing our Company’s FFO to that of other REITs. Diluted FFO assumes the exercise of stock options and other potentially dilutive securities.

Our Normalized FFO per diluted common share for the year ended December 31, 2019 increased \$0.04 (0.7%) over the same period in 2018 due primarily to the impact of new investments completed since December 2018. Normalized FFO excludes from FFO certain items which, due to their infrequent or unpredictable nature, may create some difficulty in comparing FFO for the current period to similar prior periods, and may include, but are not limited to, impairment of non-real estate assets, gains and losses attributable to the acquisition and disposition of assets and liabilities, and recoveries of previous write-downs.

FFO and Normalized FFO are important supplemental measures of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets requires depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen and fallen with market conditions, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative, and should be supplemented with a measure such as FFO. The term FFO was designed by the REIT industry to address this issue. Accordingly, we believe that FFO and normalized FFO provide useful information to investors regarding our operating results.

### *Adjusted Funds From Operations - AFFO*

Our Normalized AFFO per diluted common share for the year ended December 31, 2019 increased \$0.06 (1.2%) over the same period in 2018 due primarily to the impact of new investments completed since December 2018. In addition to the adjustments included in the calculation of Normalized FFO, Normalized AFFO excludes the impact of any straight-line rent revenue, amortization of the original issue discount on our convertible senior notes and amortization of debt issuance costs.

Normalized AFFO is an important supplemental measure of operating performance for a REIT. GAAP requires a lessor to recognize contractual lease payments into income on a straight-line basis over the expected term of the lease. This straight-line adjustment has the effect of reporting lease income that is significantly more or less than the contractual cash flows received pursuant to the terms of the lease agreement. GAAP also requires the original issue discount of our convertible senior notes and debt issuance costs to be amortized as non-cash adjustments to earnings. Normalized AFFO is useful to our investors as it reflects the growth inherent in the contractual lease payments of our real estate portfolio.

### *Funds Available for Distribution - FAD*

Our Normalized FAD for the year ended December 31, 2019 increased \$12,105,000 (5.6%) over the same period in 2018 due primarily to the impact of new investments completed since December 2018. In addition to the adjustments included in the calculation of Normalized AFFO, Normalized FAD excludes the impact of non-cash stock based compensation. Normalized FAD is an important supplemental measure of liquidity for a REIT as a useful indicator of the ability to distribute dividends to shareholders.

The following table reconciles net income attributable to common stockholders, the most directly comparable GAAP metric, to FFO, Normalized FFO, Normalized AFFO and Normalized FAD and is presented for both basic and diluted weighted average common shares (*in thousands, except share and per share amounts*):

	Years ended December 31,		
	2019	2018	2017
Net income attributable to common stockholders	\$ 160,456	\$ 154,333	\$ 159,365
Elimination of certain non-cash items in net income:			
Depreciation	76,816	71,349	67,173
Depreciation related to noncontrolling interest	(52)	—	—
Gain on sale of real estate	—	—	(50)
Impairment of real estate	2,500	—	—
NAREIT FFO attributable to common stockholders	\$ 239,720	\$ 225,682	\$ 226,488
Gains on sales of marketable securities	—	—	(10,038)
Loss on convertible note retirement	823	738	2,214
Debt issuance costs written-off due to credit facility modifications	—	—	407
Ineffective portion of cash flow hedges	—	—	(353)
Non-cash write-off of straight-line rent receivable	—	3,701	—
Note receivable impairment	—	363	—
Recognition of unamortized note receivable commitment fees	—	(515)	(922)
Normalized FFO attributable to common stockholders	\$ 240,543	\$ 229,969	\$ 217,796
Straight-line lease revenue, net	(22,084)	(21,736)	(26,090)
Straight-line lease revenue, net, related to noncontrolling interest	13	—	—
Amortization of lease incentives	845	387	119
Amortization of original issue discount	761	788	1,109
Amortization of debt issuance costs	2,805	2,526	2,483
Normalized AFFO attributable to common stockholders	\$ 222,883	\$ 211,934	\$ 195,417
Non-cash share-based compensation	3,646	2,490	2,612
Normalized FAD attributable to common stockholders	\$ 226,529	\$ 214,424	\$ 198,029

#### BASIC

Weighted average common shares outstanding	43,417,828	41,943,873	40,894,219
NAREIT FFO attributable to common stockholders per share	\$ 5.52	\$ 5.38	\$ 5.54
Normalized FFO attributable to common stockholders per share	\$ 5.54	\$ 5.48	\$ 5.33
Normalized AFFO attributable to common stockholders per share	\$ 5.13	\$ 5.05	\$ 4.78

#### DILUTED

Weighted average common shares outstanding	43,703,248	42,091,731	41,151,453
NAREIT FFO attributable to common stockholders per share	\$ 5.49	\$ 5.36	\$ 5.50
Normalized FFO attributable to common stockholders per share	\$ 5.50	\$ 5.46	\$ 5.29
Normalized AFFO attributable to common stockholders per share	\$ 5.10	\$ 5.04	\$ 4.75

## Adjusted EBITDA

We consider Adjusted EBITDA to be an important supplemental measure because it provides information which we use to evaluate our performance and serves as an indication of our ability to service debt. We define Adjusted EBITDA as consolidated earnings before interest, taxes, depreciation and amortization, including amounts in discontinued operations, excluding real estate asset impairments and gains on dispositions and certain items which may create some difficulty in comparing Adjusted EBITDA for the current period to similar prior periods, and may include, but are not limited to, impairment of non-real estate assets, gains and losses attributable to the acquisition and disposition of assets and liabilities, and recoveries of previous write-downs. Since others may not use our definition of Adjusted EBITDA, caution should be exercised when comparing our Adjusted EBITDA to that of other companies.

The following table reconciles net income, the most directly comparable GAAP metric, to Adjusted EBITDA:

	Years ended December 31,		
	2019	2018	2017
Net income	\$ 160,449	\$ 154,333	\$ 159,365
Interest expense	56,299	49,055	46,324
Franchise, excise and other taxes	1,550	1,166	960
Depreciation	76,816	71,349	67,173
Gain on sale of real estate	—	—	(50)
Impairment of real estate	2,500	—	—
Gains on sales of marketable securities	—	—	(10,038)
Loss on convertible note retirement	823	738	2,214
Non-cash write-off of straight-line rent receivable	—	3,701	—
Note receivable impairment	—	363	—
Recognition of unamortized note receivable commitment fees	—	(515)	(922)
Adjusted EBITDA	<u>\$ 298,437</u>	<u>\$ 280,190</u>	<u>\$ 265,026</u>
Interest expense at contractual rates	\$ 53,923	\$ 45,789	\$ 40,385
Principal payments	1,187	1,062	794
Fixed Charges	<u>\$ 55,110</u>	<u>\$ 46,851</u>	<u>\$ 41,179</u>
Fixed Charge Coverage	5.4x	6.0x	6.4x

For all periods presented, EBITDA reflects GAAP interest expense, which excludes amounts capitalized during the period.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

### Interest Rate Risk

At December 31, 2019, we were exposed to market risks related to fluctuations in interest rates on approximately \$240,000,000 of variable-rate indebtedness (excludes \$610,000,000 of variable-rate debt that has been hedged through interest-rate swap contracts) and on our mortgage and other notes receivable. The unused portion (\$250,000,000 at December 31, 2019) of our revolving credit facility, should it be drawn upon, is subject to variable rates.

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt and loans receivable unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. Conversely, changes in interest rates on variable rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. Assuming a 50 basis-point increase or decrease in the interest rate related to variable-rate debt, and assuming no change in the outstanding balance as of December 31, 2019, net interest expense would increase or decrease annually by approximately \$1,200,000 or \$0.03 per common share on a diluted basis.

We use derivative financial instruments in the normal course of business to mitigate interest rate risk. We do not use derivative financial instruments for speculative purposes. Derivatives are included in the Condensed Consolidated Balance Sheets at their fair value. We may engage in hedging strategies to manage our exposure to market risks in the future, depending on an analysis of the interest rate environment and the costs and risks of such strategies.

The following table sets forth certain information with respect to our debt (*dollars in thousands*):

	December 31, 2019			December 31, 2018		
	Balance <sup>1</sup>	% of total	Rate <sup>3</sup>	Balance <sup>1</sup>	% of total	Rate <sup>3</sup>
Fixed rate:						
Convertible senior notes	\$ 60,000	4.1%	3.25%	\$ 120,000	9.3%	3.25%
Private placement term loans	400,000	27.6%	4.15%	400,000	30.9%	4.15%
Bank term loans - unsecured	550,000	38.0%	3.36%	250,000	19.3%	3.34%
HUD mortgage loans <sup>2</sup>	43,376	3.0%	4.04%	44,226	3.4%	4.04%
Fannie Mae term loans	95,706	6.6%	3.94%	96,044	7.4%	3.94%
Revolving credit facility - unsecured	60,000	4.1%	2.81%	—	—%	—%
Variable rate:						
Bank term loans - unsecured	—	—%	—%	300,000	23.2%	3.77%
Revolving credit facility - unsecured	240,000	16.6%	2.96%	84,000	6.5%	3.92%
	<u>\$ 1,449,082</u>	<u>100.0%</u>	<u>3.54%</u>	<u>\$ 1,294,270</u>	<u>100.0%</u>	<u>3.88%</u>

<sup>1</sup> Differs from carrying amount due to unamortized discounts and loan costs.

<sup>2</sup> Includes 10 HUD mortgages; rate is a weighted average inclusive of a mortgage insurance premium

<sup>3</sup> Total is weighted average rate

The unsecured bank term loans in the table above reflect the effect of \$50,000,000, \$80,000,000, \$130,000,000, two \$100,000,000 and \$150,000,000 notional amount interest rate swaps with maturities of June 2020, and December 2021, that effectively convert variable rate debt to fixed rate debt. These loans bear interest at LIBOR plus a spread, currently a blended 131 basis points, based on our Leverage-Based Applicable Margin, as defined.



To highlight the sensitivity of our convertible senior notes and secured mortgage debt to changes in interest rates, the following summary shows the effects on fair value (“FV”) assuming a parallel shift of 50 basis points (“bps”) in market interest rates for a contract with similar maturities as of December 31, 2019 (*dollars in thousands*):

	Balance	Fair Value <sup>1</sup>	FV reflecting change in interest rates	
			-50 bps	+50 bps
Fixed rate:				
Private placement term loans - unsecured	\$ 400,000	\$ 401,769	\$ 410,607	\$ 393,157
Convertible senior notes	60,000	60,066	60,460	59,673
Fannie Mae loans	95,706	94,409	96,692	92,186
HUD mortgage loans	43,376	46,682	49,895	43,750

<sup>1</sup> The change in fair value of our fixed rate debt was due primarily to the overall change in interest rates.

At December 31, 2019, the fair value of our mortgage and other notes receivable, discounted for estimated changes in the risk-free rate, was approximately \$347,543,000. A 50 basis-point increase in market rates would decrease the estimated fair value of our mortgage and other loans by approximately \$16,828,000, while a 50 basis point decrease in such rates would increase their estimated fair value by approximately \$5,130,000.

#### Equity Price Risk

The Company is no longer subject to equity risk since it no longer owns any marketable securities.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

### Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
National Health Investors, Inc.  
Murfreesboro, Tennessee

#### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of National Health Investors, Inc. (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, cash flows, and equity for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 19, 2020 expressed an unqualified opinion thereon.

#### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

#### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

##### *Asset Impairment - Real Estate Properties*

As described in the Company's consolidated financial statements, the Company had total real estate properties, net of approximately \$2.6 billion as of December 31, 2019. As described in Note 1 to the Company's consolidated financial statements, management evaluates the recoverability of the carrying amounts of real estate properties on a property-by-property basis when events or circumstances indicate that the carrying amounts may not be fully recoverable. A real estate property is impaired when the estimated undiscounted future cash flows of the property are less than the net carrying amount.

We identified management's identification and assessment of the indicators of potential impairment of real estate properties as a critical audit matter. Indicators of an impairment of real estate properties may include significant physical changes in the property, significant adverse changes in general economic conditions, or significant deteriorations of the underlying cash flows of the lessee operating the property. Auditing these elements involved especially challenging auditor judgment due to the nature and extent of auditor effort required to address these matters, including the degree of auditor judgment.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of controls related to management's identification and assessment of indicators of an impairment of real estate properties, including significant physical changes in the property, significant adverse changes in general economic conditions, or significant deteriorations of the underlying cash flows of the lessee operating the property.
- Assessing the reasonableness of management's assumptions and inputs, including certain factors such as the evaluation of the condition of the properties, changes in general economic conditions, and deterioration of the underlying cash flows of the lessee operating the property, which are used by management to identify and assess whether an impairment indicator existed.
- Testing the completeness and accuracy of underlying real estate property data including validating the number of properties and certain financial results to the general ledger.
- Reviewing internal documentation including Board of Director minutes, letters of intent for properties held for sale, and operations department communications for real estate properties, including those with lower lease coverage ratios, to assess whether additional indicators of impairment were present.

#### *Estimation of Overall Fair Value*

As described in Note 2 to the Company's consolidated financial statements, the Company acquired a senior housing facility in Vero Beach, Florida from one of its major tenants in exchange for a \$38.0 million reduction in an existing receivable of approximately \$55.1 million due from the tenant. Changes in the assumptions used by management to estimate the overall fair value of the property acquired in exchange for a reduction in the receivable could have a material impact on the amount and timing of rental income and depreciation expense recorded subsequent to the acquisition date.

We identified management's estimation of the overall fair value of the property received as a critical audit matter. Estimating the overall fair value of the property received required management to make significant judgments related to market capitalization rates and to identify appropriate guideline transactions, which involved complexity and judgment in applying relevant accounting guidance. Performing audit procedures to evaluate the reasonableness of these assumptions and estimates required a high degree of auditor judgment and increased extent of auditor effort, including the need to involve professionals with specialized skills.

The primary procedures we performed to address this critical audit matter included:

- Utilizing professionals with specialized skills and knowledge to assist in: (i) evaluating the reasonableness of the methodology used by management to determine the overall fair value of the property received, and (ii) obtaining independent comparable sales transactions to test the market capitalization rates and to identify appropriate guideline transactions.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2004.

Nashville, Tennessee  
February 19, 2020

**NATIONAL HEALTH INVESTORS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(in thousands, except share and per share amounts)*

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Assets:</b>		
Real estate properties:		
Land	\$ 213,617	\$ 202,196
Buildings and improvements	2,836,673	2,599,526
Construction in progress	24,556	16,643
	<u>3,074,846</u>	<u>2,818,365</u>
Less accumulated depreciation	(514,453)	(451,483)
Real estate properties, net	<u>2,560,393</u>	<u>2,366,882</u>
Mortgage and other notes receivable, net	340,143	246,111
Cash and cash equivalents	5,215	4,659
Straight-line rent receivable	86,044	105,620
Other assets	32,020	27,298
Assets held for sale, net	18,420	—
Total Assets	<u><u>\$ 3,042,235</u></u>	<u><u>\$ 2,750,570</u></u>
<b>Liabilities and Equity:</b>		
Debt	\$ 1,440,465	\$ 1,281,675
Accounts payable and accrued expenses	26,313	19,890
Dividends payable	46,817	42,700
Lease deposit liabilities	10,638	10,638
Deferred income	19,750	5,954
Total Liabilities	<u>1,543,983</u>	<u>1,360,857</u>
<b>Commitments and Contingencies</b>		
<b>National Health Investors Stockholders' Equity:</b>		
Common stock, \$.01 par value; 60,000,000 shares authorized; 44,587,486 and 42,700,411 shares issued and outstanding	446	427
Capital in excess of par value	1,505,948	1,369,919
Cumulative net income in excess (deficit) of dividends	(5,331)	18,068
Accumulated other comprehensive (loss) income	(3,432)	1,299
Total National Health Investors Stockholders' Equity	<u>1,497,631</u>	<u>1,389,713</u>
Noncontrolling interest	621	—
Total Equity	<u>1,498,252</u>	<u>1,389,713</u>
Total Liabilities and Equity	<u><u>\$ 3,042,235</u></u>	<u><u>\$ 2,750,570</u></u>

*The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.*

**NATIONAL HEALTH INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
*(in thousands, except share and per share amounts)*

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Revenues:			
Rental income	\$ 294,182	\$ 280,813	\$ 265,169
Interest income and other	23,899	13,799	13,490
	<u>318,081</u>	<u>294,612</u>	<u>278,659</u>
Expenses:			
Depreciation	76,816	71,349	67,173
Interest	56,299	49,055	46,324
Legal	507	309	494
Franchise, excise and other taxes	1,550	1,166	960
General and administrative	13,399	12,547	12,217
Property taxes and insurance on leased properties	5,798	—	—
Loan and realty losses	2,440	5,115	—
	<u>156,809</u>	<u>139,541</u>	<u>127,168</u>
Income before investment and other gains and losses	161,272	155,071	151,491
Loss on convertible note retirement	(823)	(738)	(2,214)
Investment and other gains	—	—	10,088
Net income	<u>160,449</u>	<u>154,333</u>	<u>159,365</u>
Less: net loss attributable to noncontrolling interest	7	—	—
Net income attributable to common stockholders	<u>\$ 160,456</u>	<u>\$ 154,333</u>	<u>\$ 159,365</u>
Weighted average common shares outstanding:			
Basic	43,417,828	41,943,873	40,894,219
Diluted	43,703,248	42,091,731	41,151,453
Earnings per common share:			
Net income per common share attributable to common stockholders - basic	\$ 3.70	\$ 3.68	\$ 3.90
Net income per common share attributable to common stockholders - diluted	\$ 3.67	\$ 3.67	\$ 3.87

*The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.*



**NATIONAL HEALTH INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(in thousands)*

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net income	\$ 160,449	\$ 154,333	\$ 159,365
Other comprehensive income (loss):			
Change in unrealized (gains) on securities	—	—	(26)
Less: reclassification adjustment for gains in net income	—	—	(10,038)
(Decrease) increase in fair value of cash flow hedge	(3,940)	1,722	884
Reclassification adjustment for amounts recognized in net income	(791)	164	2,627
Total other comprehensive (loss) income	(4,731)	1,886	(6,553)
Comprehensive income	155,718	156,219	152,812
Less: comprehensive loss attributable to noncontrolling interest	7	—	—
Comprehensive income attributable to common stockholders	<u>\$ 155,725</u>	<u>\$ 156,219</u>	<u>\$ 152,812</u>

*The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.*

**NATIONAL HEALTH INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands)*

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:			
Net income	\$ 160,449	\$ 154,333	\$ 159,365
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	76,816	71,349	67,173
Amortization of debt issuance costs, debt discounts and prepaids	5,117	4,437	5,790
Amortization of commitment fees and note receivable discounts	(493)	(662)	(517)
Amortization of lease incentives	845	387	119
Straight-line lease revenue	(22,084)	(22,787)	(26,090)
Non-cash interest income on construction loan	(2,204)	(1,680)	(792)
Gain on sales of real estate	—	—	(50)
Loss on convertible note retirement	823	738	2,214
Loan and realty losses	2,440	5,115	—
Payment of lease incentives	(3,100)	(5,280)	—
Gains on sales of marketable securities, net	—	—	(10,038)
Non-cash share-based compensation	3,646	2,490	2,612
Change in operating assets and liabilities:			
Other assets	1,604	(5,298)	(3,602)
Accounts payable and accrued expenses	300	4,587	1,607
Deferred income	16,796	140	304
Net cash provided by operating activities	<u>240,955</u>	<u>207,869</u>	<u>198,095</u>
Cash flows from investing activities:			
Investment in mortgage and other notes receivable	(108,232)	(106,991)	(49,853)
Collection of mortgage and other notes receivable	2,897	4,346	43,168
Investment in real estate	(219,187)	(131,758)	(157,214)
Investment in real estate development	—	—	(10,691)
Investment in renovations of existing real estate	(17,999)	(15,887)	(7,888)
Proceeds from disposition of real estate properties	—	—	450
Proceeds from sales of marketable securities	—	—	18,182
Net cash used in investing activities	<u>(342,521)</u>	<u>(250,290)</u>	<u>(163,846)</u>
Cash flows from financing activities:			
Proceeds from revolving credit facility	397,000	306,000	269,000
Payments on revolving credit facility	(181,000)	(443,000)	(206,000)
Proceeds from borrowings on term loans	—	300,000	250,000
Payments on term loans	(1,187)	(1,144)	(250,822)
Deferred loan costs	(126)	(2,171)	(4,935)
Distributions to noncontrolling interest	(15)	—	—
Proceeds from noncontrolling interest	643	—	—
Taxes remitted in relation to employee stock options exercised	(1,559)	(1,835)	(571)
Proceeds from equity offering, net	95,774	81,784	122,237
Convertible bond redemption	(22,468)	(29,985)	(60,921)
Dividends paid to stockholders	(179,739)	(165,391)	(153,040)
Net cash provided by (used in) financing activities	<u>107,323</u>	<u>44,258</u>	<u>(35,052)</u>
Increase (decrease) in cash and cash equivalents	5,757	1,837	(803)
Cash and cash equivalents and restricted cash, beginning of period	9,912	8,075	8,878
Cash and cash equivalents and restricted cash, end of period	<u>\$ 15,669</u>	<u>\$ 9,912</u>	<u>\$ 8,075</u>

*The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.*

**NATIONAL HEALTH INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
*(in thousands)*

	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized	\$ 54,027	\$ 45,882	\$ 43,191
Supplemental disclosure of non-cash investing and financing activities:			
Real estate acquired in exchange for straight-line rent receivable	\$ 38,000	\$ —	\$ —
Real estate acquired in exchange for mortgage notes receivable	\$ 14,000	\$ —	\$ —
Change in other assets related to investments in real estate	\$ 291	\$ —	\$ —
Change in accounts payable related to investments in real estate construction	\$ (1,082)	\$ —	\$ —
Change in accounts payable related to investments in real estate acquisition	\$ 2,911	\$ 1,689	\$ (1,855)
Tenant investment in leased asset	\$ —	\$ 3,775	\$ 1,250
Tenant forfeiture of lease escrow deposit	\$ —	\$ 10,637	\$ —
Settlement of contingent asset acquisition liability	\$ —	\$ 750	\$ —
Assumption of debt in real estate acquisition	\$ —	\$ —	\$ 18,311

*The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.*

**NATIONAL HEALTH INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
*(in thousands except share and per share amounts)*

	Common Stock	Capital in Excess of Par Value	Cumulative Net Income in Excess (Deficit) of Dividends	Accumulated Other Comprehensive Income (Loss)	Total National Health Investors' Equity	Noncontrolling Interest	Total Equity
	Shares	Amount					
Balances at December 31, 2016	39,847,860	\$ 398	\$ 1,173,588	\$ 29,873	\$ 1,209,590	\$ —	\$ 1,209,590
Total comprehensive income	—	—	—	159,365	152,812	—	152,812
Equity component in redemption of convertible notes	—	—	(7,930)	—	(7,930)	—	(7,930)
Issuance of common stock, net	1,661,161	17	122,220	—	122,237	—	122,237
Taxes paid on employee stock awards	—	—	(571)	—	(571)	—	(571)
Shares issued on stock options exercised	23,133	—	—	—	—	—	—
Share-based compensation	—	—	2,612	—	2,612	—	2,612
Dividends declared, \$3.80 per common share	—	—	—	(156,633)	(156,633)	—	(156,633)
Balances at December 31, 2017	41,532,154	415	1,289,919	32,605	1,322,117	—	1,322,117
Cumulative effect of change in accounting principle	—	—	—	(235)	235	—	—
Total comprehensive income	—	—	—	154,333	156,219	—	156,219
Equity component in redemption of convertible notes	—	—	(2,427)	—	(2,427)	—	(2,427)
Issuance of common stock, net	1,112,363	12	81,772	—	81,784	—	81,784
Taxes paid on employee stock awards	—	—	(1,835)	—	(1,835)	—	(1,835)
Shares issued on stock options exercised	55,894	—	—	—	—	—	—
Share-based compensation	—	—	2,490	—	2,490	—	2,490
Dividends declared, \$4.00 per common share	—	—	—	(168,635)	(168,635)	—	(168,635)
Balances at December 31, 2018	42,700,411	427	1,369,919	18,068	1,389,713	—	1,389,713
Noncontrolling interest capital contribution	—	—	—	—	—	643	643
Noncontrolling interest distribution	—	—	—	—	—	(15)	(15)
Total comprehensive income	—	—	—	160,456	155,725	(7)	155,718
Issuance of common stock, net	1,209,522	12	95,762	—	95,774	—	95,774
Shares issued in convertible debt redemption	626,397	6	38,180	—	38,186	—	38,186
Taxes paid on employee stock awards	—	—	(1,559)	—	(1,559)	—	(1,559)
Shares issued on stock options exercised	51,156	1	—	—	1	—	1
Share-based compensation	—	—	3,646	—	3,646	—	3,646
Dividends declared, \$4.20 per common share	—	—	—	(183,855)	(183,855)	—	(183,855)
Balances at December 31, 2019	44,587,486	446	\$ 1,505,948	\$ (5,331)	\$ 1,497,631	\$ 621	\$ 1,498,252

*The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.*

**NATIONAL HEALTH INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

*The Company* - National Health Investors, Inc. (“NHI”), established in 1991 as a Maryland corporation, is a self-managed real estate investment trust (“REIT”) specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. Our portfolio consists of lease, mortgage and other note investments in independent living facilities, assisted living facilities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. Other investments include joint ventures structured to comply with the provisions of the REIT Investment Diversification Empowerment Act of 2007 (“RIDEA”) through which we invest in facility operations managed by independent third-parties. We fund our real estate investments primarily through: (1) operating cash flow, (2) debt offerings, including bank lines of credit and term debt, both unsecured and secured, and (3) the sale of equity securities. Units, beds and square footage disclosures in these consolidated financial statements are unaudited.

*Principles of Consolidation* - The accompanying consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries, joint ventures, partnerships and consolidated variable interest entities (“VIE”), if any. All intercompany transactions and balances have been eliminated in consolidation. Net income is adjusted by the portion of net income (loss) attributable to noncontrolling interests.

A VIE is broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity’s activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity’s activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity’s activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights.

We apply Financial Accounting Standards Board (“FASB”) guidance for our arrangements with VIEs which requires us to identify entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of the VIE. In accordance with FASB guidance, management must evaluate each of the Company’s contractual relationships which creates a variable interest in other entities. If the Company has a variable interest and the entity is a VIE, then management must determine whether the Company is the primary beneficiary of the VIE. If it is determined that the Company is the primary beneficiary, NHI would consolidate the VIE. We identify the primary beneficiary of a VIE as the enterprise that has both: (i) the power to direct the activities of the VIE that most significantly impact the entity’s economic performance; and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could be significant to the entity. We perform this analysis on an ongoing basis.

If the Company has determined that an entity is not a VIE, the Company assesses the need for consolidation under all other provisions of Accounting Standards Codification (“ASC”) Topic 810 *Consolidation*. These provisions provide for consolidation of majority-owned entities where a majority voting interest held by the Company demonstrates control of such entities in the absence of any legal constraints.

At December 31, 2019, we held interests in seven unconsolidated VIEs, and, because we generally lack either directly or through related parties any material input or control in the activities that most significantly impact their economic performance, we have concluded that NHI is not the primary beneficiary. Our VIEs are summarized below by date of initial involvement. For further discussion of the nature of the relationships, including the sources of our exposure to these VIEs, see the notes to our consolidated financial statements cross-referenced below.



Date	Name	Source of Exposure	Carrying Amount	Maximum Exposure to Loss	Note Reference
2012	Bickford Senior Living	Various <sup>1</sup>	\$ 63,939,000	\$ 69,523,000	Notes 2, 3
2014	Senior Living Communities	Notes and straight-line receivable	\$ 85,440,000	\$ 95,267,000	Notes 2, 3
2015	Timber Ridge, LCS affiliate	Notes receivable	\$ 59,166,000	\$ 59,816,000	Note 3
2016	Senior Living Management	Notes and straight-line receivable	\$ 26,825,000	\$ 26,825,000	—
2017	Evolve Senior Living	Note receivable	\$ 9,948,000	\$ 9,948,000	—
2018	Sagewood, LCS affiliate	Notes receivable	\$ 121,809,000	\$ 178,531,000	Note 3
2019	41 Management, LLC	Notes receivable	\$ 10,469,000	\$ 15,355,000	Note 3

<sup>1</sup> Notes, straight-line rent receivables & unamortized lease incentives

We are not obligated to provide support beyond our stated commitments to these tenants and borrowers whom we identify as VIEs, and accordingly, our maximum exposure to loss as a result of these relationships is limited to the amount of our commitments, as shown above and discussed in the notes. When the above relationships involve leases, some additional exposure to economic loss is present. Generally, additional economic loss on a lease, if any, would be limited to that resulting from a short period of arrearage and non-payment of monthly rent before we are able to take effective remedial action, as well as costs incurred in transitioning the lease to a new tenant. The potential extent of such loss will be dependent upon individual facts and circumstances, cannot be quantified, and is therefore not included in the tabulation above. Typically, the only carrying amounts involving our leases are accumulated straight-line receivables and unamortized lease incentives.

We structure our operating company joint venture to be compliant with the provisions of RIDEA which permits NHI to receive rent payments through a triple-net lease between a property company and an operating company and allows NHI to receive distributions from the operating company to a taxable REIT subsidiary (“TRS”). Our TRS holds NHI’s equity interests in unconsolidated operating companies thus providing an organizational structure that allows the TRS to engage in a broad range of activities and share in revenues that are otherwise non-qualifying income under the REIT gross income tests.

*Noncontrolling Interest* - As of December 31, 2019, and for the year then ended, our non-controlling interest relates to our property company joint venture with Discovery Senior Living. During the years ended December 31, 2018 and December 31, 2017, there were no noncontrolling interests.

*Use of Estimates* - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Earnings Per Share* - The weighted average number of common shares outstanding during the reporting period is used to calculate basic earnings per common share. Diluted earnings per common share assume the exercise of stock options using the treasury stock method, to the extent dilutive. Diluted earnings per share also incorporate the potential dilutive impact of our 3.25% convertible senior notes due 2021. We apply the treasury stock method to our convertible debt instruments, the effect of which is that conversion will not be assumed for purposes of computing diluted earnings per share unless the average share price of our common stock for the period exceeds the conversion price per share.

*Fair Value Measurements* - Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy is required to prioritize the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of inputs used to measure fair value are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

If the fair value measurement is based on inputs from different levels of the hierarchy, the level within which the entire fair value measurement falls is the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. When an event or circumstance alters our assessment of the observability and thus the appropriate classification of an input to a fair value measurement which we deem to be significant to the fair value measurement as a whole, we will transfer that fair value measurement to the appropriate level within the fair value hierarchy.

*Real Estate Properties* - Real estate properties are recorded at cost or, if acquired through business combination, at fair value, including the fair value of contingent consideration, if any. Cost or fair value at the time of acquisition is allocated among land, buildings, improvements, personal property and lease and other intangibles. For properties acquired in transactions accounted for as asset purchases, the purchase price, which includes transaction costs, is allocated based on the relative fair values of the assets acquired. Cost includes the amount of contingent consideration, if any, deemed to be probable at the acquisition date. Contingent consideration is deemed to be probable to the extent that a significant reversal in amounts recognized is not likely to occur when the uncertainty associated with the contingent consideration is subsequently resolved. Cost also includes capitalized interest during construction periods. We use the straight-line method of depreciation for buildings over their estimated useful lives of 40 years, and improvements over their estimated useful lives ranging to 25 years. For contingent consideration arising from business combinations, the liability is adjusted to estimated fair value at each reporting date through earnings. For contingent consideration arising from asset acquisitions, the liability is adjusted to the amount considered probable each reporting period, with changes reflected as an adjustment to the basis of the related assets.

We evaluate the recoverability of the carrying amount of our real estate properties on a property-by-property basis. We review our properties for recoverability when events or circumstances, including significant physical changes in the property, significant adverse changes in general economic conditions and significant deteriorations of the underlying cash flows of the property, indicate that the carrying amount of the property may not be recoverable. The need to recognize an impairment charge is based on estimated undiscounted future cash flows from a property compared to the carrying amount of that property. If recognition of an impairment charge is necessary, it is measured as the amount by which the carrying amount of the property exceeds the fair value of the property.

*Leases* - Leases entered into during 2019 are accounted for under the guidance of ASC Topic 842, *Leases*. Our leases generally have an initial leasehold term of 10 to 15 years followed by one or more 5-year tenant renewal options. The leases are “triple net leases” under which the tenant is responsible for the payment of all taxes, utilities, insurance premiums, repairs and other charges relating to the operation of the properties, including required levels of capital expenditures each year. The tenant is obligated at its expense to keep all improvements, fixtures and other components of the properties covered by “all risk” insurance in an amount equal to at least the full replacement cost thereof, and to maintain specified minimal personal injury and property damage insurance. The leases also require the tenant to indemnify and hold us harmless from all claims resulting from the use, occupancy and related activities of each property by the tenant, and to indemnify us against all costs related to any release, discovery, clean-up and removal of hazardous substances or materials, or other environmental responsibility with respect to each facility. These provisions, along with a growing senior demographic and the historical propensity for real estate to hold its value, collectively constitute much of the means by which the risk associated with the residual value of our properties is mitigated. While we do not incorporate residual value guarantees, the above lease provisions and considerations inform our expectation of realizable value from our properties upon the expiration of their lease terms. The residual value of our real estate under lease is still subject to various market, asset, and tenant-specific risks and characteristics. As the classification of our leases is dependent on the fair value of estimated cash flows at lease commencement, management’s projected residual values represent significant assumptions in our accounting for operating leases. Similarly, the exercise of options is also subject to these same risks, making a tenant’s lease term another significant variable in a lease’s cash flows.

*Mortgage and Other Notes Receivable* - Each quarter, we evaluate the carrying amount of our notes receivable on an instrument-by-instrument basis for recoverability when events or circumstances, including the non-receipt of contractual principal and interest payments, significant deteriorations of the financial condition of the borrower and significant adverse changes in general economic conditions, indicate that the carrying amount of the note receivable may not be recoverable. If a note receivable becomes more than 30 days delinquent as to contractual principal or interest payments, the loan is classified as non-performing, and thereafter we recognize all amounts due when received. If necessary, an impairment is measured as the amount by which the carrying amount exceeds the discounted cash flows expected to be received under the note receivable or, if foreclosure is probable, the fair value of the collateral securing the note receivable.

*Cash and Cash Equivalents and Restricted Cash* - Cash equivalents consist of all highly liquid investments with an original maturity of three months or less. Restricted cash includes amounts required to be held on deposit in accordance with agency agreements governing our Fannie Mae and HUD mortgages.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Company's Consolidated Balance Sheets with the same amounts shown on the Company's Consolidated Statements of Cash Flows (*in thousands*):

	As of December 31,	
	2019	2018
Cash and cash equivalents	\$ 5,215	\$ 4,659
Restricted cash	10,454	5,253
	<u>\$ 15,669</u>	<u>\$ 9,912</u>

*Concentration of Credit Risks* - Our credit risks primarily relate to cash and cash equivalents and investments in mortgage and other notes receivable. Cash and cash equivalents are primarily held in bank accounts and overnight investments. We maintain our bank deposit accounts with large financial institutions in amounts that often exceed federally-insured limits. We have not experienced any losses in such accounts. Our mortgages and other notes receivable consist primarily of secured loans on facilities.

Our financial instruments, principally our investments in notes receivable, are subject to the possibility of loss of the carrying values as a result of the failure of other parties to perform according to their contractual obligations which may make the instruments less valuable. We obtain collateral in the form of mortgage liens and other protective rights for notes receivable and continually monitor these rights in order to reduce such possibilities of loss. We evaluate the need to provide for reserves for potential losses on our financial instruments based on management's periodic review of our portfolio on an instrument-by-instrument basis.

*Deferred Loan Costs* - Costs incurred to acquire debt are capitalized and amortized by the straight-line method, which approximates the effective-interest method, over the term of the related debt.

*Deferred Income* - Deferred income primarily includes non-refundable commitment fees received by us, which are amortized into income over the expected period of the related loan or lease. In the event that our financing commitment to a potential borrower or lessee expires, the related commitment fees are recognized into income immediately. Commitment fees may be charged based on the terms of the lease agreements and the creditworthiness of the parties.

*Rental Income* - Base rental income is recognized using the straight-line method over the term of the lease to the extent that lease payments are considered collectible. Under certain leases, we receive additional contingent rent, which is calculated on the increase in revenues of the lessee over a base year or base quarter. We recognize contingent rent annually or quarterly based on the actual revenues of the lessee once the target threshold has been achieved. Lease payments that depend on a factor directly related to future use of the property, such as an increase in annual revenues over a base year, are considered to be contingent rentals and are excluded from the schedule of minimum lease payments.

If rental income calculated on a straight-line basis exceeds the cash rent due under a lease, the difference is recorded as an increase to straight-line rent receivable in the Consolidated Balance Sheets and an increase in rental income in the Consolidated Statements of Income. If rental income on a straight-line basis is calculated to be less than cash received, there is a decrease in the same accounts.

Rental income is reduced for the non-cash amortization of payments made upon the eventual settlement of commitments and contingencies originally identified and recorded as lease inducements. We record lease inducements to the extent that it is probable that a significant reversal of amounts recognized will not occur when the uncertainty associated with the contingent consideration is subsequently resolved.

We identify a lease as non-performing if a required payment is not received within 30 days of the date it is due. Rental income on non-performing leased real estate properties is recognized in the period when the related cash is received.

*Interest Income from Mortgage and Other Notes Receivable* - Interest income is recognized based on the interest rates and principal amounts outstanding on the notes receivable. We identify a mortgage loan as non-performing if a required payment is not received within 30 days of the date it is due. Our policy related to mortgage interest income on non-performing mortgage loans is to recognize mortgage interest income in the period when the cash is received. As of December 31, 2019, we had not identified any of our mortgages as non-performing.

*Derivatives* - In the normal course of business, we are subject to risk from adverse fluctuations in interest rates. We have chosen to manage this risk through the use of derivative financial instruments, primarily interest rate swaps. Counterparties to these contracts are major financial institutions. We are exposed to credit loss in the event of nonperformance by these counterparties. We do not use derivative instruments for trading or speculative purposes. Our objective in managing exposure to market risk is to limit the impact on cash flows relating to the change in market interest rates on our variable rate debt.

To qualify for hedge accounting, our interest rate swaps must effectively reduce the risk exposure that they are designed to hedge. In addition, at inception of a qualifying cash flow hedging relationship, the underlying transaction or transactions must be, and be expected to remain, probable of occurring in accordance with our related assertions. All of our hedges are cash flow hedges.

We recognize all derivative instruments, including embedded derivatives required to be bifurcated, as assets or liabilities at their fair value in the Consolidated Balance Sheets. Changes in the fair value of derivative instruments that are not designated as hedges or that do not meet the criteria of hedge accounting are recognized in earnings. For derivatives designated in qualifying cash flow hedging relationships, the change in fair value of the effective portion of the derivatives is recognized in accumulated other comprehensive income (loss), whereas the change in fair value of the ineffective portion is recognized in earnings. Gains and losses are reclassified from accumulated other comprehensive income (loss) into earnings once the underlying hedged transaction is recognized in earnings.

*Federal Income Taxes* - We intend at all times to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Aside from such income taxes which may be applicable to the taxable income in the TRS, we will not be subject to U.S. federal income tax, provided that we continue to qualify as a REIT and make distributions to stockholders at least equal to or in excess of 90% our taxable income. Accordingly, no provision for federal income taxes has been made in the consolidated financial statements. A failure to qualify under the applicable REIT qualification rules and regulations would have a material adverse impact on our financial position, results of operations and cash flows.

Earnings and profits, which determine the taxability of dividends to stockholders, differ from net income reported for financial reporting purposes due primarily to differences in the basis of assets, estimated useful lives used to compute depreciation expense, gains on sales of real estate, non-cash compensation expense and recognition of commitment fees.

Our tax returns filed for years beginning in 2016 are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our Consolidated Statements of Income as a component of income tax expense.

*Segment Disclosures* - We are in the business of owning and financing health care properties. We are managed as one segment, rather than multiple segments, for internal purposes and for internal decision making.

*New Accounting Pronouncements* - For a review of recent accounting pronouncements pertinent to our operations and management's judgment as to the impact that the eventual adoption of these pronouncements will have on our financial position and results of operation, see Note 14.

## **NOTE 2. REAL ESTATE**

As of December 31, 2019, we owned 223 health care real estate properties located in 34 states and consisting of 146 senior housing communities, 72 skilled nursing facilities, 3 hospitals and 2 medical office buildings. Our senior housing properties include assisted living facilities, senior living campuses, independent living facilities, and entrance-fee communities. These investments (excluding our corporate office of \$2,519,000) consisted of properties with an original cost of approximately \$3,072,327,000, rented under triple-net leases to 32 lessees.

### *Acquisitions and New Leases of Real Estate*

During the year ended December 31, 2019, we announced the following real estate investments and commitments as described below (*dollars in thousands*):

Operator	Date	Properties	Asset Class	Amount
Wingate Healthcare	January 2019	1	SHO	\$ 52,200
Holiday Retirement	January 2019	1	SHO	38,000
Comfort Care Senior Living	April 2019	1	SHO	10,800
Comfort Care Senior Living	May 2019	1	SHO	13,500
Discovery Senior Living	May 2019	6	SHO	127,917
Cappella Living Solutions	July 2019	1	SHO	7,600
Bickford Senior Living	September 2019	1	SHO	15,100
41 Management	December 2019	1	SHO	9,340
				<u>\$ 274,457</u>

### *Wingate*

On January 15, 2019, we acquired a 267-unit senior living campus in Massachusetts for a purchase price of \$50,300,000, including closing costs of \$300,000. The facility is being leased to Wingate Healthcare, Inc. (“Wingate”) for a term of ten years, with three renewal options of five years each, at an initial lease rate of 7.5% plus annual fixed escalators. We have committed to the additional funding of up to \$1,900,000 in capital improvements, and the lease provides for incentive payments up to \$5,000,000 to become available beginning in 2020 upon the attainment of certain operating metrics. NHI has a right of first offer on two additional Wingate-operated facilities. We accounted for the transaction as an asset purchase.

### *Comfort Care*

On April 30, 2019, we acquired a newly-constructed 60-unit assisted living facility in Shelby, Michigan which has 14 memory care units currently undergoing stabilization. The total commitment of \$10,800,000 includes \$9,560,000 funded at closing with the remaining amount to be funded once certain post closing and construction requirements are met. On May 20, 2019, we acquired a property in Brighton, Michigan, consisting of 73 assisted living/memory care units. The purchase price for the Brighton acquisition was \$13,500,000, inclusive of closing costs. We leased the properties to Comfort Care Senior Living (“Comfort Care”), under leases which provide for initial lease rate of 7.75%, with annual fixed escalators beginning in year three over the term of ten years plus two renewal options of five years each. The leases each include a \$3,000,000 earnout incentive which will be added to the respective lease base if funded. We accounted for the acquisitions as asset purchases.

### *Discovery*

On May 31, 2019, we contributed \$25,028,000 in cash for a 97.5% equity interest in a consolidated subsidiary (“Discovery PropCo”), which simultaneously acquired from a third party six senior housing facilities comprising 145 independent-living units, 356 assisted-living units and 95 memory-care units, for a total of 596 units. Discovery Senior Housing Investor XXIV, LLC, (“Discovery”) contributed \$631,000 for its non-controlling 2.5% equity interest. We invested an additional \$102,258,000 as a preferred equity contribution, for a total NHI investment of \$127,286,000. The additional equity contribution of \$102,258,000 carries a preference in liquidation as well as in the distribution of operating cash flow. Total cash of \$127,917,000 invested in Discovery PropCo included approximately \$1,067,000 in closing costs.

The facilities were leased by Discovery PropCo to an affiliate of Discovery for a term of ten years with two renewal periods of five years at an initial lease rate of 6.5% with fixed annual escalators through the fifth year of the initial lease term followed by CPI-based escalators, subject to floor and ceiling, thereafter.

Discovery is eligible, beginning in 2023, for up to \$4,000,000 of lease inducement payments upon meeting specified performance metrics. Inducement payments funded under the agreement will be added to the lease base. Additionally, PropCo has committed to Discovery for funding up to \$2,000,000 toward the purchase of condominium units located at one of the facilities, \$497,000 of which has been funded as a result of transactions in November 2019. The total purchase price for the properties acquired, as discussed above, was allocated to the tangible assets based upon their relative fair values consisting of \$6,301,000 to the land and \$121,616,000 to the buildings and improvements. We accounted for the transaction as an asset purchase.

As the managing member, NHI directs the activities of Discovery PropCo that most significantly impact economic performance, subject to limited protective rights of Discovery for significant business decisions. We consider Discovery PropCo a VIE, based on our determination that the total equity at risk is insufficient to finance activities without additional subordinated financial support. Because of our control of Discovery PropCo, we consolidate its assets, liabilities, noncontrolling interest and operations in our consolidated financial statements.



## *Cappella Living Solutions*

On July 23, 2019, we acquired a 51-unit assisted living facility in Pueblo, Colorado for \$7,600,000 including \$100,000 of closing costs. We leased the facility to Christian Living Services, Inc., d/b/a Cappella Living Solutions, for a term of 15 years at an initial lease rate of 7.25%, with CPI escalators subject to floor and ceiling. We accounted for this transaction as an asset purchase.

## *41 Management*

We transitioned four Minnesota properties on October 1, 2019, from Bickford Senior Living to 41 Management. The transitioned properties are under a master lease which calls for total first-year rent of \$906,000 and includes our commitment to make available up to \$400,000 in targeted improvements. The lease term of 15 years has 2 renewal options of five years each and an initial rate of 7%. Under the master lease, escalators are fixed at 2.5%, and the lease is secured by corporate and personal guarantees. On December 27, 2019, for a cash purchase price of \$9,340,000, including closing costs of \$140,000, we acquired a 48 unit assisted living and memory care facility in the St. Paul, Minnesota area. The St. Paul facility was added to the existing master lease described above. We accounted for the St. Paul transaction as an asset purchase.

## Major Tenants

### *Holiday*

In November 2018, we entered into a lease amendment and guaranty release (“the Agreement”) with an affiliate of Holiday Retirement (“Holiday”). Among other provisions, the Agreement decreased base rent beginning in 2019 from \$39,000,000 to \$31,500,000, extended the term of the original lease through 2035, improved the credit position of the tenant and increased required minimum capital expenditure per unit. As consideration for amending provisions included in the original 2013 lease, Holiday agreed to pay NHI \$55,125,000 in cash or real estate and forfeit \$10,637,000 of their original \$21,275,000 security deposit.

On January 31, 2019, we acquired a senior housing facility in Vero Beach, Florida from Holiday consisting of 157 independent living and 71 assisted living units in exchange for \$38,000,000 toward the \$55,125,000 receivable arising from the lease amendment, discussed above. The property was added to the master lease at a 6.71% lease rate. Under the restructured master lease, annual lease escalators ranging from 2% to 3%, based on portfolio revenue growth, will go into effect on November 1, 2020. Holiday settled the remaining commitment to NHI with cash of \$17,125,000 at closing. Receipt of the Vero Beach property and collection of the remaining commitment in cash was recognized as adjustments to the outstanding Holiday lease receivable and resulted in the change of our straight-line receivable from Holiday at the beginning of the year into a straight-line payable, which is included in the accompanying Consolidated Balance Sheet at December 31, 2019 as “deferred income.”

As of December 31, 2019, we leased 26 independent living facilities to Holiday, including the Vero Beach property mentioned above. The master lease, which matures in 2035, provides for annual lease escalators beginning November 1, 2020. Of our total revenues, \$40,459,000 (13%), \$43,311,000 (15%) and \$43,817,000 (16%) were derived from Holiday for the years ended December 31, 2019, 2018 and 2017, respectively, including \$6,621,000, \$5,616,000 and \$7,397,000 in straight-line rent income, respectively. Our tenant operates the facilities pursuant to a management agreement with a Holiday-affiliated manager.

## *Senior Living Communities*

As of December 31, 2019, we leased 10 retirement communities totaling 2,068 units to Senior Living Communities, LLC (“Senior Living”). The 15-year master lease, which began in December 2014, contains two renewal options of five years each and provides for an annual escalator of 3% effective January 1, 2019.

Of our total revenues, \$46,927,000 (15%), \$45,868,000 (16%) and \$45,735,000 (16%) in rental income were derived from Senior Living for the years ended December 31, 2019, 2018 and 2017, respectively, including \$4,934,000, \$5,436,000 and \$6,984,000 in straight-line rent.

## *NHC*

We lease 42 facilities under two master leases to National HealthCare Corporation (“NHC”), a publicly-held company. The facilities leased to NHC consist of three independent living facilities and 39 skilled nursing facilities (4 of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC). These facilities are leased to NHC under the terms

of an amended master lease agreement originally dated October 17, 1991 (“the 1991 lease”) which includes our 35 legacy properties and a master lease agreement dated August 30, 2013 (“the 2013 lease”) which includes 7 skilled nursing facilities acquired in 2013.

The 1991 lease expiration is December 31, 2026. There are two additional renewal options of five years, each at fair rental value as negotiated between the parties. Under the terms of the 1991 lease, the base annual rental is \$30,750,000 and rent escalates by 4% of the increase, if any, in each facility’s revenue over a 2007 base year. The 2013 lease provides for a base annual rental of \$3,450,000 and has a lease expiration of August 2028. Under the terms of the 2013 lease, rent escalates 4% of the increase, if any, in each facility’s revenue over the 2014 base year. For both the 1991 lease and the 2013 lease, we refer to this additional rent component as “percentage rent.” During the last three years of the 2013 lease, NHC will have the option to purchase the facilities for \$49,000,000.

The following table summarizes the percentage rent income from NHC (*in thousands*):

	Year Ended December 31,		
	2019	2018	2017
Current year	\$ 3,650	\$ 3,411	\$ 3,127
Prior year final certification <sup>1</sup>	334	285	194
Total percentage rent income	<u>\$ 3,984</u>	<u>\$ 3,696</u>	<u>\$ 3,321</u>

<sup>1</sup> For purposes of the percentage rent calculation described in the master lease agreement, NHC’s annual revenue by facility for a given year is certified to NHI by March 31st of the following year.

Of our total revenues, \$38,131,000 (12%), \$37,843,000 (13%) and \$37,467,000 (13%) in rental income were derived from NHC for the years ended December 31, 2019, 2018 and 2017, respectively.

The chairman of our board of directors is also a director on NHC’s board of directors. As of December 31, 2019, NHC owned 1,630,642 shares of our common stock.

#### *Bickford*

As of December 31, 2019, our Bickford Senior Living (“Bickford”) lease portfolio consists of the following (*dollars in thousands*):

	Lease Expiration				Total
	June 2023	September 2024	May 2031	April 2033	
Number of Properties	13	10	19	5	47
2019 Contractual Rent	\$ 11,468	\$ 9,442	\$ 21,838	\$ 4,918	\$ 47,666
2019 Straight Line Rent	358	467	2,903	860	4,588
2019 Lease Incentive Amortization	—	—	(724)	—	(724)
	<u>\$ 11,826</u>	<u>\$ 9,909</u>	<u>\$ 24,017</u>	<u>\$ 5,778</u>	<u>\$ 51,530</u>

On September 10, 2019, NHI amended a master lease, which matures in May 2031 and covers 14 Bickford properties, to change the annual escalator from a fixed percentage to a CPI-based escalator with a floor of 2% and a ceiling of 3%. A four-building portfolio in Minnesota that had been held by Bickford through September 30, 2019, transitioned to 41 Management, LLC, on October 1, 2019. Also, as of October 1, 2019, a master lease covering nine buildings subject to HUD mortgages was modified to reflect a decrease in monthly rent and provide for CPI-based escalators.

On September 10, 2019, we acquired a 60-unit assisted living/memory care facility located in Gurnee, Illinois, from Bickford. The acquisition price was \$15,100,000, including \$100,000 in closing costs, and the cancellation of an outstanding construction note receivable of \$14,035,000, including interest. We leased the building for a term of twelve years at an initial lease rate of 8%, with CPI escalators subject to a floor and ceiling. We accounted for the transaction as an asset purchase.

Of our total revenues, \$52,570,000 (17%), \$50,093,000 (17%) and \$41,606,000 (15%) were recognized as rental income from Bickford for the years ended December 31, 2019, 2018 and 2017, respectively, including \$4,651,000, \$5,028,000 and \$5,102,000 in straight-line rent income, respectively.

## Other Portfolio Activity

### *Tenant Transitioning*

We have completed the contractual transition of three lease portfolios to new tenants following a period of non-compliance by the former operators. The portfolios consist of three former SH-Regency Leasing, LLC (“Regency”) buildings, five former LaSalle Group buildings and one facility formerly leased to Landmark Senior Living (“Landmark”). To expedite stabilization of the facilities, we committed to specified income-generating capital expenditures for the re-branding and refurbishment of certain of these properties. The new leases each specify initial periods during which rental income to NHI shall be based on net operating income (“NOI”), after deduction of management fees. Following the initial periods, each lease converts to a structured payment based on a fair-value calculation.

The former Regency buildings have been leased to 3 operators, Senior Living Communities, Discovery, and Vitality MC TN, LLC (“Vitality”). Of our total revenues, \$1,277,000 (0.4%), \$5,103,000 (1.7%) and \$5,466,000 (2.0%) in rental income were derived from the three former Regency buildings for the years ended December 31, 2019, 2018 and 2017, respectively.

Effective July 1, 2019 we transitioned an Indiana independent living/assisted living facility to Discovery in conjunction with our other properties in transition. The triple-net lease matures in June 2024 with two five-year options to extend. Rent is initially based on net operating income. Beginning in 2022, rent is to reset to the greater of \$1,400,000 or a market rate as provided by formula. For the duration of the lease, the rent, as reset, is subject to a 2.5% escalator. Concurrent with Discovery’s entrance into the lease, NHI provided a working capital loan for amounts up to \$750,000 at an interest rate of 6.5% and a \$900,000 capital improvement commitment to fund improvements to the facility. The loan extends during the term of the lease.

On April 16, 2019, Chancellor Health Care leased the five former LaSalle Group buildings. Our lease agreement with Chancellor provides for NHI to receive 100% of net operating cash flow generated by the facilities, after management fees, pending stabilization of the operations of the facility. During the first quarter of 2019, we also commenced litigation for the recovery of certain funds owed by LaSalle Group under the lease and against the principal executive personally under the guaranty agreement. Of our total revenues, \$1,162,000 (0.4%), \$4,455,000 (1.5%) and \$4,184,000 (1.5%) in rental income were derived from the five former LaSalle Group buildings for the years ended December 31, 2019, 2018 and 2017, respectively.

In February 2019, we transitioned a non-performing single-property lease in Wisconsin with Landmark to BAKA Enterprises, temporarily acting under a management agreement with Landmark. Under the terms of a short-term agreement, NHI received 95% of net operating cash flow, after management fees, as generated by the facilities. We have entered into a new lease with an initial term of 8 years and a fixed payment schedule through October 2022. In November 2022, the lease indicates a reset of rent to fair market rental value as agreed with the tenant. Of our total revenues, \$1,204,000 (0.4%), \$1,085,000 (0.4%) and \$1,957,000 (0.7%) were derived from the former Landmark property for the years ended December 31, 2019, 2018 and 2017 respectively, including \$625,000 received during 2019 as a settlement payment.

As we seek to stabilize the operations of these facilities, if our resulting tenants or operating partners do not have adequate liquidity to accept the risks and rewards of a tenant-lessee, NHI might be deemed the primary beneficiary of the operations and might be required to consolidate those statements of financial position and results of operations of the managers or operating partners into our consolidated financial statements.

### *Assets Held For Sale*

In September 2019, we classified a portfolio of eight assisted living properties located in Arizona (4), Tennessee (3) and South Carolina (1) as held for sale, after the current tenant expressed an intention to exercise its purchase option on the properties. Of our total revenues, \$4,250,000 (1.3%), \$4,250,000 (1.4%) and \$4,250,000 (1.5%) in rental income were derived from this eight property portfolio for the years ended December 31, 2019, 2018 and 2017 respectively. The purchase option called for the parties to split any appreciation on a 50/50 basis above \$37,520,000. During the first quarter of 2020, NHI and the tenant agreed to a fair valuation of \$41,000,000 for the properties, and, accordingly, on January 22, 2020, we disposed of the properties at the agreed price of \$39,260,000. With the expectation of deferring gain recognition from this disposition, we have engaged a qualified intermediary to effect a like-kind exchange under §1031 of the Internal Revenue Code.

We have identified two assisted living properties for disposal and began active marketing of the properties. The buildings are smaller than are typical of our portfolio. In January 2019 we ceased recording depreciation on the properties, and we booked an adjustment to lease revenues to write off the associated \$124,000 in straight-line receivables. We recognized an impairment loss of \$2,500,000 in 2019 to write down the properties to their estimated net realizable value.

### Tenant Purchase Options

Certain of our operators hold purchase options allowing them to acquire properties they currently lease from NHI. For options open or coming open in the near future, we are engaged in preliminary negotiations to continue as lessor or in some other capacity.

A summary of these tenant options, excluding properties classified as held for sale, is presented below (*dollars in thousands*):

Asset Type	Number of Properties	Lease Expiration	1st Option Open Year	Option Basis	Contractual Rent
MOB	1	February 2025	Open	i	\$ 306
HOSP	1	March 2025	2020	iv	\$ 1,957
HOSP	1	September 2027	2021	ii	\$ 2,760
SHO	2	May 2031	2021	iv	\$ 5,063
HOSP	1	June 2022	2022	i	\$ 3,502
SNF	7	August 2028	2025	iii	\$ 3,671
SNF	1	September 2028	2028	iii	\$ 472

Tenant purchase options generally give the lessee an option to purchase the underlying property for consideration determined by i) greater of fixed base price or fair market value; ii) a fixed base price plus a specified share in any appreciation; iii) fixed base price; or iv) a fixed capitalization rate on lease revenue.

### Future Minimum Lease Payments

With the adoption of Accounting Standards Codification (“ASC”) Topic 842, *Leases*, as discussed in Note 14, our minimum lease payments are now determined under guidance different from that required as of December 31, 2018, when we were subject to ASC Topic 840 *Leases*. Presented in the following table are future minimum lease payments, as of December 31, 2019, to be received by us under our operating leases, as determined under ASC 842 (*in thousands*):

Twelve months ended December 31, 2019	
2020	\$ 266,320
2021	267,871
2022	271,528
2023	265,584
2024	257,726
Thereafter	1,569,556
	<u>\$ 2,898,585</u>

We assess the collectibility of our lease receivables, consisting primarily of straight-line rents receivable, based on several factors, including payment history, the financial strength of the tenant and any guarantors, historical operations and operating trends of the property, and current economic conditions. If our evaluation of these factors indicates it is not probable that we will be able to collect substantially all of the receivable, we de-recognize all rent receivable assets, including the straight-line rent receivable asset and record as a reduction in rental revenue.

### Variable Lease Payments

Most of our existing leases contain annual escalators in rent payments. For financial statement purposes, rental income is recognized on a straight-line basis over the term of the lease where the lease contains fixed escalators. Some of our leases contain escalators that are determined annually based on a variable index or other factor that is indeterminable at the inception of the lease. The table below indicates the amount of lease revenue recognized as a result of fixed and variable lease escalators (*in thousands*):

	Year Ended December 31,		
	2019	2018	2017
Lease payments based on fixed escalators	\$ 260,488	\$ 253,528	\$ 235,343
Lease payments based on variable escalators	4,967	4,111	3,617
Straight-line rent income	22,084	22,787	26,090
Escrow funds received from tenants	5,798	—	—
Amortization of lease incentives	845	387	119
Rental income	<u>\$ 294,182</u>	<u>\$ 280,813</u>	<u>\$ 265,169</u>

### NOTE 3. MORTGAGE AND OTHER NOTES RECEIVABLE

At December 31, 2019, we had investments in mortgage notes receivable with a carrying value of \$294,120,000 secured by real estate and UCC liens on the personal property of 15 facilities and other notes receivable with a carrying value of \$46,023,000 guaranteed by significant parties to the notes or by cross-collateralization of properties with the same owner. At December 31, 2018, we had investments in mortgage notes receivable with a carrying value of \$202,877,000 and other notes receivable with a carrying value of \$43,234,000. No allowance for credit losses was considered necessary at December 31, 2019 or 2018.

During the year ended December 31, 2019, we announced the following note receivable investments and commitments as described below (*dollars in thousands*):

Operator	Date	Properties	Asset Class	Amount
Note Investments				
Senior Living Communities	June 2019	1	SHO	32,700
41 Management	June 2019	1	SHO	10,800
Discovery Senior Living	July 2019	1	SHO	750
Discovery Senior Living	August 2019	1	SHO	6,423
41 Management	December 2019	1	SHO	3,870
				<u>\$ 54,543</u>

#### *Discovery*

On August 30, 2019, NHI extended a senior mortgage loan of \$6,423,000 at 7% annual interest to affiliates of Discovery to acquire a senior housing facility in Indiana for which Discovery PropCo, will have the option to purchase at stabilization. The facility consists of 52 assisted living units and 22 memory care units. As discussed earlier in Note 2, effective July 1, 2019, NHI provided an additional working capital loan for amounts up to \$750,000 at an interest rate of 6.5%.

#### *41 Management*

On June 14, 2019, we committed to providing first mortgage financing to 41 Management, LLC for up to \$10,800,000 to fund the construction of a 51-unit assisted living facility in Wisconsin. The loan carries an interest rate of 8.50% for its term of five years, subject to two renewals of one year each. The agreement includes a purchase option, which is effective upon stabilization of the facility. Additional security on the loan includes personal and corporate guarantees and the funding of a \$2,400,000 working capital escrow. The total amount funded on the note was \$6,045,000 as of December 31, 2019.

On December 20, 2019, we extended a second mortgage loan of \$3,870,000 to 41 Management to refinance the subordinated debt on a newly constructed 48-unit assisted living/memory care facility in Wisconsin. The loan provides for interest of 13% and a one year maturity plus two six-month renewal terms at the option of the borrower. The loan is secured by corporate and personal guarantees. Upon stabilization, NHI has the option to purchase the facility at fair market value based on a metric-driven formula.

Our loans to and receivables from 41 Management represent variable interests. 41 Management is structured to limit liability for potential claims for damages, is capitalized to achieve that purpose and is considered a VIE within the definition set forth in Note 1. As discussed more fully in Note 1, we have concluded that we are not the primary beneficiary of 41 Management.

#### *Bickford*

At December 31, 2019, our construction loans to Bickford are summarized as follows:



Commencement	Rate	Maturity	Commitment	Drawn	Location
January 2017	9%	5 years	14,000,000	(14,000,000)	Michigan
January 2018	9%	5 years	14,000,000	(11,804,000)	Virginia
July 2018	9%	5 years	14,700,000	(11,312,000)	Michigan
			<u>\$ 42,700,000</u>	<u>\$ (37,116,000)</u>	

The construction loans are secured by first mortgage liens on substantially all real and personal property as well as a pledge of any and all leases or agreements which may grant a right of use to the property. Usual and customary covenants extend to the agreements, including the borrower's obligation for payment of insurance and taxes. NHI has a fair market value purchase option on the properties at stabilization of the underlying operations. On exercise of our purchase option on these development projects, Bickford as borrower may receive up to \$2,000,000 per project based on the achievement of predetermined operational milestones and, if funded, will increase NHI's future purchase price.

As discussed in Note 2, on September 10, 2019, we acquired the Illinois location constructed by Bickford for \$15,100,000. In the exchange we cancelled Bickford's outstanding debt, including interest due, on the property of \$14,035,000.

Our loans to Bickford represent a variable interest. Bickford is structured to limit liability for potential claims for damages, is capitalized to achieve that purpose and is considered a VIE within the definition set forth in Note 1. As discussed more fully in Note 1, we have concluded that we are not the primary beneficiary of Bickford Senior Living.

#### *Life Care Services - Sagewood*

On December 21, 2018, we entered into an agreement to lend LCS-Westminster Partnership IV LLP ("LCS-WP IV"), an affiliate of Life Care Services ("LCS"), the manager of the facility, up to \$180,000,000. The loan agreement conveys a mortgage interest and will facilitate the construction of Phase II of Sagewood, a Type-A Continuing Care Retirement Community in Scottsdale, AZ. As an affiliate of a larger company, LCS-WP IV is structured to limit liability for potential damage claims, is capitalized to achieve that purpose and is considered a VIE within the definition set forth in Note 1. As discussed more fully in Note 1, we have concluded that we are not the primary beneficiary of LCS-WP IV.

The loan takes the form of two notes under a master credit agreement. The senior note ("Note A") totals \$118,800,000 at a 7.25% interest rate with 10 basis-point annual escalators after three years and has a term of 10 years. We have funded \$77,340,000 of Note A as of December 31, 2019. Note A is interest-only and is locked to prepayment until January 2021. After 2020, the prepayment penalty starts at 2% and declines to 1% in 2022. The second note ("Note B") is a construction loan for up to \$61,200,000 at an annual interest rate of 8.5% and carries a maturity of five years. The total amount funded on Note B was \$45,938,000 as of December 31, 2019.

#### *Life Care Services - Timber Ridge*

In February 2015, we entered into an agreement with LCS-Westminster Partnership III LLP ("LCS-WP III"), an affiliate of LCS, the manager of the facility, to lend up to \$154,500,000. The loan agreement conveys a mortgage interest and facilitated the construction of Phase II of Timber Ridge at Talus ("Timber Ridge"), a Type-A continuing care retirement community in Issaquah, Washington. Our loan to LCS-WP III represents a variable interest. As an affiliate of a larger company, LCS-WP III is structured to limit liability for potential damage claims, is capitalized to achieve that purpose and is considered a VIE within the definition set forth in Note 1.

The loan took the form of two notes under a master credit agreement. The senior note ("Note A") totals \$60,000,000 at an initial rate of 6.75% (currently 6.95%) with 10 basis-point escalators after three years and has a term of 10 years. We have funded \$59,350,000 of Note A as of December 31, 2019. Note A is interest-only and is locked to prepayment for three years. Beginning in February 2018, the prepayment penalty started at 5% and will decline 1% annually for five years. Note B was a construction loan for up to \$94,500,000, with the remaining outstanding balance being fully repaid during the first quarter of 2018.

As discussed more fully at Note 15, on January 31, 2020 we entered into a joint venture transaction with LCS to create Timber Ridge PropCo which acquired the Timber Ridge property.

#### *Senior Living Communities*

On June 25, 2019, we provided a mortgage loan of \$32,700,000 to Senior Living for the acquisition of a 248-unit continuing care retirement community in Columbia, South Carolina. The financing is for a term of five years with two one year extensions

and carries an interest rate of 7.25%. Additionally, the loan conveys to NHI a purchase option at a stated minimum price of \$38,250,000, subject to adjustment for market conditions.

In December 2014, we provided a \$15,000,000 revolving line of credit, the maturity of which mirrors the 15-year term of the master lease. Borrowings are used primarily to finance construction projects within the Senior Living portfolio, including building additional units. The facility, which may also be used to meet general working capital needs, was amended as of December 10, 2019, to reduce availability to \$12,000,000 with a further reduction in capacity to \$7,000,000 beginning January 1, 2022 through lease maturity in December 2029. Also effective December 10, 2019, a sub-limit on the availability of funding for working capital needs was established at \$10,000,000 for this loan, extending through January 1, 2022, at which time the limit is to be reduced to \$5,000,000. Amounts outstanding under the facility, \$5,174,000 at December 31, 2019, bear interest at an annual rate equal to the prevailing 10-year U.S. Treasury rate, 1.92% at December 31, 2019, plus 6%.

NHI has two mezzanine loans of up to \$12,000,000 and \$2,000,000, respectively, to affiliates of Senior Living, whose purpose was to partially fund construction of a 186-unit senior living campus on Daniel Island in South Carolina, which opened in April 2018. The loans bear interest payable monthly at a 10% annual rate and mature in March 2021. The loans were fully drawn at December 31, 2019, and provided NHI with a fixed capitalization rate purchase option on the development upon its meeting certain operational metrics. The option is to remain open during the term of the loans, plus any extensions.

Our loans to Senior Living and its subsidiaries represent a variable interest. Senior Living is structured to limit liability for potential claims for damages, is appropriately capitalized for that purpose and is considered a VIE. As discussed more fully in Note 1, we have concluded that we are not the primary beneficiary of Senior Living.

#### NOTE 4. OTHER ASSETS

Our other assets consist of the following (*in thousands*):

	As of December 31,	
	2019	2018
Accounts receivable and prepaid expenses	\$ 3,212	\$ 6,381
Unamortized lease incentive payments	10,146	7,456
Regulatory escrows	8,208	8,208
Restricted cash	10,454	5,253
	<u>\$ 32,020</u>	<u>\$ 27,298</u>

Regulatory escrows include mandated deposits in connection with our entrance fee communities in Connecticut. Restricted cash includes amounts required to be held on deposit in accordance with agency agreements governing our Fannie Mae and HUD mortgages.

#### NOTE 5. DEBT

Debt consists of the following (*in thousands*):

	December 31, 2019	December 31, 2018
Revolving credit facility - unsecured	\$ 300,000	\$ 84,000
Bank term loans - unsecured	550,000	550,000
Private placement term loans - unsecured	400,000	400,000
HUD mortgage loans (net of discount of \$1,238 and \$1,320)	42,138	42,906
Fannie Mae term loans - secured, non-recourse	95,706	96,044
Convertible senior notes - unsecured (net of discount of \$303 and \$1,391)	59,697	118,609
Unamortized loan costs	(7,076)	(9,884)
	<u>\$ 1,440,465</u>	<u>\$ 1,281,675</u>

Aggregate principal maturities of debt as of December 31, 2019 for each of the next five years and thereafter are as follows (in thousands):

For The Year Ended December 31,	
2020	\$ 1,230
2021	61,279
2022	551,328
2023	476,379
2024	76,429
Thereafter	282,437
	<u>1,449,082</u>
Less: discount	(1,541)
Less: unamortized loan costs	(7,076)
	<u><u>\$ 1,440,465</u></u>

*Revolving credit facility and bank term loans - unsecured*

Our unsecured bank credit facility consists of \$250,000,000 and \$300,000,000 term loans and a \$550,000,000 revolving credit facility. The \$250,000,000 term loan and \$550,000,000 revolving facility mature in August 2022, and the \$300,000,000 term loan matures in September 2023. On March 22, 2019 and June 28, 2019, we entered into swap agreements to fix the interest rates on \$340,000,000 of term loans and \$60,000,000 of our revolving credit facility through December 2021, when LIBOR is scheduled for discontinuation.

The revolving facility fee is currently 20 basis points per annum, and based on our current leverage ratios, the facility presently provides for floating interest on the revolver and the term loans at 30-day LIBOR plus 120 bps and a blended 132 bps, respectively. At December 31, 2019 and December 31, 2018, 30-day LIBOR was 176 and 252 bps, respectively. Within the facility, the employment of interest rate swaps on our debt leaves only \$240,000,000 of our revolving credit facility exposed to interest rate risk through June 2020, when our \$80,000,000 and \$130,000,000 swaps expire. Our swaps and the financial instruments to which they relate are described in the table below, under the caption "Interest Rate Swap Agreements."

At December 31, 2019, we had \$250,000,000 available to draw on the revolving portion of our credit facility, subject to usual and customary covenants. Among other stipulations, the unsecured credit facility agreement requires that we maintain certain financial ratios within limits set by our creditors. At December 31, 2019, we were in compliance with these ratios.

Pinnacle Bank is a participating member of our banking group. A member of NHI's board of directors and chairman of our audit committee is also the chairman of Pinnacle Financial Partners, Inc., the holding company for Pinnacle Bank. NHI's local banking transactions are conducted primarily through Pinnacle Bank.

*Private placement term loans - unsecured*

Our unsecured private placement term loans, payable interest-only, are summarized below (in thousands):

Amount	Inception	Maturity	Fixed Rate
\$ 125,000	January 2015	January 2023	3.99%
50,000	November 2015	November 2023	3.99%
75,000	September 2016	September 2024	3.93%
50,000	November 2015	November 2025	4.33%
100,000	January 2015	January 2027	4.51%
<u>\$ 400,000</u>			

Except for specific debt-coverage ratios, covenants pertaining to the private placement term loans are generally conformed with those governing our credit facility. Our unsecured private placement term loan agreements include a rate increase provision that is effective if any rating agency lowers our credit rating on our senior unsecured debt below investment grade and our compliance leverage increases to 50% or more.

## HUD mortgage loans

Our HUD mortgage loans are secured by 10 properties leased to Bickford and having a net book value of \$49,147,000 at December 31, 2019. Nine mortgage notes require monthly payments of principal and interest from 4.3% to 4.4% (inclusive of mortgage insurance premium) and mature in August and October 2049. One additional HUD mortgage loan assumed in 2014, at a discount, requires monthly payments of principal and interest of 2.9% (inclusive of mortgage insurance premium) and matures in October 2047. The loan has an outstanding principal balance of \$8,492,000 and a carrying value of \$7,254,000, which approximates fair value.

## Fannie Mae term loans - secured, non-recourse

In March 2015 we obtained \$78,084,000 in Fannie Mae financing. The term debt financing consists of interest-only payments at an annual rate of 3.79% and a 10-year maturity. The mortgages are non-recourse and secured by thirteen properties leased to Bickford. In a December 2017 acquisition, we assumed additional Fannie Mae debt that amortizes through 2025 when a balloon payment will be due, is subject to prepayment penalties until 2024, bears interest at a nominal rate of 4.60%, and has remaining balance of \$17,622,000 at December 31, 2019. All together, these notes are secured by facilities having a net book value of \$134,192,000 at December 31, 2019.

## Convertible senior notes - unsecured

In March 2014 we issued \$200,000,000 of 3.25% senior unsecured convertible notes due April 2021 (the “Notes”) with interest payable April 1st and October 1st of each year. The Notes were convertible at an initial rate of 13.93 shares of common stock per \$1,000 principal amount, representing a conversion price of approximately \$71.81 per share for a total of approximately 2,785,200 underlying shares. The conversion rate is subsequently adjusted upon each occurrence of certain events, as defined in the indenture governing the Notes, including the payment of dividends at a rate exceeding that prevailing in 2014. The conversion option was accounted for as an “optional net-share settlement conversion feature,” meaning that upon conversion, NHI’s conversion obligation may be satisfied, at our option, in cash, shares of common stock or a combination of cash and shares of common stock. Because we have the ability and intent to settle the convertible securities in cash upon exercise, we use the treasury stock method to account for potential dilution.

During the years ended December 31, 2019 and 2018, we undertook targeted open-market repurchases of certain of these convertible notes. Payments of cash negotiated in the transactions were dependent on prevailing market conditions, our liquidity requirements, contractual restrictions, individual circumstances of the selling parties and other factors. Beginning in December 2019, through the issuance of common stock and cash in retirement of \$60,000,000 of our convertible notes, we funded our Timber Ridge acquisition, which closed January 2020. Settlement of the notes requires management to allocate the consideration we ultimately pay between the debt component and the equity conversion feature as though they were separate instruments. The allocation is effected by recording the fair value of the debt component first, with any remainder allocated to the conversion feature. Amounts expended to settle the notes are recognized first as a settlement of the notes at our carrying value and then are recognized in income to the extent the portion allocated to the debt instrument differs from carrying value. The remainder of the allocation, if any, is treated as settlement of equity and adjusted through our capital in excess of par account.

A roll-forward for 2019 of our convertible note balances, including the effect of year-to-date amortization, net of issuance costs, is presented below:

	December 31, 2018	Exchange	Amortization	December 31, 2019
Face amount	\$ 120,000	\$ (60,000)	\$ —	\$ 60,000
Discount	(1,391)	\$ 328	\$ 760	(303)
Unamortized loan costs	(910)	\$ 210	\$ 505	(195)
Carrying value	<u>\$ 117,699</u>			<u>\$ 59,502</u>

Total consideration given in the exchange of \$73,102,000 included the issuance of 626,397 shares of NHI common stock with a fair value of \$51,002,000 and cash disbursed of \$22,100,000.

Total consideration given in the exchange was allocated as \$60,285,000 to the note retirement with the remaining expenditure of \$12,816,000 allocated to retirement of the equity feature of the notes. A loss of \$823,000 for the year ended December 31, 2019, resulted from the excess allocation of cash expenditures over the book value of the notes retired, net of discount and issuance costs.

As of December 31, 2019, our \$60,000,000 of senior unsecured convertible notes were convertible at a rate of 14.62 shares of common stock per \$1,000 principal amount, representing a conversion price of approximately \$68.39 per share for a total of 877,356 remaining underlying shares. For the year ended December 31, 2019, dilution resulting from the conversion option within our convertible debt is 210,224 shares. If NHI's current share price increases above the adjusted \$68.39 conversion price, further dilution will be attributable to the conversion feature. On December 31, 2019, the value of the convertible debt, computed as if the debt were immediately eligible for conversion, exceeded its face amount by \$11,487,000.

#### *Interest Rate Swap Agreements*

Our existing interest rate swap agreements will collectively continue through December 2021 to hedge against fluctuations in variable interest rates applicable to \$610,000,000 (\$400,000,000 after June 2020) of our bank loans. During the next year, approximately \$1,710,000 of gains, which are included in accumulated other comprehensive income (loss), are projected to be reclassified into earnings.

As of December 31, 2019, we employ the following interest rate swap contracts to mitigate our interest rate risk on our bank term and revolver loans described above (*dollars in thousands*):

Date Entered	Maturity Date	Fixed Rate	Rate Index	Notional Amount	Fair Value (Liability)
June 2013	June 2020	3.46%	1-month LIBOR	\$ 80,000	\$ (177)
March 2014	June 2020	3.51%	1-month LIBOR	\$ 130,000	\$ (316)
March 2019	December 2021	3.51%	1-month LIBOR	\$ 100,000	\$ (1,318)
March 2019	December 2021	3.52%	1-month LIBOR	\$ 100,000	\$ (1,344)
June 2019	December 2021	2.89%	1-month LIBOR	\$ 150,000	\$ (200)
June 2019	December 2021	2.93%	1-month LIBOR	\$ 50,000	\$ (79)

If the fair value of the hedge is an asset, we include it in our Consolidated Balance Sheets among other assets, and, if a liability, as a component of accounts payable and accrued expenses. See Note 11 for fair value disclosures about our interest rate swap agreements. Net asset (liability) balances for our hedges included as components of consolidated other comprehensive income (loss) on December 31, 2019 and December 31, 2018 were \$(3,434,000) and \$1,297,000, respectively.

The following table summarizes interest expense (*in thousands*):

	Year Ended December 31,		
	2019	2018	2017
Interest expense on debt at contractual rates	\$ 53,923	\$ 45,789	\$ 40,385
Losses reclassified from accumulated other comprehensive income (loss) into interest expense	(791)	164	2,627
Ineffective portion of cash flow hedges	—	—	(353)
Capitalized interest	(399)	(212)	(510)
Charges taken on amending bank credit facility	—	—	583
Amortization of debt issuance costs and debt discount	3,566	3,314	3,592
Total interest expense	<u>56,299</u>	<u>49,055</u>	<u>46,324</u>

#### **NOTE 6. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, we enter into a variety of commitments, typically consisting of funding of revolving credit arrangements, construction and mezzanine loans to our operators to conduct expansions and acquisitions for their own account, and commitments for the funding of construction for expansion or renovation to our existing properties under lease. In our leasing operations, we offer to our tenants and to sellers of newly-acquired properties a variety of inducements which originate contractually as contingencies but which may become commitments upon the satisfaction of the contingent event. Contingent payments earned will be included in the respective lease bases when funded. The tables below summarize our existing, known commitments and contingencies as of December 31, 2019 according to the nature of their impact on our leasehold or loan portfolios.

	Asset Class	Type	Total	Funded	Remaining
Loan Commitments:					
LCS Sagewood Note A	SHO	Construction	\$ 118,800,000	\$ (77,340,000)	\$ 41,460,000
LCS Sagewood Note B	SHO	Construction	61,200,000	(45,938,000)	15,262,000
LCS Timber Ridge Note A	SHO	Construction	60,000,000	(59,350,000)	650,000
Bickford Senior Living	SHO	Construction	28,700,000	(23,116,000)	5,584,000
Senior Living Communities	SHO	Revolving Credit	12,000,000	(5,174,000)	6,826,000
41 Management	SHO	Construction	10,800,000	(6,045,000)	4,755,000
Discovery Senior Living	SHO	Working Capital	750,000	(175,000)	575,000
			<u>\$ 292,250,000</u>	<u>\$ (217,138,000)</u>	<u>\$ 75,112,000</u>

See Note 3 to our consolidated financial statements for full details of our loan commitments. As provided above, loans funded do not include the effects of discounts or commitment fees.

	Asset Class	Type	Total	Funded	Remaining
Development Commitments:					
Ignite Medical Resorts	SNF	Construction	\$ 25,350,000	\$ (16,903,000)	\$ 8,447,000
Woodland Village	SHO	Construction	7,515,000	(7,425,000)	90,000
Senior Living Communities	SHO	Renovation	9,930,000	(9,067,000)	863,000
Wingate Healthcare	SHO	Renovation	1,900,000	(357,000)	1,543,000
Discovery Senior Living	SHO	Renovation	900,000	—	900,000
Navion Senior Solutions	SHO	Construction	650,000	—	650,000
41 Management	SHO	Renovation	400,000	—	400,000
			<u>\$ 46,645,000</u>	<u>\$ (33,752,000)</u>	<u>\$ 12,893,000</u>

In addition to the commitments listed above, Discovery PropCo has committed to Discovery for funding up to \$2,000,000 for the purchase of condominium units located at one of the facilities. As of December 31, 2019, \$497,000 has been funded toward the commitment.

	Asset Class	Type	Total	Funded	Remaining
Contingencies:					
Comfort Care Senior Living	SHO	Lease Inducement	6,000,000	—	6,000,000
Wingate Healthcare	SHO	Lease Inducement	5,000,000	—	5,000,000
Navion Senior Solutions	SHO	Lease Inducement	4,850,000	(500,000)	4,350,000
Discovery Senior Living	SHO	Lease Inducement	4,000,000	—	4,000,000
Ignite Medical Resorts	SNF	Lease Inducement	2,000,000	—	2,000,000
			<u>\$ 21,850,000</u>	<u>\$ (500,000)</u>	<u>\$ 21,350,000</u>

### Litigation

Our facilities are subject to claims and suits in the ordinary course of business. Our lessees and borrowers have indemnified, and are obligated to continue to indemnify us, against all liabilities arising from the operation of the facilities, and are further obligated to indemnify us against environmental or title problems affecting the real estate underlying such facilities. While there may be lawsuits pending against certain of the owners and/or lessees of the facilities, management believes that the ultimate resolution of all such pending proceedings will have no material adverse effect on our financial condition, results of operations or cash flows.

In June 2018, East Lake Capital Management LLC and certain related entities, including Regency (for three assisted living facilities in Tennessee, Indiana and North Carolina), filed suit against NHI in Texas seeking injunctive and declaratory relief and unspecified monetary damages. NHI responded with counterclaims and filed motions requesting the immediate appointment of a receiver and for pre-judgment possession. Resulting from these claims and counterclaims, on December 6, 2018, the parties entered into an agreement resulting in Regency vacating the facilities in December 2018. Litigation is ongoing.

The LaSalle Group defaulted on its rent payment in November 2018. We transitioned the properties to a new operator on April 16, 2019, with NHI to receive operating cash flow, after management fees, generated by the facilities pending stabilization. We



also commenced litigation for the recovery of certain funds owed under the lease and against the principal executive personally, under a guaranty agreement. The LaSalle Group, the former operator of the properties, has declared bankruptcy under Chapter 11. In December 2019, we reached an agreement with TLG Family Management and Mitchell Warren, who, without making any admissions under a joint-liability settlement, have agreed to pay to NHI \$2,850,000 over a five-year period, consisting of scheduled payments of varying amounts in full settlement of agreed judgments under manager and personal guarantees. We received the first installment of \$60,000 December 2019.

## NOTE 7. INVESTMENT AND OTHER GAINS

The following table summarizes our investment and other gains (*in thousands*):

	Year Ended December 31,		
	2019	2018	2017
Gains on sales of marketable securities	\$ —	\$ —	\$ 10,038
Gain on sale of real estate	—	—	50
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 10,088</u>

During the year ended December 31, 2017 we recognized gains on sales of marketable securities which were reclassified from accumulated other comprehensive income.

## NOTE 8. SHARE-BASED COMPENSATION

We recognize share-based compensation for all stock options granted over the requisite service period using the fair value of these grants as estimated at the date of grant using the Black-Scholes pricing model over the requisite service period using the market value of our publicly-traded common stock on the date of grant.

### Share-Based Compensation Plans

The Compensation Committee of the Board of Directors (the “Committee”) has the authority to select the participants to be granted options; to designate whether the option granted is an incentive stock option (“ISO”), a non-qualified option, or a stock appreciation right; to establish the number of shares of common stock that may be issued upon exercise of the option; to establish the vesting provision for any award; and to establish the term any award may be outstanding. The exercise price of any ISO’s granted will not be less than 100% of the fair market value of the shares of common stock on the date granted and the term of an ISO may not be more than ten years. The exercise price of any non-qualified options granted will not be less than 100% of the fair market value of the shares of common stock on the date granted unless so determined by the Committee.

In May 2012, our stockholders approved the 2012 Stock Incentive Plan (the “2012 Plan”) pursuant to which 1,500,000 shares of our common stock were made available to grant as share-based payments to employees, officers, directors or consultants. Through a vote of our shareholders in May 2015, we increased the maximum number of shares under the plan from 1,500,000 shares to 3,000,000 shares; increased the automatic annual grant to non-employee directors from 15,000 shares to 20,000 shares; and limited the Company’s ability to re-issue shares under the Plan. Through a second amendment approved on May 4, 2018, our shareholders voted to increase the maximum number of shares under the plan to 3,500,000 and to increase the automatic annual grant to non-employee directors to 25,000. The individual restricted stock and option grant awards may vest over periods up to five years. The term of the options under the 2012 Plan is up to 10 years from the date of grant. As of December 31, 2019, there were 319,669 shares available for future grants under the 2012 Plan.

On May 3, 2019, our stockholders approved the 2019 Stock Incentive Plan (“the 2019 Plan”) pursuant to which 3,000,000 shares of our common stock were made available to grant as share-based payments to employees, officers, directors or consultants. The individual option grant awards may vest over periods up to five years. The term of the options under the 2019 Plan is up to ten years from the date of grant. As of December 31, 2019, there were 3,000,000 shares available for future grants under the 2019 Plan.

Compensation expense is recognized only for the awards that ultimately vest. Accordingly, forfeitures that were not expected may result in the reversal of previously recorded compensation expense. We consider the historical employee turnover rate in our estimate of the number of stock option forfeitures. Our compensation expense reported for the years ended December 31, 2019, 2018 and 2017 was \$3,646,000, \$2,490,000 and \$2,612,000, respectively, and is included in general and administrative expense in the Consolidated Statements of Income.

### Determining Fair Value of Option Awards

The fair value of each option award was estimated on the grant date using the Black-Scholes option valuation model with the weighted average assumptions indicated in the following table. Each grant is valued as a single award with an expected term based upon expected employee and termination behavior. Compensation cost is recognized on the graded vesting method over the requisite service period for each separately vesting tranche of the award as though the award were, in substance, multiple awards. The expected volatility is derived using daily historical data for periods preceding the date of grant. The risk-free interest rate is

the approximate yield on the United States Treasury Strips having a life equal to the expected option life on the date of grant. The expected life is an estimate of the number of years an option will be held before it is exercised.

### Stock Options

The weighted average fair value per share of options granted was \$6.30, \$4.49 and \$5.76 for 2019, 2018 and 2017, respectively.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2019	2018	2017
Dividend yield	5.5%	6.5%	5.3%
Expected volatility	18.2%	19.4%	19.8%
Expected lives	2.7 years	2.9 years	2.9 years
Risk-free interest rate	2.39%	2.39%	1.49%

### Stock Option Activity

The following tables summarize our outstanding stock options, after giving effect to modifications of 83,334 options in November 2019 as, in substance, the forfeiture of old and issuance of new options concurrent with an employee's retirement:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding December 31, 2016	541,679	\$65.84		
Options granted under 2012 Plan	495,000	\$74.90		
Options granted under 2005 Plan	—	\$0.00		
Options exercised under 2005 Plan	(15,000)	\$47.52		
Options exercised under 2012 Plan	(155,829)	\$65.73		
Options canceled under 2012 Plan	(6,668)	\$60.52		
Outstanding December 31, 2017	859,182	\$70.11		
Options granted under 2012 Plan	560,000	\$64.33		
Options granted under 2005 Plan	—	\$0.00		
Options exercised under 2005 Plan	(6,668)	\$72.11		
Options exercised under 2012 Plan	(462,167)	\$65.03		
Options canceled under 2012 Plan	(30,001)	\$66.73		
Outstanding December 31, 2018	920,346	\$69.24		
Options granted under 2012 Plan	685,334	\$79.08		
Options exercised under 2012 Plan	(501,664)	\$71.52		
Options forfeited under 2012 Plan	(100,002)	\$73.89		
Options forfeited under 2005 Plan	—	\$0.00		
Options outstanding, December 31, 2019	<u>1,004,014</u>	\$74.35	3.24	\$ 7,157,000
Exercisable at December 31, 2019	530,163	\$73.93	2.91	\$ 4,001,000

Grant Date	Number of Shares	Exercise Price	Remaining Contractual Life in Years
2/20/2015	20,000	\$ 72.11	0.14
2/22/2016	20,000	\$ 60.52	1.15
2/22/2017	121,669	\$ 74.78	2.15
2/20/2018	246,177	\$ 64.33	3.14
2/21/2019	512,834	\$ 79.96	4.15
11/7/2019	83,334	\$ 72.67	0.85
Options outstanding, December 31, 2019	<u>1,004,014</u>		

The weighted average remaining contractual life of all options outstanding at December 31, 2019 is 3.24 years. Including outstanding stock options, our stockholders have authorized an additional 4,323,683 shares of common stock that may be issued under the share-based payments plans.

The following table summarizes our outstanding non-vested stock options:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested December 31, 2018	443,354	\$4.87
Options granted under 2012 Plan	685,334	\$6.11
Options vested under 2012 Plan	(554,835)	\$5.62
Non-vested options forfeited under 2012 Plan	(100,002)	\$5.56
Non-vested December 31, 2019	<u>473,851</u>	\$5.64

At December 31, 2019, we had, net of expected forfeitures, \$780,000 of unrecognized compensation cost related to unvested stock options which is expected to be expensed over the following periods: 2020 - \$698,000 and 2021 - \$82,000 share-based compensation is included in general and administrative expense in the Consolidated Statements of Income.

The intrinsic value of the total options exercised for the years ended December 31, 2019, 2018 and 2017 was \$5,659,000 or \$11.28 per share; \$6,105,000 or \$13.02 per share, and \$2,314,000 or \$13.55 per share, respectively.

#### NOTE 9. EARNINGS AND DIVIDENDS PER COMMON SHARE

The weighted average number of common shares outstanding during the reporting period is used to calculate basic earnings per common share. Diluted earnings per common share assume the exercise of stock options and vesting of restricted shares using the treasury stock method, to the extent dilutive. Dilution resulting from the conversion option within our convertible debt is determined by computing an average of incremental shares included in each quarterly diluted EPS computation. If NHI's current share price increases above the adjusted conversion price, further dilution will be attributable to the conversion feature.

The following table summarizes the average number of common shares and the net income used in the calculation of basic and diluted earnings per common share (*in thousands, except share and per share amounts*):

	Year Ended December 31,		
	2019	2018	2017
Net income attributable to common stockholders	\$ 160,456	\$ 154,333	\$ 159,365
<b>BASIC:</b>			
Weighted average common shares outstanding	43,417,828	41,943,873	40,894,219
<b>DILUTED:</b>			
Weighted average common shares outstanding	43,417,828	41,943,873	40,894,219
Stock options and restricted shares	75,196	67,735	67,703
Convertible senior notes - unsecured	210,224	80,123	189,531
Average dilutive common shares outstanding	<u>43,703,248</u>	<u>42,091,731</u>	<u>41,151,453</u>
Net income attributable to common stockholders - basic	\$ 3.70	\$ 3.68	\$ 3.90
Net income attributable to common stockholders - diluted	\$ 3.67	\$ 3.67	\$ 3.87
Net share effect of anti-dilutive stock options	<u>4,678</u>	<u>518</u>	<u>573</u>
Regular dividends declared per common share	<u>\$ 4.20</u>	<u>\$ 4.00</u>	<u>\$ 3.80</u>

#### NOTE 10. INCOME TAXES

Beginning with our inception in 1991, we have elected to be taxed as a REIT under the Internal Revenue Code (the “Code”). For the years ended December 31, 2019, 2018, and 2017, respectively, we have recorded state income tax expense of \$142,000, \$138,000 and \$124,000 related to a Texas franchise tax that has attributes of an income tax. State income taxes are combined in franchise, excise and other taxes in our Consolidated Statements of Income.

Dividend payments to common stockholders for the last three years are characterized for tax purposes as follows on a per share basis:

<i>(Unaudited)</i>	2019	2018	2017
Ordinary income	\$ 4.20000	\$ 3.33730	\$ 2.93054
Capital gain	—	—	0.20643
Return of capital	—	0.66270	0.66303
Dividends paid per common share	<u>\$ 4.20</u>	<u>\$ 4.00</u>	<u>\$ 3.80</u>

During the years 2012 through 2016, we participated in the operations of a joint venture, structured as a taxable REIT subsidiary (“TRS”) under provisions of the Code. In regard to that TRS, upon the dissolution of the underlying joint venture, we carry a deferred tax asset, which is fully reserved through a valuation allowance, of \$273,000 as of December 31, 2019. See Note 15 for a discussion of Timber Ridge OpCo which will also be held in our TRS.

We made state income tax payments of \$112,000, \$124,000, and \$170,000 for the years ended December 31, 2019, 2018, and 2017, respectively.

#### NOTE 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial assets and liabilities measured at fair value (based on the hierarchy of the three levels of inputs described in Note 1 on a recurring basis) have included marketable securities, derivative financial instruments and contingent consideration arrangements. Marketable securities have consisted of common stock of other healthcare REITs. Derivative financial instruments include our interest rate swap agreements. Contingent consideration arrangements relate to certain provisions of recent real estate purchase agreements involving property acquisitions.

*Derivative financial instruments.* Derivative financial instruments are valued in the market using discounted cash flow techniques. These techniques incorporate primarily Level 2 inputs. The market inputs are utilized in the discounted cash flow calculation

considering the instrument's term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation model for interest rate swaps are observable in active markets and are classified as Level 2 in the hierarchy.

Assets and liabilities measured at fair value on a recurring basis are as follows (*in thousands*):

	Balance Sheet Classification	Fair Value Measurement	
		December 31, 2019	December 31, 2018
<u>Level 2</u>			
Interest rate swap asset	Other assets	\$ —	\$ 1,297
Interest rate swap liability	Accounts payable and accrued expenses	\$ 3,433	\$ —

Carrying values and fair values of financial instruments that are not carried at fair value at December 31, 2019 and 2018 in the Consolidated Balance Sheets are as follows (*in thousands*):

	Carrying Amount		Fair Value Measurement	
	2019	2018	2019	2018
<u>Level 2</u>				
Variable rate debt	\$ 845,744	\$ 628,010	\$ 850,000	\$ 634,000
Fixed rate debt	\$ 594,721	\$ 653,665	\$ 602,926	\$ 644,745
<u>Level 3</u>				
Mortgage and other notes receivable	\$ 340,143	\$ 246,111	\$ 347,543	\$ 244,206

The fair value of mortgage and other notes receivable is based on credit risk and discount rates that are not observable in the marketplace and therefore represents a Level 3 measurement.

Fixed rate debt is classified as Level 2 and its value is based on quoted prices for similar instruments or calculated utilizing model derived valuations in which significant inputs are observable in active markets.

Carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. The fair value of our borrowings under our credit facility are reasonably estimated at their contractual value at December 31, 2019 and 2018, due to the predominance of floating interest rates, which generally reflect market conditions.

#### **NOTE 12. LIMITS ON COMMON STOCK OWNERSHIP (UNAUDITED)**

The Company's charter contains certain provisions which are designed to ensure that the Company's status as a REIT is protected for federal income tax purposes. One of the provisions ensures that any transfer (of shares) which would cause NHI to be beneficially owned by fewer than 100 persons or would cause NHI to be "closely-held" under the Internal Revenue Code would be void which, subject to certain exceptions, result in no stockholder being allowed to own, either directly or indirectly pursuant to certain tax attribution rules, more than 9.9% of the Company's common stock with the exception of prior agreements in 1991 which were confirmed in writing in 2008 with the Company's founders Dr. Carl E. Adams and Jennie Mae Adams and their lineal descendants. Based on these agreements, the ownership limit for all other stockholders is approximately 7.5%. If a stockholder's stock ownership exceeds the limit, then such shares over the limit become Excess Stock within the meaning in the Company's charter whose rights to vote and receive dividends in certain situations. Our charter gives our Board of Directors broad powers to prohibit and rescind any attempted transfer in violation of the ownership limits. In addition, W. Andrew Adams' Excepted Holder Agreement also provides that he will not own shares of stock in any tenant of the Company if such ownership would cause the Company to constructively own more than a 9.9% interest in such tenant. The purpose of these provisions is to protect the Company's status as a REIT for tax purposes.

#### **NOTE 13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following table sets forth selected quarterly financial data for the two most recent fiscal years (*in thousands, except share and per share amounts*).



2019	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Net revenues	\$ 76,107	\$ 78,096	\$ 81,682	\$ 82,196
Net income attributable to common stockholders	\$ 35,679	\$ 39,979	\$ 42,758	\$ 42,040
Weighted average common shares outstanding:				
Basic	42,825,824	43,232,384	43,505,332	44,107,770
Diluted	43,125,032	43,498,021	43,861,089	44,328,847
Earnings per common share:				
Net income attributable to common stockholders - basic	\$ .83	\$ .92	\$ .98	\$ .95
Net income attributable to common stockholders - diluted	\$ .83	\$ .92	\$ .97	\$ .95
2018				
	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Net revenues	\$ 72,746	\$ 72,956	\$ 74,915	\$ 73,995
Net income attributable to common stockholders	\$ 38,432	\$ 37,839	\$ 40,979	\$ 37,083
Weighted average common shares outstanding:				
Basic	41,532,154	41,704,819	42,187,077	42,351,443
Diluted	41,576,876	41,786,829	42,434,499	42,568,720
Earnings per common share:				
Net income attributable to common stockholders - basic	\$ .93	\$ .91	\$ .97	\$ .88
Net income attributable to common stockholders - diluted	\$ .92	\$ .91	\$ .97	\$ .87

#### NOTE 14. RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers* using the modified retrospective method. ASU 2014-09 provides a principles-based approach for a broad range of revenue generating transactions, including the sale of real estate, and generally requires more estimates, judgment and disclosures than under previous guidance. The ASU provides for revenues from leases to continue to follow the guidance in Topics 840 and 842 and provides for loans to follow established guidance in Topic 310. Because this ASU specifically excludes these areas of our operations from its scope, there was no impact to our accounting for lease revenue and interest income resulting from the ASU. Additionally, the other significant types of contracts in which we periodically engage, sales of real estate to customers, typically never remain executory across points in time, so that nuances related to the timing of revenue recognition as mandated under Topic 606 have not impacted our results of operations or financial position. We realized no significant revenues in 2018 or 2019 within the scope of ASU 2014-09, and, accordingly, adoption of the ASU did not have a material impact on the timing and measurement of the Company's revenues.

On January 1, 2019 we adopted Accounting Standards Update ("ASU") 2016-02, *Leases*, which has been codified under ASC Topic 842. The principal difference between Topic 842 and previous guidance is that, for lessees, lease assets and lease liabilities arising from operating leases will be recognized in the balance sheet. While the accounting applied by a lessor is largely unchanged from that applied under previous GAAP, changes have been made to align i) certain lessor and lessee accounting guidance, and ii) key aspects of the lessor accounting model with the revenue recognition guidance in Topic 606, Revenue from Contracts with Customers, which we adopted as of January 1, 2018.

Under Topic 842 and unlike prior GAAP, a buyer-lessor in a sale-leaseback transaction will be required to apply the sale and leaseback guidance to determine whether the transaction qualifies as a sale. Topic 842 includes provisions which generally conform with Topic 606, and the presence of a seller-lessee repurchase option on real estate in a sale and leaseback transaction will result in recording the transaction as a financing that would otherwise meet the lease accounting requirements for buyer-lessors under previous guidance. NHI has largely ceased inclusion of repurchase options in new sale-leaseback transactions, and there were no material effects from the change in sale-leaseback guidance as it relates to repurchase options. Consistent with present standards, upon the adoption of Topic 842, NHI continues to account for lease revenue on a straight-line basis for most leases. Under Topic 842, an assessment of collectibility is made at the inception of the lease and, for operating leases, if collectibility is assessed as not probable lease income is recognized as payments are received. Recognition of changes in our assessment of collectibility under

842 differs from legacy accounting in that a change in our assessment of collectibility will be recognized as an adjustment to lease income rather than as bad debt expense. Under Topic 842 only initial direct costs that are incremental to the lessor are capitalized, a standard consistent with NHI's prior practice.

In July and December 2018 the FASB updated the pending Topic 842 with ASU 2018-11, *Leases - Targeted Improvements*, and ASU 2018-20, *Narrow-Scope Improvements for Lessors*, respectively. ASU 2018-11 provides a simplified transition method under which we applied the new leases standard as of the adoption date. Consequently, our reporting for the comparative prior periods presented in the financial statements in which we adopted the new leases standard will continue to be in accordance with prior GAAP (Topic 840, Leases).

#### *Initial Impact*

ASU 2018-20 was issued to address implementation issues related to Topic 842. We adopted Topic 842 on January 1, 2019 (the "application date"), and, effective with our adoption, we elected the package of practical expedients allowing, among other provisions, for transition with no initial reassessment of the lease classification for any expired or existing leases. Going forward under Topic 842, for us as lessor, subsequent modification of existing leases accounted for under previous guidance, which were brought forward under conventions allowing no reassessment on the application date of Topic 842, may trigger reconsideration of continued accounting for the lease. Upon reconsideration under Topic 842, leases previously classified under Topic 840 as operating leases may be classified as either a sales-type or direct financing lease.

Further under ASU 2018-20, we elected the available practical expedient under ASU 2018-11 that allows us to make an accounting policy election and assess whether a contract is predominantly lease or service-based and recognize the entire contract under the relevant accounting guidance. No cumulative effect adjustment to retained earnings was necessary, based on our analysis.

In April 2018, we entered into a ground lease as lessee in connection with our acquisition of certain real estate assets. In accordance with transition elections allowed under Topic 842, discussed above, we have continued to account for the lease as an operating lease. Upon adoption of the standard, as lessee we recognized a right-of-use asset and a lease liability at the adoption date.

#### *Variable Payments*

ASU 2018-20 requires NHI to exclude from variable payments, and therefore revenue, our costs paid by our tenants directly to third parties. Some of our leases require property tax and insurance costs be covered by our tenants through escrow reimbursement. We serve as the administrative agent for these escrow transactions and ASU 2018-20 requires the associated revenue and expense to be included in our consolidated financial statements. We have included \$5,798,000 of reimbursements within revenue and in expenses in our Consolidated Statements of Income for the year ended December 31, 2019, under the captions "Rental income" and "Property taxes and insurance on leased properties," respectively.

Going forward under Topic 842, for us as lessor, subsequent modification of existing sale-leaseback or other leases accounted for under previous guidance, which were brought forward under conventions allowing no reassessment the date of application of Topic 842, that undergo modifications may trigger reconsideration of continued accounting for the lease. Upon reconsideration under Topic 842, leases previously classified under Topic 840 as operating leases may be classified as either a sales-type or direct financing lease.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*. ASU 2016-13 will require more timely recognition of credit losses associated with financial assets. While current GAAP includes multiple credit impairment objectives for instruments, the previous objectives generally delayed recognition of the full amount of credit losses until the loss was probable of occurring. The amendments in ASU 2016-13, whose scope is asset-based and not restricted to financial institutions, eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity's current estimate of all expected credit losses. Under legacy accounting, when credit losses were measured under GAAP, we generally only considered past events and current conditions in measuring the incurred loss. The amendments in ASU 2016-13 broaden the information that we must consider in developing our expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss that will be more useful to users of the financial statements. ASU 2016-13 is effective for public entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses*, aligns the transition requirements and clarifies that operating lease receivables are excluded from the scope of ASU 2016-13. Instead, impairment of operating lease receivables is to be accounted for under ASC 842. Because we are likely to continue to invest in loans and generate receivables, adoption of ASU 2016-13 and the clarifying ASU 2018-19 in 2020 will have some effect on our accounting for our loan investments, though the nature of those effects will depend on the composition of our loan portfolio

at that time; accordingly, we are evaluating the extent of the impact that adopting the provisions of ASU 2016-13 in 2020 will have on NHI. Our secured borrowings have exhibited a historically low rate of default, a circumstance upon which we largely base future expectations. Accordingly, after the establishment through a charge to retained earnings of a credit reserve expected to approximate one percent of the outstanding balance in our loan portfolio, the adoption of ASU 2016-13 is not expected to have a material effect on our financial position, results of operations or cash flows.

In August 2017 the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*, which was available for early adoption in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2018. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. On January 1, 2018, we adopted ASU 2017-12, among whose provisions is a change in the timing and income statement line item for ineffectiveness related to cash flow hedges. The transition method is a modified retrospective approach that requires the Company to recognize the cumulative effect of initially applying the ASU as an adjustment to accumulated other comprehensive income (loss) with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that we adopt the update. The primary provision in the ASU requiring an adjustment to our beginning consolidated retained earnings in 2018 is the change in timing and income statement line item for ineffectiveness related to cash flow hedges.

## **NOTE 15. SUBSEQUENT EVENTS**

### *Life Care Services*

On January 31, 2020, in a joint venture transaction, we acquired an 80% interest in a 401-unit Continuing Care Retirement Community (CCRC) comprising 330 independent living units, 26 assisted living/memory care units and 45 skilled nursing beds. Additionally, the transaction conveyed to NHI a 25% interest in the operations of the community. The transaction arose as the culmination of a relationship beginning in 2015 in which NHI provided LCS Timber Ridge, LLC, ("LCS"), and its JV partner, Westminster-LCS, LLC, ("Westminster"), with a senior mortgage loan on the Timber Ridge campus in the Seattle area. Proceeds of the loan were used to facilitate expansion of the community to 401 units. By terms of the 2015 agreement, NHI acquired a fair-value purchase option on the property.

Consideration given for NHI's interest in the joint venture was \$124,989,000 and included assignment from the divesting owners of debt having a current carrying value of \$59,350,000. To fund the transaction, NHI provided an additional loan of \$21,650,000, leaving total debt in the project of \$81,000,000, bearing interest to NHI at 5.75%. Further, NHI paid \$43,114,000 for an 80% equity stake in the property company ("PropCo"), and we provided initial capitalization totaling \$875,000 for the operating company ("OpCo"). LCS paid \$10,778,000 for its 20% equity stake in PropCo and provided \$2,625,000 in initial capitalization of the operations in return for a 75% equity participation in OpCo.

The lease between PropCo and OpCo carries a rate of 6.75% for an initial term of seven years plus renewal options and has a CPI-based lease escalator, subject to floor and ceiling. Including interest payments on debt funded by NHI and our lease participation in the PropCo JV, as detailed above, NHI is entitled to \$8,216,000 in the first twelve months plus 25% of the remaining OpCo cash flow. The total enterprise capitalization was \$138,392,000 for the OpCo and PropCo entities, as discussed above, of which \$124,989,000 was allocated to our interest in the tangible assets of PropCo and equity interest in OpCo, based upon their relative fair values.

### *Bickford - Shelby, MI*

On January 27, 2020, we acquired a 60-unit assisted living/memory care facility located in Shelby, Michigan, from Bickford. The acquisition price was \$15,100,000, including \$100,000 in closing costs, and the cancellation of an outstanding construction note receivable of \$14,091,000, including interest. We added the facility to an existing master lease for a term of twelve years at an initial lease rate of 8%, with CPI escalators subject to a floor and ceiling.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES.**

**Evaluation of Disclosure Control and Procedures.** As of December 31, 2019, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer ("CEO") and Chief Financial

Officer (“CFO”), of the effectiveness of the design and operation of management’s disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934) to ensure information required to be disclosed in our filings under the Securities and Exchange Act of 1934, is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms; and (ii) accumulated and communicated to our management, including our CEO and our CFO, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving desired control objectives, and management is necessarily required to apply its judgment when evaluating the cost-benefit relationship of potential controls and procedures. Based upon the evaluation, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective as of December 31, 2019.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

***Changes in Internal Control over Financial Reporting.*** There were no changes in our internal control over financial reporting identified in management’s evaluation during the year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of National Health Investors, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on that assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2019. The Company's independent registered public accounting firm, BDO USA, LLP, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting included herein.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
National Health Investors, Inc.  
Murfreesboro, Tennessee

### Opinion on Internal Control over Financial Reporting

We have audited National Health Investors, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, cash flows, and equity for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedules and our report dated February 19, 2020 expressed an unqualified opinion.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Nashville, Tennessee

February 19, 2020



**ITEM 9B. OTHER INFORMATION.**

None.

### **PART III.**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

We have filed with the New York Stock Exchange (“NYSE”) the Annual CEO Certification regarding the Company’s compliance with the NYSE’s Corporate Governance listing standards as required by Section 303A.12(a) of the NYSE Listed Company Manual. Additionally, we have filed as exhibits to this Annual Report on Form 10-K for the year ended December 31, 2019, the applicable certifications of our Chief Executive Officer and our Chief Accounting Officer as required under Section 302 of the Sarbanes-Oxley Act of 2002.

Incorporated by reference from the information in our definitive proxy statement for the 2020 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

#### **ITEM 11. EXECUTIVE COMPENSATION.**

Incorporated by reference from the information in our definitive proxy statement for the 2020 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

Incorporated by reference from the information in our definitive proxy statement for the 2020 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

Incorporated by reference from the information in our definitive proxy statement for the 2020 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

Incorporated by reference from the information in our definitive proxy statement for the 2020 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

### **PART IV.**

#### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

(a) (1) Financial Statements

The Consolidated Financial Statements are included in Item 8 and are filed as part of this report.

(2) Financial Statement Schedules

The Financial Statement Schedules and Report of Independent Registered Public Accounting Firm on Financial Statement Schedules are listed in Exhibit 99.1.

(3) Exhibits

Exhibits required as part of this report are listed in the Exhibit Index.

NATIONAL HEALTH INVESTORS, INC.  
FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

	<u>Description</u>
3.1	<u>Articles of Incorporation</u> (incorporated by reference to Exhibit 3.1 to Form S-11 Registration Statement No. 33-41863, filed in paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T)
3.2	<u>Amendment to Articles of Incorporation</u> dated May 1, 2009 (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement filed March 23, 2009)
3.3	<u>Amendment to Articles of Incorporation approved by shareholders on May 2, 2014</u> (Incorporated by reference to Exhibit 3.3 to Form 10-Q dated August 4, 2014)
3.4	<u>Restated Bylaws</u> , as amended November 5, 2012 (Incorporated by reference to Exhibit 3.3 to Form 10-K filed February 15, 2013)
3.5	<u>Amendment No. 1 to Restated Bylaws</u> dated February 14, 2014 (Incorporated by reference to Exhibit 3.4 to Form 10-K filed February 14, 2014)
4.1	<u>Form of Common Stock Certificate</u> (incorporated by reference to Exhibit 39 to Form S-11 Registration Statement No. 33-41863, filed in paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T)
4.2	<u>Indenture</u> , dated as of March 25, 2014, between National Health Investors, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee (Incorporated by reference to Exhibit 4.1 to Form 8-K dated March 31, 2014)
4.3	<u>First Supplemental Indenture</u> , dated as of March 25, 2014, to the Indenture, dated as of March 25, 2014, between National Health Investors, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee (Incorporated by reference to Exhibit 4.2 to Form 8-K dated March 31, 2014)
4.4	<u>Description of Securities</u> (filed herewith)
10.1	<u>Master Agreement of Lease</u> dated as of October 17, 1991 by and among National Health Investors, Inc. and National HealthCorp, L.P. including amendments No. 1 through 4 (filed herewith) (formerly only filed in paper, but refiling in order to allow for hyperlinking)
10.2	<u>Amendment No. 5 to the Company's Master Agreement to Lease with NHC</u> (Incorporated by reference to Exhibit 10.2 to Form 10-K dated March 10, 2006)
10.3	<u>Amendment No. 6 to the Company's Master Agreement to Lease with NHC</u> (Incorporated by reference to Exhibit 10.1 to Form 10-Q dated November 4, 2013)
10.4	<u>Amended and Restated Amendment No. 6 to the Company's Master Agreement to Lease with NHC</u> (Incorporated by reference to Exhibit 10.4 to Form 10-K filed February 14, 2014)
*10.5	<u>2005 Stock Option Plan</u> (Incorporated by reference to Exhibit 4.10 to the Company's registration statement on Form S-8 filed August 4, 2005)
*10.6	<u>2012 Stock Option Plan</u> (Incorporated by reference to Exhibit A to the Company's Proxy Statement filed March 23, 2012)
*10.7	<u>First Amendment to the 2005 Stock Option, Restricted Stock &amp; Stock Appreciation Rights Plan</u> (Incorporated by reference to Appendix A to the Company's Proxy Statement filed March 17, 2006)
*10.8	<u>Second Amendment to the 2005 Stock Option, Restricted Stock &amp; Stock Appreciation Rights Plan</u> (Incorporated by reference to Exhibit B to the Company's Proxy Statement filed March 23, 2009)
10.9	<u>Excepted Holder Agreement - W. Andrew Adams</u> (Incorporated by reference to Exhibit 10.6 to Form 10-K dated February 24, 2009)
10.10	<u>Excepted Holder Agreement between the Company and Andrea Adams Brown with Schedule A identifying substantially identical agreements and setting forth the material details in which such agreements differ from this agreement</u> (Incorporated by reference to Exhibit 10.2 to Form 10-Q dated November 3, 2010)
10.11	<u>Agreement with Care Foundation of America, Inc.</u> (Incorporated by reference to Exhibit 10.11 to Form 10-K dated February 22, 2010)
10.12	<u>Extension of Master Agreement to Lease</u> dated December 28, 2012 (Incorporated by reference to Exhibit 10.22 to Form 10-K dated February 15, 2013)
10.13	<u>Membership Interest Purchase Agreement</u> dated as of June 24, 2013 among Care Investment Trust Inc., Care YBE Subsidiary LLC and NHI-Bickford RE, LLC (Incorporated by reference to Exhibit 10.1 to Form 10-Q dated August 5, 2013)
10.14	<u>Master Lease</u> dated as of December 23, 2013 between NHI- REIT of Next House, LLC, Myrtle Beach Retirement Residence LLC and Voorhees Retirement Residence LLC, individually and collectively as Landlord, and NH Master Tenant LLC, as Tenant (Incorporated by reference to Exhibit 10.2 to Form 8-K dated December 23, 2013)

- 10.15 Guarantee of Lease Agreement dated as of December 23, 2013 between NHI-REIT of Next House, LLC, Myrtle Beach Retirement Residence LLC and Voorhees Retirement Residence LLC, individually and collectively as Landlord, and Holiday AL Holdings, LP as Guarantor (Incorporated by reference to Exhibit 10.3 to Form 8-K dated December 23, 2013)
- 10.16 Purchase Agreement dated as of November 18, 2013 between the Registrant and certain subsidiaries of Holiday Acquisition Holdings LLC (Incorporated by reference to Exhibit 10.31 to Form 10-K filed February 18, 2014)
- 10.17 Amendment No. 7 to Master Agreement to Lease with NHC (Incorporated by reference to Exhibit 10.32 to Form 10-K filed February 14, 2014)
- 10.18 Asset Purchase Agreement dated December 1, 2014 with Senior Living Communities, LLC and certain of its affiliates, relating to the acquisition of a portfolio of eight retirement communities (Incorporated by reference to Exhibit 10.31 to Form 10-K filed February 17, 2015)
- 10.19 \$225 million Note Purchase Agreement dated January 13, 2015 with Prudential Capital Group and certain of its affiliates (Incorporated by reference to Exhibit 10.32 to Form 10-K filed February 17, 2015)
- \*10.20 First amendment to 2012 Stock Incentive Plan (Incorporated by reference to Appendix A to Proxy Statement filed March 20, 2015)
- 10.21 Construction and Term Loan Agreement dated February 10, 2015 between the Company and LCS-Westminster Partnership (Incorporated by reference to Exhibit 10.21 to Form 10-K filed February 16, 2018)
- 10.22 Multifamily Loan and Security Agreement for Urbandale Bickford Cottage by and between Care YBE Subsidiary LLC, a Delaware limited liability company, and KeyBank National Association, a national banking association with Appendix 1 identifying substantially identical agreements and setting forth the material details in which such agreements differ from this agreement (Incorporated by reference to Exhibit 10.3 to Form 10-Q dated May 7, 2015)
- 10.23 Multifamily Loan and Security Agreement for Omaha II Bickford Cottage by and between Care YBE Subsidiary LLC, a Delaware limited liability company, and KeyBank National Association, a national banking association with Appendix 1 identifying substantially identical agreements and setting forth the material details in which such agreements differ from this agreement (Incorporated by reference to Exhibit 10.4 to Form 10-Q dated May 7, 2015)
- 10.24 Amendment to Note Purchase Agreement dated as of June 30, 2015 among the Corporation, The Prudential Insurance Company of America and the other Purchasers named therein (Incorporated by reference to Exhibit 10.2 to Form 10-Q dated August 5, 2015)
- \*10.25 Amended and Restated Employment Agreement, dated as of February 15, 2019, by and between National Health Investors, Inc. and D. Eric Mendelsohn (Incorporated by reference to Exhibit 10.1 to Form 8-K dated February 22, 2019)
- 10.26 \$50,000,000 of 8-year notes with a coupon of 3.99% and \$50,000,000 of 10-year notes with a coupon of 4.33% to a private placement lender (Incorporated by reference to Exhibit 10.40 to Form 10-K filed February 18, 2016)
- 10.27 Purchase and Sale Agreement, dated as of April 1, 2016, between Texas NHI Investors, LLC and Gladewater Real Estate, LP, Firehole River Real Estate Holdings - Granite Mesa, Ltd, Firehole River Real Estate Holdings - Sonterra, Ltd, Firehole River Real Estate Holdings - West San Antonio, Ltd, RGV Real Estate Holdings, Ltd, Firehole River Real Estate Holdings - Euless, LP, and Firehole River Real Estate Holdings - Katy, LLC, and Legend Healthcare, LLC (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 6, 2016)
- 10.28 NHI PropCo, LLC Membership Interest Purchase Agreement (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed November 7, 2016)
- 10.29 \$75,000,000 of 8-year notes with a coupon of 3.93% issued to a private placement lender (Incorporated by reference to Exhibit 10.2 to Form 10-Q filed November 7, 2016)
- 10.30 Credit Agreement dated as of August 3, 2017 by and among National Health Investors, Inc., the Lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent (Incorporated by reference to Exhibit 10.1 to Form 10-Q dated August 8, 2017)
- 10.31 Third Amendment to the Note Purchase Agreement dated as of November 3, 2015, made and entered into as of August 8, 2017 (Incorporated by reference to Exhibit 99.1 to Form 8-k filed August 14, 2017)
- 10.32 Fifth Amendment to Note Purchase Agreement dated January 13, 2015, made and entered into as of August 8, 2017 (Incorporated by reference to Exhibit 99.2 to Form 8-k filed August 14, 2017)
- \*10.33 Second Amendment to 2012 Stock Incentive Plan (Incorporated by reference to Appendix A to Proxy Statement filed March 20, 2018)

10.34	<u>Amendment To Master Lease and Termination Of Guaranty dated as of November 5, 2018, by and among NHI-REIT of Next House, LLC, Myrtle Beach Retirement Residence LLC, Voorhees Retirement Residence LLC, NH Master Tenant LLC, and Holiday AL Holdings LP (Incorporated by reference to Exhibit 99.2 to Form 8-K filed November 6, 2018)</u>
10.35	<u>Term Loan Agreement dated as of September 17, 2018, by and among National Health Investors, Inc., the Lenders Party thereto, and Wells Fargo Bank, National Association as Administrative Agent (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed November 6, 2018)</u>
10.36	<u>Construction and Term Loan Agreement dated December 21, 2018 between the Company and LCS-Westminster Partnership IV, LLP (Incorporated by reference to Exhibit 10.36 to Form 10-K filed February 19, 2018)</u>
*10.37	<u>National Health Investors, Inc. 2019 Stock Incentive Plan (Incorporated by reference to Appendix A to Proxy Statement filed March 19, 2019)</u>
*10.38	<u>Separation Agreement dated November 7, 2019, by and between National Health Investors, Inc. and Roger Hopkins (filed herewith)</u>
21	<u>Subsidiaries (filed herewith)</u>
23.1	<u>Consent of Independent Registered Public Accounting Firm (filed herewith)</u>
31.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
31.2	<u>Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
32	<u>Certification of Chief Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
99.1	<u>Financial Statement Schedules (filed herewith)</u>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
0.104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

\* Indicates management contract or compensatory plan or arrangement.

**ITEM 16. SUMMARY**

None.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL HEALTH INVESTORS, INC.

BY: /s/ D. Eric Mendelsohn

D. Eric Mendelsohn

President and Chief Executive Officer

DATE: February 19, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ D. Eric Mendelsohn</u> D. Eric Mendelsohn	President and Chief Executive Officer (Principal Executive Officer)	February 19, 2020
<u>/s/ John L. Spaid</u> John L. Spaid	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 19, 2020
<u>/s/ W. Andrew Adams</u> W. Andrew Adams	Chairman of the Board	February 19, 2020
<u>/s/ James R. Jobe</u> James R. Jobe	Director	February 19, 2020
<u>/s/ Robert A. McCabe, Jr.</u> Robert A. McCabe, Jr.	Director	February 19, 2020
<u>/s/ Robert T. Webb</u> Robert T. Webb	Director	February 19, 2020

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED December 31, 2019, 2018, AND 2017  
*(in thousands)*

	Balance Beginning of Period	Additions Charged to Costs and Expenses <sup>1</sup>	Deductions	Balance End of Period
For the year ended December 31, 2019				
Loan loss allowance	\$ —	\$ —	\$ —	\$ —
For the year ended December 31, 2018				
Loan loss allowance	\$ —	\$ —	\$ —	\$ —
For the year ended December 31, 2017				
Loan loss allowance	\$ —	\$ —	\$ —	\$ —

<sup>1</sup> In the Consolidated Statements of Income, we report the net amount of our provision for loan and realty losses and our recoveries of amounts previously written down.

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Costs						Date Acquired/ Constructed										
	Initial Cost to Company <sup>(C)</sup>			Capitalized													
	Encumbrance	Buildings & Improvement		Subsequent to Acquisition	Buildings & Improvement			Total	Accumulated Depreciation <sup>(B)</sup>								
		Land	\$		Land	\$											
Skilled Nursing Facilities	\$	—	\$	70	\$	4,477	\$	—	\$	70	\$	4,477	\$	4,547	\$	3,536	10/17/1991
Anniston, AL		—		25		688		—		25		688		713		688	10/17/1991
Moulton, AL		—		453		6,678		—		453		6,678		7,131		4,029	8/13/1996
Avondale, AZ		—		1,217		16,166		—		1,217		16,166		17,383		4,008	2/1/2010
Brooksville, FL		—		912		12,117		—		912		12,117		13,029		3,004	2/1/2010
Crystal River, FL		—		605		8,042		—		605		8,042		8,647		1,994	2/1/2010
Dade City, FL		—		1,290		22,392		—		1,290		22,392		23,682		11,389	Various
Hudson, FL (2 facilities)		—		701		8,869		—		701		8,869		9,570		7,364	10/17/1991
Merritt Island, FL		—		228		3,023		—		228		3,023		3,251		749	2/1/2010
New Port Richey, FL		—		405		8,777		—		405		8,777		9,182		7,228	10/17/1991
Plant City, FL		—		787		9,048		—		787		9,048		9,835		7,653	10/17/1991
Stuart, FL		—		851		11,312		—		851		11,312		12,163		2,804	2/1/2010
Trenton, FL		—		33		2,110		—		33		2,110		2,143		2,059	10/17/1991
Glasgow, KY		—		370		4,341		—		370		4,341		4,711		725	8/30/2013
Greenfield, MA		—		110		944		—		110		944		1,054		166	8/30/2013
Holyoke, MA		—		450		710		—		450		710		1,160		115	8/30/2013
Quincy, MA		—		900		5,906		—		900		5,906		6,806		995	8/30/2013
Taunton, MA		—		178		3,804		—		178		3,804		3,982		3,580	10/17/1991
Desloge, MO		—		175		4,034		—		175		4,034		4,209		2,990	10/17/1991
Joplin, MO		—		180		4,928		—		180		4,928		5,108		4,593	10/17/1991
Kennett, MO		—		482		5,512		—		482		5,512		5,994		5,512	10/17/1991
Maryland Heights, MO		—		150		4,790		—		150		4,790		4,940		4,405	10/17/1991
St. Charles, MO		—		790		20,077		—		790		20,077		20,867		3,294	8/30/2013
Manchester, NH (2 facilities)		—		630		2,191		—		630		2,191		2,821		382	8/30/2013
Epsom, NH		—		190		10,415		—		190		10,415		10,605		1,829	3/31/2014
Albany, OR		—		470		8,946		—		470		8,946		9,416		1,505	3/31/2014
Creswell, OR		—		540		11,848		—		540		11,848		12,388		2,006	3/31/2014
Forest Grove, OR		—		308		4,643		—		308		4,643		4,951		4,477	10/17/1991
Anderson, SC		—		222		3,457		—		222		3,457		3,679		3,199	10/17/1991
Greenwood, SC		—		42		3,426		—		42		3,426		3,468		3,042	10/17/1991
Laurens, SC		—		300		3,714		—		300		3,714		4,014		1,109	9/25/2008
Orangeburg, SC		—		38		1,463		—		38		1,463		1,501		1,350	10/17/1991
Athens, TN		—		143		2,309		—		143		2,309		2,452		2,313	10/17/1991
Chattanooga, TN		—															

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Encumbrance	Initial Cost to Company <sup>(C)</sup>		Costs			Buildings & Improvement	Land	Subsequent Acquisition	Total	Accumulated Depreciation <sup>(B)</sup>	Date Acquired/Constructed
		Land	Buildings & Improvement	Buildings & Improvement	Capitalized	Buildings & Improvement						
Dickson, TN	—	90	\$ 3,541	—	—	\$ 3,541	90	—	—	3,631	3,108	10/17/1991
Franklin, TN	—	47	1,130	—	—	1,130	47	—	—	1,177	1,110	10/17/1991
Hendersonville, TN	—	363	3,837	—	—	3,837	363	—	—	4,200	3,122	10/17/1991
Johnson City, TN	—	85	1,918	—	—	1,918	85	—	—	2,003	1,918	10/17/1991
Lewisburg, TN (2 facilities)	—	46	994	—	—	994	46	—	—	1,040	999	10/17/1991
McMinnville, TN	—	73	3,618	—	—	3,618	73	—	—	3,691	3,089	10/17/1991
Milan, TN	—	41	1,826	—	—	1,826	41	—	—	1,867	1,667	10/17/1991
Pulaski, TN	—	53	3,921	—	—	3,921	53	—	—	3,974	3,384	10/17/1991
Lawrenceburg, TN	—	98	2,900	—	—	2,900	98	—	—	2,998	2,349	10/17/1991
Dunlap, TN	—	35	3,679	—	—	3,679	35	—	—	3,714	3,040	10/17/1991
Smithville, TN	—	35	3,816	—	—	3,816	35	—	—	3,851	3,258	10/18/1991
Somerville, TN	—	26	677	—	—	677	26	—	—	703	678	10/19/1991
Sparta, TN	—	80	1,602	—	—	1,602	80	—	—	1,682	1,518	10/20/1991
Austin, TX	—	606	9,895	—	—	9,895	606	—	—	10,501	1,092	4/1/2016
Canton, TX	—	420	12,330	—	—	12,330	420	—	—	12,750	2,728	4/18/2013
Corinth, TX	—	1,075	13,935	—	—	13,935	1,075	—	—	15,010	3,315	4/18/2013
Ennis, TX	—	986	9,025	—	—	9,025	986	—	—	10,011	2,483	10/31/2011
Euless, TX	—	1,241	12,629	—	—	12,629	1,241	—	—	13,870	1,515	4/1/2016
Fort Worth, TX	—	1,380	14,370	—	—	14,370	1,380	—	—	15,750	805	5/10/2018
Garland, TX	—	1,440	14,310	—	—	14,310	1,440	—	—	15,750	800	5/10/2018
Gladewater, TX	—	70	17,840	—	—	17,840	70	—	—	17,910	1,871	4/1/2016
Greenville, TX	—	1,800	13,948	—	—	13,948	1,800	—	—	15,748	3,517	10/31/2011
Houston, TX (3 facilities)	—	2,808	42,511	—	—	42,511	2,808	—	—	45,319	11,429	Various
Katy, TX	—	610	13,893	—	—	13,893	610	—	—	14,503	1,549	4/1/2016
Kyle, TX	—	1,096	12,279	—	—	12,279	1,096	—	—	13,375	3,188	6/11/2012
Marble Falls, TX	—	480	14,989	—	—	14,989	480	—	—	15,469	1,629	4/1/2016
McAllen, TX	—	1,175	8,259	—	—	8,259	1,175	—	—	9,434	1,010	4/1/2016
New Braunfels, TX	—	1,430	13,666	—	—	13,666	1,430	—	—	15,096	1,316	2/24/2017
San Antonio, TX (3 facilities)	—	2,370	40,054	—	—	40,054	2,370	—	—	42,424	7,119	Various
Waxahachie, TX	—	1,330	14,349	—	—	14,349	1,330	—	—	15,679	960	1/17/2018
Bristol, VA	—	176	2,511	—	—	2,511	176	—	—	2,687	2,320	10/17/1991
Oak Creek, WI	—	2,000	14,903	—	—	14,903	2,000	—	—	16,903	—	12/7/2018
	—	37,810	550,312	—	—	550,312	37,810	—	—	588,122	181,978	

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Initial Cost to Company <sup>(C)</sup>					Costs		Accumulated Depreciation <sup>(B)</sup>	Date Acquired/Constructed
	Encumbrance	Buildings & Improvement		Capitalized Subsequent Acquisition	Buildings & Improvement	Total			
		Land	Improvement				Land		
	\$		\$				\$		
Assisted Living Facilities									
Rainbow City, AL	—	670	11,330	—	670	11,330	2,049	10/31/2013	
Sacramento, CA	—	660	10,840	—	660	10,840	1,772	6/1/2014	
Pueblo West, CO	—	169	7,431	—	169	7,431	93	7/23/2019	
Bartow, FL	—	225	3,192	—	225	3,192	834	11/30/2010	
Lakeland, FL	—	307	3,117	—	307	3,117	820	11/30/2010	
Maitland, FL	—	1,687	5,428	—	1,687	5,428	3,513	8/6/1996	
St. Cloud, FL	—	250	3,167	—	250	3,167	834	11/30/2010	
Greensboro, GA	—	672	4,849	631	672	5,480	1,156	9/15/2011	
Ames, IA	3,193	360	4,670	—	360	4,670	874	6/28/2013	
Burlington, IA	3,901	200	8,374	—	200	8,374	1,570	6/28/2013	
Cedar Falls, IA	3,752	260	4,700	30	260	4,730	909	6/28/2013	
Clinton, IA	2,596	133	3,215	60	133	3,275	838	6/30/2010	
Ft. Dodge, IA	4,008	100	7,208	—	100	7,208	1,320	6/28/2013	
Iowa City, IA	2,357	297	2,725	33	297	2,758	767	6/30/2010	
Marshalltown, IA	5,714	240	6,208	—	240	6,208	1,155	6/28/2013	
Muscatine, IA	—	140	1,802	—	140	1,802	385	6/28/2013	
Urbandale, IA	8,113	540	4,292	—	540	4,292	845	6/28/2013	
West Des Moines, IA	—	600	17,406	—	600	17,406	1,670	7/12/2013	
Caldwell, ID	—	320	9,353	—	320	9,353	1,547	3/31/2014	
Weiser, ID	—	20	2,433	—	20	2,433	447	12/21/2012	
Aurora, IL	—	1,195	11,713	—	1,195	11,713	1,118	5/9/2017	
Bolingbrook, IL	—	1,290	14,677	—	1,290	14,677	1,134	3/16/2017	
Bourbonnais, IL	7,974	170	16,594	—	170	16,594	3,009	6/28/2013	
Crystal Lake, IL (2 facilities)	—	1,060	30,043	170	1,060	30,213	2,634	Various	
Gurnee, IL	—	1,244	13,856	—	1,244	13,856	137	9/10/2019	
Moline, IL	3,896	250	5,630	—	250	5,630	1,061	6/28/2013	
Oswego, IL	—	390	20,957	212	390	21,169	2,008	6/1/2016	
Peoria, IL	3,933	403	4,532	224	403	4,756	1,360	10/19/2009	
Quincy, IL	6,055	360	12,403	—	360	12,403	2,252	6/28/2013	
Rockford, IL	6,412	390	12,575	—	390	12,575	2,346	6/28/2013	
South Barrington, IL	—	1,610	13,456	—	1,610	13,456	1,061	3/16/2017	
Springfield, IL	15,386	450	19,355	200	450	19,555	3,517	6/28/2013	
St. Charles, IL	—	820	22,188	252	820	22,440	2,148	6/1/2016	

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Encumbrance	Initial Cost to Company <sup>(C)</sup>				Costs			Total	Accumulated Depreciation <sup>(B)</sup>	Date Acquired/Constructed
		Land	Buildings & Improvement	Capitalized Subsequent Acquisition	Land	Buildings & Improvement	Land	Buildings & Improvement			
Tinley Park, IL	\$ —	1,622	\$11,354	—	1,622	\$11,354	—	—	12,976	1,296	6/23/2016
Carmel, IN	—	463	7,055	—	463	7,055	—	—	7,518	1,578	11/12/2014
Crawfordsville, IN	2,559	300	3,134	—	300	3,134	—	—	3,434	597	6/28/2013
Crown Point, IN	—	574	7,336	353	574	7,689	353	—	8,263	1,474	10/30/2013
Greenwood, IN	—	791	7,020	227	791	7,247	227	—	8,038	1,619	11/7/2013
Valparaiso, IN	—	1,414	16,099	—	1,414	16,099	—	—	17,513	269	5/31/2019
Mission, KS	—	1,901	17,310	636	1,901	17,946	636	—	19,847	4,455	9/30/2012
Overland Park, KS	—	2,199	20,026	—	2,199	20,026	—	—	22,225	5,049	9/30/2012
Bastrop, LA	—	325	2,456	—	325	2,456	—	—	2,781	650	4/30/2011
Bossier City, LA	—	500	3,344	—	500	3,344	—	—	3,844	920	4/30/2011
Minden, LA	—	280	1,698	—	280	1,698	—	—	1,978	446	4/30/2011
West Monroe, LA	—	770	5,627	—	770	5,627	—	—	6,397	1,415	4/30/2011
Baltimore, MD	—	860	8,078	534	860	8,612	534	—	9,472	1,498	10/31/2013
Battle Creek, MI	2,866	398	3,093	197	398	3,290	197	—	3,688	962	10/19/2009
Bridgeport, MI	—	220	7,849	—	220	7,849	—	—	8,069	327	6/20/2018
Brighton, MI	—	410	13,090	—	410	13,090	—	—	13,500	232	5/22/2019
Lansing, MI (2 facilities)	6,218	1,360	17,766	174	1,360	17,940	174	—	19,300	3,035	10/19/2009
Midland, MI	5,416	504	6,612	162	504	6,774	162	—	7,278	1,842	10/19/2009
Saginaw, MI (2 facilities)	3,566	538	12,991	163	538	13,154	163	—	13,692	1,603	Various
Shelby Township, MI	—	570	10,230	—	570	10,230	—	—	10,800	207	4/30/2019
Champlin, MN	—	980	4,430	—	980	4,430	—	—	5,410	1,230	3/10/2010
Hugo, MN	—	400	3,800	—	400	3,800	—	—	4,200	1,040	3/10/2010
Maplewood, MN	—	1,700	6,510	—	1,700	6,510	—	—	8,210	1,798	3/10/2010
North Branch, MN	—	595	2,985	—	595	2,985	—	—	3,580	875	3/10/2010
Mahtomedi, MN	—	515	8,825	—	515	8,825	—	—	9,340	—	12/27/2019
Charlotte, NC	—	650	17,663	2,000	650	19,663	2,000	—	20,313	2,221	7/1/2015
Durham, NC	—	860	6,690	—	860	6,690	—	—	7,550	405	3/16/2017
Hendersonville, NC (2 facilities)	—	3,120	12,980	—	3,120	12,980	—	—	16,100	1,103	3/16/2017
Grand Island, NE	4,180	370	5,029	197	370	5,226	197	—	5,596	1,056	6/28/2013
Lincoln, NE	8,418	380	10,904	—	380	10,904	—	—	11,284	1,959	6/28/2013
Omaha, NE (2 facilities)	2,455	1,110	15,437	851	1,110	16,288	851	—	17,398	2,164	Various
Columbus, OH (2 facilities)	—	1,100	26,002	—	1,100	26,002	—	—	27,102	1,206	4/30/2018
Lancaster, OH	—	530	20,530	—	530	20,530	—	—	21,060	2,800	7/31/2015
Marysville, OH	—	1,250	13,950	—	1,250	13,950	—	—	15,200	2,755	7/1/2013



NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Costs						Date Acquired/ Constructed	
	Initial Cost to Company <sup>(C)</sup>		Capitalized Subsequent Acquisition	Buildings & Improvement	Total	Accumulated Depreciation <sup>(B)</sup>		
	Encumbrance	Land						
Middletown, OH	\$ 8,492	940	\$15,548	—	940	\$15,548	2,340	10/31/2014
Rocky River, OH	—	650	7,201	—	650	7,201	360	4/30/2018
Worthington, OH	—	—	18,869	1,476	—	20,345	1,161	4/30/2018
McMinnville, OR	—	390	9,183	—	390	9,183	896	8/31/2016
Milwaukie, OR	—	370	5,283	64	370	5,347	743	9/30/2014
Ontario, OR (2 facilities)	—	429	6,128	—	429	6,128	1,131	12/21/2012
Portland, OR (2 facilities)	—	1,430	31,542	—	1,430	31,542	2,688	8/31/2015
Erie, PA	—	1,030	15,206	3	1,030	15,209	696	4/30/2018
Reading, PA	—	1,027	11,179	—	1,027	11,179	196	5/31/2019
Arlington, TX	—	450	4,555	26	450	4,581	407	3/16/2017
Rockwall, TX	—	1,250	10,562	—	1,250	10,562	854	3/16/2017
Fredericksburg, VA	—	1,615	9,271	—	1,615	9,271	992	9/20/2016
Midlothian, VA	—	1,646	8,635	—	1,646	8,635	945	10/31/2016
Suffolk, VA	—	1,022	9,320	—	1,022	9,320	777	3/25/2016
Beaver Dam, WI	—	210	20,149	113	210	20,262	4,068	12/21/2012
	<u>121,460</u>	<u>59,500</u>	<u>840,253</u>	<u>8,988</u>	<u>59,500</u>	<u>849,241</u>	<u>115,523</u>	
Independent Living Facilities								
Fort Smith, AR	—	590	22,447	—	590	22,447	3,674	12/23/2013
Rogers, AR	—	1,470	25,282	—	1,470	25,282	4,138	12/23/2013
Fresno, CA	—	420	10,899	—	420	10,899	1,876	12/23/2013
Hemet, CA	—	1,250	12,645	—	1,250	12,645	2,153	12/23/2013
Merced, CA	—	350	18,712	—	350	18,712	3,075	12/23/2013
Modesto, CA	—	1,170	22,673	—	1,170	22,673	3,661	12/23/2013
Pinole, CA	—	1,020	18,066	—	1,020	18,066	2,954	12/23/2013
Roseville, CA	—	630	31,343	—	630	31,343	5,070	12/23/2013
West Covina, CA	—	940	20,280	—	940	20,280	3,270	12/23/2013
Vero Beach, FL	—	550	37,450	—	550	37,450	967	2/1/2019
Athens, GA	—	910	31,940	—	910	31,940	5,162	12/23/2013
Columbus, GA	—	570	8,639	—	570	8,639	1,508	12/23/2013
Savannah, GA	—	1,200	15,851	—	1,200	15,851	2,636	12/23/2013
Boise, ID	—	400	12,422	—	400	12,422	2,069	12/23/2013
Columbus, IN	—	348	6,124	—	348	6,124	103	5/31/2019
Fort Wayne, IN	—	310	12,864	—	310	12,864	2,201	12/23/2013

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Encumbrance	Initial Cost to Company <sup>(C)</sup>					Costs			Total	Accumulated Depreciation <sup>(B)</sup>	Date Acquired/Constructed
		Land	Buildings & Improvement	Capitalized Subsequent Acquisition	Land	Buildings & Improvement						
Kenner, LA	—	310	\$24,259	—	310	\$24,259				24,569	3,881	12/23/2013
St. Charles, MO	—	344	3,181	—	344	3,181				3,525	2,558	10/17/1991
Voorhees, NJ	—	670	23,710	—	670	23,710				24,380	3,816	12/23/2013
Gahanna, OH	—	920	22,919	—	920	22,919				23,839	3,771	12/23/2013
Broken Arrow, OK	—	2,660	18,477	—	2,660	18,477				21,137	3,079	12/23/2013
Tulsa, OK	17,622	1,980	32,620	501	1,980	33,121				35,101	1,929	12/1/2017
Newberg, OR	—	1,080	19,187	—	1,080	19,187				20,267	3,178	12/23/2013
Greenville, SC	—	560	16,547	—	560	16,547				17,107	2,761	12/23/2013
Myrtle Beach, SC	—	1,310	26,229	—	1,310	26,229				27,539	4,231	12/23/2013
Chattanooga, TN	—	9	1,567	—	9	1,567				1,576	1,329	10/17/1991
Johnson City, TN	—	55	4,077	—	55	4,077				4,132	3,040	10/17/1991
Bellevue, WA	—	780	18,692	—	780	18,692				19,472	3,044	12/23/2013
Chehalis, WA	—	1,980	7,710	7,445	1,980	15,155				17,135	879	1/15/2016
Vancouver, WA (2 facilities)	—	1,740	23,411	—	1,740	23,411				25,151	3,950	12/23/2013
Yakima, WA	—	440	14,186	—	440	14,186				14,626	2,348	12/23/2013
	17,622	26,966	564,409	7,946	26,966	572,355				599,321	88,311	
Senior Living Campuses												
Loma Linda, CA	—	1,200	10,800	7,326	1,200	18,126				19,326	3,169	9/28/2012
Bonita Springs, FL	—	1,810	24,382	—	1,810	24,382				26,192	3,078	7/1/2015
Maitland, FL	—	2,317	9,161	491	2,317	9,652				11,969	6,376	8/6/1996
West Palm Beach, FL	—	2,771	4,286	—	2,771	4,286				7,057	3,803	8/6/1996
Nampa, ID	—	243	4,182	—	243	4,182				4,425	2,552	8/13/1996
Michigan City, IN	—	974	22,667	—	974	22,667				23,641	378	5/31/2019
Portage, IN	—	661	21,959	—	661	21,959				22,620	368	5/31/2019
Needham, MA	—	5,500	45,157	—	5,500	45,157				50,657	1,395	1/15/2019
Salisbury, MD	—	1,876	44,084	—	1,876	44,084				45,960	763	5/31/2019
Roscommon, MI	—	44	6,005	—	44	6,005				6,049	805	8/31/2015
Mt. Airy, NC	—	1,370	7,470	150	1,370	7,620				8,990	1,125	12/17/2014
McMinnville, OR	—	410	26,667	—	410	26,667				27,077	2,451	8/31/2016
Madison, TN	—	920	21,829	104	920	21,933				22,853	2,748	7/1/2015
Silverdale, WA	—	1,750	23,860	2,167	1,750	26,027				27,777	5,392	8/16/2012
	—	21,846	272,509	10,238	21,846	282,747				304,593	34,403	

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Initial Cost to Company <sup>(C)</sup>			Capitalized Subsequent Acquisition	Land	Buildings & Improvement	Total	Accumulated Depreciation <sup>(B)</sup>	Date Acquired/Constructed
	Encumbrance	Land	Buildings & Improvement						
Entrance-Fee Communities									
Bridgeport, CT	—	4,320	23,494	2,774	4,320	26,268	30,588	2,875	6/1/2016
North Branford, CT	—	7,724	64,430	—	7,724	64,430	72,154	5,700	11/3/2016
Southbury, CT	—	10,320	17,143	2,713	10,320	19,856	30,176	2,046	11/8/2016
Fernandina Beach, FL	—	1,430	63,420	1,522	1,430	64,942	66,372	8,826	12/17/2014
St. Simons Island, GA	—	8,770	38,070	963	8,770	39,033	47,803	5,547	12/17/2014
Winston-Salem, NC	—	8,700	73,920	507	8,700	74,427	83,127	10,356	12/17/2014
Greenville, SC	—	5,850	90,760	—	5,850	90,760	96,610	12,526	12/17/2014
Myrtle Beach, SC	—	3,910	82,140	542	3,910	82,682	86,592	11,630	12/17/2014
Pawleys Island, SC	—	1,480	38,620	460	1,480	39,080	40,560	5,718	12/17/2014
Spartanburg, SC	—	900	49,190	1,021	900	50,211	51,111	7,029	12/17/2014
	—	53,404	541,187	10,502	53,404	551,689	605,093	72,253	
Medical Office Buildings									
Crestview, FL	—	165	3,349	—	165	3,349	3,514	2,505	6/30/1993
Pasadena, TX	—	631	6,341	—	631	6,341	6,972	4,869	1/1/1995
	—	796	9,690	—	796	9,690	10,486	7,374	
Hospitals									
La Mesa, CA	—	4,180	8,320	—	4,180	8,320	12,500	2,676	3/10/2010
Jackson, KY	—	540	10,163	7,899	540	18,062	18,602	8,309	6/12/1992
Murfreesboro, TN	—	7,284	17,585	—	7,284	17,585	24,869	3,190	10/1/2012
	—	12,004	36,068	7,899	12,004	43,967	55,971	14,175	
Total continuing operations properties	139,082	212,326	2,814,428	45,573	212,326	2,860,001	3,072,327	514,017	
Corporate office	—	1,291	677	551	1,291	1,228	2,519	436	
	\$ 139,082	\$ 213,617	\$ 2,815,105	\$ 46,124	\$ 213,617	\$ 2,861,229	\$ 3,074,846	\$ 514,453	

NOTES TO SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

(A) See the notes to the consolidated financial statements.

(B) Depreciation is calculated using estimated useful lives up to 40 years for all completed facilities.

(C) Subsequent to NHC's transfer of the original real estate properties in 1991, we have purchased from NHC \$33,909,000 of additions to those properties. As the additions were purchased from NHC rather than developed by us, the \$33,909,000 has been included as Initial Cost to Company.

(D) At December 31, 2019, the tax basis of the Company's net real estate assets was \$2,541,329,000.

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017  
*(in thousands)*

	December 31,		
	2019	2018	2017
Investment in Real Estate:			
Balance at beginning of period	\$ 2,818,365	\$ 2,665,903	\$ 2,472,854
Additions through cash expenditures	237,186	147,645	175,793
Change in accounts payable related to investments in real estate construction	1,829	1,689	(1,855)
Change in other assets related to investments in real estate	292	171	—
Tenant investment in leased asset	—	3,775	1,250
Contingent asset acquisition liability relieved	—	(818)	—
Additions through assumption of debt	—	—	18,311
Real estate acquired in exchange for straight-line rent receivable	38,000	—	—
Real estate acquired in exchange for mortgage notes receivable	14,000	—	—
Sale of properties for cash	—	—	(450)
Properties classified as held for sale	(34,826)	—	—
Balance at end of period	<u>\$ 3,074,846</u>	<u>\$ 2,818,365</u>	<u>\$ 2,665,903</u>
Accumulated Depreciation:			
Balance at beginning of period	\$ 451,483	\$ 380,202	\$ 313,080
Addition charged to costs and expenses	76,816	71,349	67,173
Amortization of right-of-use asset	60	—	—
Sale of properties	—	—	(51)
Properties classified as held for sale	(13,906)	—	—
Contingent asset acquisition liability relieved	—	(68)	—
Balance at end of period	<u>\$ 514,453</u>	<u>\$ 451,483</u>	<u>\$ 380,202</u>

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE  
December 31, 2019

	Interest Rate	Maturity Date	Monthly Payment Terms	Prior Liens	Original Face Amount	Carrying Amount	Amount Subject To Delinquent Principal or Interest
							(in thousands)
First Mortgages:							
Skilled nursing facilities:							
Virginia Beach, VA	8.0%	2031-12-31	\$31,000		\$ 3,814	\$ 2,313	
Lexington, VA	8.0%	2032-12-31	\$21,000		\$ 3,089	\$ 1,686	
Brookneal, VA	8.0%	2031-12-31	\$21,000		\$ 2,780	\$ 1,640	
Laurel Fork, VA	8.0%	2030-12-31	\$20,000		\$ 2,672	\$ 1,535	
Assisted living facilities:							
Oviedo, FL	8.25%	2021-12-31	Interest Only		\$ 10,000	\$ 10,000	
Rye, NH	8.0%	2022-12-31	Interest Only		\$ 10,000	\$ 9,948	
Indianapolis, IN	7.0%	2022-12-31	Interest Only		\$ 6,423	\$ 6,423	
Entrance fee communities:							
Columbia, SC	7.3%	2024-12-31	Interest Only		\$ 32,700	\$ 32,700	
Second Mortgages:							
Assisted living facilities:							
Green Bay, WI	13.0%	2020-12-31	Interest Only		\$ 3,870	\$ 3,834	
Construction Loan:							
Phoenix, AZ	7.25%	2028-12-31	Interest Only		\$ 77,340	\$ 75,871	
Phoenix, AZ	8.50%	2023-12-31	Interest Only		\$ 45,938	\$ 45,938	
Canton, MI	9.0%	2023-12-31	Interest Only		\$ 11,312	\$ 11,312	
Shelby Township, MI	9.0%	2022-12-31	Interest Only		\$ 14,000	\$ 14,000	
Virginia Beach, VA	9.0%	2023-12-31	Interest Only		\$ 11,804	\$ 11,804	
Issaquah, WA	6.75%	2025-12-31	Interest Only		\$ 59,349	\$ 59,166	
Oshkosh, WI	8.50%	2024-12-31	Interest Only		\$ 6,045	\$ 5,950	
					<u>\$ 294,120</u>	<u>\$</u>	<u>—</u>

At December 31, 2019, the tax basis of our mortgage loans on real estate was \$296,385,000. Balloon payments on our interest only mortgage receivables are equivalent to the carrying amounts listed above except for unamortized commitment fees of \$1,835,000.

See the notes to our consolidated financial statements for more information on our mortgage loan receivables.

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017  
(in thousands)

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Reconciliation of mortgage loans on real estate		
Balance at beginning of period	\$ 202,877	\$ 98,110
Additions:		
New mortgage loans	105,345	108,266
Amortization of loan discount and commitment fees	440	608
Total Additions	105,785	108,874
Deductions:		
Loan commitment fees received	108	1,800
Mortgage notes receivable related to investments in real estate	14,000	—
Collection of principal, less recoveries of previous write-downs	434	2,307
Total Deductions	14,542	4,107
Balance at end of period	\$ 294,120	\$ 202,877
		\$ 98,110



## **EXHIBIT 23.1**

### **CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

National Health Investors, Inc.  
Murfreesboro, Tennessee

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-216177) and Form S-8 (No. 333-127179, No. 333-186854, No. 333-206273, No. 333-226629 and No. 333-233129) of National Health Investors, Inc. of our reports dated February 19, 2020, relating to the consolidated financial statements and financial statement schedules and the effectiveness of National Health Investors, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP

Nashville, Tennessee  
February 19, 2020

**Exhibit 31.1**  
**CERTIFICATION PURSUANT TO**  
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, D. Eric Mendelsohn, certify that:

1. I have reviewed this annual report on Form 10-K of the registrant, National Health Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2020

/s/ D. Eric Mendelsohn

D. Eric Mendelsohn

President and Chief Executive Officer

**Exhibit 31.2**  
**CERTIFICATION PURSUANT TO**  
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John L. Spaid, certify that:

1. I have reviewed this annual report on Form 10-K of the registrant, National Health Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions) :
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2020

/s/ John L. Spaid

John L. Spaid

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

**Exhibit 32**  
**CERTIFICATION PURSUANT TO**  
**18 U.S.C. SECTION 1350,**  
**AS ADOPTED PURSUANT TO**  
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that, to the undersigned's best knowledge and belief, the annual report on Form 10-K for National Health Investors, Inc. ("Issuer") for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"):

- (a) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: February 19, 2020

/s/ D. Eric Mendelsohn

\_\_\_\_\_  
D. Eric Mendelsohn

President and Chief Executive Officer,

Date: February 19, 2020

/s/ John L. Spaid

\_\_\_\_\_  
John L. Spaid

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED December 31, 2019, 2018, AND 2017  
*(in thousands)*

	Balance Beginning of Period	Additions Charged to Costs and Expenses <sup>1</sup>	Deductions	Balance End of Period
For the year ended December 31, 2019				
Loan loss allowance	\$ —	\$ —	\$ —	\$ —
For the year ended December 31, 2018				
Loan loss allowance	\$ —	\$ —	\$ —	\$ —
For the year ended December 31, 2017				
Loan loss allowance	\$ —	\$ —	\$ —	\$ —

<sup>1</sup> In the Consolidated Statements of Income, we report the net amount of our provision for loan and realty losses and our recoveries of amounts previously written down.

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
*(in thousands)*

	Costs							Date
	Initial Cost to Company <sup>(C)</sup>			Capitalized		Accumulated Depreciation <sup>(B)</sup>		
	Encumbrances	Land	Buildings & Improvements	Subsequent to Acquisition	Land		Buildings & Improvements	
							Total	
Skilled Nursing Facilities								
Anniston, AL	\$ —	\$ 70	\$ 4,477	\$ —	\$ 70	\$ 4,477	\$ 4,547	3,536 10/17/1991
Moulton, AL	—	25	688	—	25	688	713	688 10/17/1991
Avondale, AZ	—	453	6,678	—	453	6,678	7,131	4,029 8/13/1996
Brooksville, FL	—	1,217	16,166	—	1,217	16,166	17,383	4,008 2/1/2010
Crystal River, FL	—	912	12,117	—	912	12,117	13,029	3,004 2/1/2010
Dade City, FL	—	605	8,042	—	605	8,042	8,647	1,994 2/1/2010
Hudson, FL (2 facilities)	—	1,290	22,392	—	1,290	22,392	23,682	11,389 Various
Merritt Island, FL	—	701	8,869	—	701	8,869	9,570	7,364 10/17/1991
New Port Richey, FL	—	228	3,023	—	228	3,023	3,251	749 2/1/2010
Plant City, FL	—	405	8,777	—	405	8,777	9,182	7,228 10/17/1991
Stuart, FL	—	787	9,048	—	787	9,048	9,835	7,653 10/17/1991
Trenton, FL	—	851	11,312	—	851	11,312	12,163	2,804 2/1/2010
Glasgow, KY	—	33	2,110	—	33	2,110	2,143	2,059 10/17/1991
Greenfield, MA	—	370	4,341	—	370	4,341	4,711	725 8/30/2013
Holyoke, MA	—	110	944	—	110	944	1,054	166 8/30/2013
Quincy, MA	—	450	710	—	450	710	1,160	115 8/30/2013
Taunton, MA	—	900	5,906	—	900	5,906	6,806	995 8/30/2013
Desloge, MO	—	178	3,804	—	178	3,804	3,982	3,580 10/17/1991
Joplin, MO	—	175	4,034	—	175	4,034	4,209	2,990 10/17/1991
Kennett, MO	—	180	4,928	—	180	4,928	5,108	4,593 10/17/1991
Maryland Heights, MO	—	482	5,512	—	482	5,512	5,994	5,512 10/17/1991
St. Charles, MO	—	150	4,790	—	150	4,790	4,940	4,405 10/17/1991
Manchester, NH (2 facilities)	—	790	20,077	—	790	20,077	20,867	3,294 8/30/2013
Epsom, NH	—	630	2,191	—	630	2,191	2,821	382 8/30/2013
Albany, OR	—	190	10,415	—	190	10,415	10,605	1,829 3/31/2014
Creswell, OR	—	470	8,946	—	470	8,946	9,416	1,505 3/31/2014
Forest Grove, OR	—	540	11,848	—	540	11,848	12,388	2,006 3/31/2014
Anderson, SC	—	308	4,643	—	308	4,643	4,951	4,477 10/17/1991
Greenwood, SC	—	222	3,457	—	222	3,457	3,679	3,199 10/17/1991
Laurens, SC	—	42	3,426	—	42	3,426	3,468	3,042 10/17/1991
Orangeburg, SC	—	300	3,714	—	300	3,714	4,014	1,109 9/25/2008
Athens, TN	—	38	1,463	—	38	1,463	1,501	1,350 10/17/1991
Chattanooga, TN	—	143	2,309	—	143	2,309	2,452	2,313 10/17/1991



NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Initial Cost to Company <sup>(C)</sup>				Costs		Total	Accumulated Depreciation <sup>(B)</sup>	Date Acquired/Constructed
	Encumbrances	Land	Buildings & Improvements	Capitalized Subsequent to Acquisition	Land	Buildings & Improvements			
Dickson, TN	—	90	3,541	—	90	3,541	3,631	3,108	10/17/1991
Franklin, TN	—	47	1,130	—	47	1,130	1,177	1,110	10/17/1991
Hendersonville, TN	—	363	3,837	—	363	3,837	4,200	3,122	10/17/1991
Johnson City, TN	—	85	1,918	—	85	1,918	2,003	1,918	10/17/1991
Lewisburg, TN (2 facilities)	—	46	994	—	46	994	1,040	999	10/17/1991
McMinnville, TN	—	73	3,618	—	73	3,618	3,691	3,089	10/17/1991
Milan, TN	—	41	1,826	—	41	1,826	1,867	1,667	10/17/1991
Pulaski, TN	—	53	3,921	—	53	3,921	3,974	3,384	10/17/1991
Lawrenceburg, TN	—	98	2,900	—	98	2,900	2,998	2,349	10/17/1991
Dunlap, TN	—	35	3,679	—	35	3,679	3,714	3,040	10/17/1991
Smithville, TN	—	35	3,816	—	35	3,816	3,851	3,258	10/18/1991
Somerville, TN	—	26	677	—	26	677	703	678	10/19/1991
Sparta, TN	—	80	1,602	—	80	1,602	1,682	1,518	10/20/1991
Austin, TX	—	606	9,895	—	606	9,895	10,501	1,092	4/1/2016
Canton, TX	—	420	12,330	—	420	12,330	12,750	2,728	4/18/2013
Corinth, TX	—	1,075	13,935	—	1,075	13,935	15,010	3,315	4/18/2013
Emis, TX	—	986	9,025	—	986	9,025	10,011	2,483	10/31/2011
Eules, TX	—	1,241	12,629	—	1,241	12,629	13,870	1,515	4/1/2016
Fort Worth, TX	—	1,380	14,370	—	1,380	14,370	15,750	805	5/10/2018
Garland, TX	—	1,440	14,310	—	1,440	14,310	15,750	800	5/10/2018
Gladewater, TX	—	70	17,840	—	70	17,840	17,910	1,871	4/1/2016
Greenville, TX	—	1,800	13,948	—	1,800	13,948	15,748	3,517	10/31/2011
Houston, TX (3 facilities)	—	2,808	42,511	—	2,808	42,511	45,319	11,429	Various
Katy, TX	—	610	13,893	—	610	13,893	14,503	1,549	4/1/2016
Kyle, TX	—	1,096	12,279	—	1,096	12,279	13,375	3,188	6/11/2012
Marble Falls, TX	—	480	14,989	—	480	14,989	15,469	1,629	4/1/2016
McAllen, TX	—	1,175	8,259	—	1,175	8,259	9,434	1,010	4/1/2016
New Braunfels, TX	—	1,430	13,666	—	1,430	13,666	15,096	1,316	2/24/2017
San Antonio, TX (3 facilities)	—	2,370	40,054	—	2,370	40,054	42,424	7,119	Various
Waxahachie, TX	—	1,330	14,349	—	1,330	14,349	15,679	960	1/17/2018
Bristol, VA	—	176	2,511	—	176	2,511	2,687	2,320	10/17/1991
Oak Creek, WI	—	2,000	14,903	—	2,000	14,903	16,903	—	12/7/2018
	—	23,565	329,155	—	23,565	329,155	352,720	77,886	

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Initial Cost to Company <sup>(C)</sup>			Costs		Accumulated Depreciation <sup>(B)</sup>	Date Acquired/Constructed	
	Encumbrances	Buildings & Improvements		Capitalized Subsequent to Acquisition	Buildings & Improvements			Total
		Land	Improvements					
Assisted Living Facilities								
Rainbow City, AL	—	670	11,330	—	670	11,330	2,049	10/31/2013
Sacramento, CA	—	660	10,840	—	660	10,840	1,772	6/1/2014
Pueblo West, CO	—	169	7,431	—	169	7,431	93	7/23/2019
Bartow, FL	—	225	3,192	—	225	3,192	834	11/30/2010
Lakeland, FL	—	307	3,117	—	307	3,117	820	11/30/2010
Maitland, FL	—	1,687	5,428	—	1,687	5,428	3,513	8/6/1996
St. Cloud, FL	—	250	3,167	—	250	3,167	834	11/30/2010
Greensboro, GA	—	672	4,849	631	672	5,480	1,156	9/15/2011
Ames, IA	3,193	360	4,670	—	360	4,670	874	6/28/2013
Burlington, IA	3,901	200	8,374	—	200	8,374	1,570	6/28/2013
Cedar Falls, IA	3,752	260	4,700	30	260	4,730	909	6/28/2013
Clinton, IA	2,596	133	3,215	60	133	3,275	838	6/30/2010
Ft. Dodge, IA	4,008	100	7,208	—	100	7,208	1,320	6/28/2013
Iowa City, IA	2,357	297	2,725	33	297	2,758	767	6/30/2010
Marshalltown, IA	5,714	240	6,208	—	240	6,208	1,155	6/28/2013
Muscatine, IA	—	140	1,802	—	140	1,802	385	6/28/2013
Urbandale, IA	8,113	540	4,292	—	540	4,292	845	6/28/2013
West Des Moines, IA	—	600	17,406	—	600	17,406	1,670	7/12/2013
Caldwell, ID	—	320	9,353	—	320	9,353	1,547	3/31/2014
Weiser, ID	—	20	2,433	—	20	2,433	447	12/21/2012
Aurora, IL	—	1,195	11,713	—	1,195	11,713	1,118	5/9/2017
Bolingbrook, IL	—	1,290	14,677	—	1,290	14,677	1,134	3/16/2017
Bourbonnais, IL	7,974	170	16,594	—	170	16,594	3,009	6/28/2013
Crystal Lake, IL (2 facilities)	—	1,060	30,043	170	1,060	30,213	2,634	Various
Gurnee, IL	—	1,244	13,856	—	1,244	13,856	137	9/10/2019
Moline, IL	3,896	250	5,630	—	250	5,630	1,061	6/28/2013
Oswego, IL	—	390	20,957	212	390	21,169	2,008	6/1/2016
Peoria, IL	3,933	403	4,532	224	403	4,756	1,360	10/19/2009
Quincy, IL	6,055	360	12,403	—	360	12,403	2,252	6/28/2013
Rockford, IL	6,412	390	12,575	—	390	12,575	2,346	6/28/2013
South Barrington, IL	—	1,610	13,456	—	1,610	13,456	1,061	3/16/2017
Springfield, IL	15,386	450	19,355	200	450	19,555	3,517	6/28/2013
St. Charles, IL	—	820	22,188	252	820	22,440	2,148	6/1/2016

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Initial Cost to Company <sup>(C)</sup>				Costs		Buildings & Improvements	Land	Buildings & Improvements	Total	Accumulated Depreciation <sup>(B)</sup>	Date Acquired/Constructed
	Encumbrances	Buildings & Improvements		Capitalized Subsequent to Acquisition								
		Land	Improvements	Acquisition								
Tinley Park, IL	—	1,622	11,354	—	—	1,622	11,354	12,976	1,296	6/23/2016		
Carmel, IN	—	463	7,055	—	—	463	7,055	7,518	1,578	11/12/2014		
Crawfordsville, IN	2,559	300	3,134	—	—	300	3,134	3,434	597	6/28/2013		
Crown Point, IN	—	574	7,336	353	353	574	7,689	8,263	1,474	10/30/2013		
Greenwood, IN	—	791	7,020	227	227	791	7,247	8,038	1,619	11/7/2013		
Valparaiso, IN	—	1,414	16,099	—	—	1,414	16,099	17,513	269	5/31/2019		
Mission, KS	—	1,901	17,310	636	636	1,901	17,946	19,847	4,455	9/30/2012		
Overland Park, KS	—	2,199	20,026	—	—	2,199	20,026	22,225	5,049	9/30/2012		
Bastrop, LA	—	325	2,456	—	—	325	2,456	2,781	650	4/30/2011		
Bossier City, LA	—	500	3,344	—	—	500	3,344	3,844	920	4/30/2011		
Minden, LA	—	280	1,698	—	—	280	1,698	1,978	446	4/30/2011		
West Monroe, LA	—	770	5,627	—	—	770	5,627	6,397	1,415	4/30/2011		
Baltimore, MD	—	860	8,078	534	534	860	8,612	9,472	1,498	10/31/2013		
Battle Creek, MI	2,866	398	3,093	197	197	398	3,290	3,688	962	10/19/2009		
Bridgeport, MI	—	220	7,849	—	—	220	7,849	8,069	327	6/20/2018		
Brighton, MI	—	410	13,090	—	—	410	13,090	13,500	232	5/22/2019		
Lansing, MI (2 facilities)	6,218	1,360	17,766	174	174	1,360	17,940	19,300	3,035	10/19/2009		
Midland, MI	5,416	504	6,612	162	162	504	6,774	7,278	1,842	10/19/2009		
Saginaw, MI (2 facilities)	3,566	538	12,991	163	163	538	13,154	13,692	1,603	Various		
Shelby Township, MI	—	570	10,230	—	—	570	10,230	10,800	207	4/30/2019		
Champlin, MN	—	980	4,430	—	—	980	4,430	5,410	1,230	3/10/2010		
Hugo, MN	—	400	3,800	—	—	400	3,800	4,200	1,040	3/10/2010		
Maplewood, MN	—	1,700	6,510	—	—	1,700	6,510	8,210	1,798	3/10/2010		
North Branch, MN	—	595	2,985	—	—	595	2,985	3,580	875	3/10/2010		
Mahtomedi, MN	—	515	8,825	—	—	515	8,825	9,340	—	12/27/2019		
Charlotte, NC	—	650	17,663	2,000	2,000	650	19,663	20,313	2,221	7/1/2015		
Durham, NC	—	860	6,690	—	—	860	6,690	7,550	405	3/16/2017		
Hendersonville, NC (2 facilities)	—	3,120	12,980	—	—	3,120	12,980	16,100	1,103	3/16/2017		
Grand Island, NE	4,180	370	5,029	197	197	370	5,226	5,596	1,056	6/28/2013		
Lincoln, NE	8,418	380	10,904	—	—	380	10,904	11,284	1,959	6/28/2013		
Omaha, NE (2 facilities)	2,455	1,110	15,437	851	851	1,110	16,288	17,398	2,164	Various		
Columbus, OH (2 facilities)	—	1,100	26,002	—	—	1,100	26,002	27,102	1,206	4/30/2018		
Lancaster, OH	—	530	20,530	—	—	530	20,530	21,060	2,800	7/31/2015		
Marysville, OH	—	1,250	13,950	—	—	1,250	13,950	15,200	2,755	7/1/2013		

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Initial Cost to Company <sup>(C)</sup>				Costs		Date Acquired/ Constructe		
	Encumbrance	Buildings & Improvement		Subsequent Acquisition	Buildings & Improvement	Total		Accumulated Depreciation <sup>(B)</sup>	
		Land	Improvement						
Middletown, OH	\$ 8,492	940	\$ 15,548	—	940	\$ 15,548	16,488	2,340	10/31/2011
Rocky River, OH	—	650	7,201	—	650	7,201	7,851	360	4/30/2018
Worthington, OH	—	—	18,869	1,476	—	20,345	20,345	1,161	4/30/2018
McMinnville, OR	—	390	9,183	—	390	9,183	9,573	896	8/31/2016
Milwaukie, OR	—	370	5,283	64	370	5,347	5,717	743	9/30/2014
Ontario, OR (2 facilities)	—	429	6,128	—	429	6,128	6,557	1,131	12/21/2011
Portland, OR (2 facilities)	—	1,430	31,542	—	1,430	31,542	32,972	2,688	8/31/2013
Erie, PA	—	1,030	15,206	3	1,030	15,209	16,239	696	4/30/2018
Reading, PA	—	1,027	11,179	—	1,027	11,179	12,206	196	5/31/2019
Arlington, TX	—	450	4,555	26	450	4,581	5,031	407	3/16/2017
Rockwall, TX	—	1,250	10,562	—	1,250	10,562	11,812	854	3/16/2017
Fredericksburg, VA	—	1,615	9,271	—	1,615	9,271	10,886	992	9/20/2016
Midlothian, VA	—	1,646	8,635	—	1,646	8,635	10,281	945	10/31/2011
Suffolk, VA	—	1,022	9,320	—	1,022	9,320	10,342	777	3/25/2016
Beaver Dam, WI	—	210	20,149	113	210	20,262	20,472	4,068	12/21/2011
	8,492	12,459	182,631	1,682	12,459	184,313	196,772	18,254	2
Independent Living Facilities									
Fort Smith, AR	—	590	22,447	—	590	22,447	23,037	3,674	12/23/2011
Rogers, AR	—	1,470	25,282	—	1,470	25,282	26,752	4,138	12/23/2011
Fresno, CA	—	420	10,899	—	420	10,899	11,319	1,876	12/23/2011
Hemet, CA	—	1,250	12,645	—	1,250	12,645	13,895	2,153	12/23/2011
Merced, CA	—	350	18,712	—	350	18,712	19,062	3,075	12/23/2011
Modesto, CA	—	1,170	22,673	—	1,170	22,673	23,843	3,661	12/23/2011
Pinole, CA	—	1,020	18,066	—	1,020	18,066	19,086	2,954	12/23/2011
Roseville, CA	—	630	31,343	—	630	31,343	31,973	5,070	12/23/2011
West Covina, CA	—	940	20,280	—	940	20,280	21,220	3,270	12/23/2011
Vero Beach, FL	—	550	37,450	—	550	37,450	38,000	967	2/1/2019
Athens, GA	—	910	31,940	—	910	31,940	32,850	5,162	12/23/2011
Columbus, GA	—	570	8,639	—	570	8,639	9,209	1,508	12/23/2011
Savannah, GA	—	1,200	15,851	—	1,200	15,851	17,051	2,636	12/23/2011
Boise, ID	—	400	12,422	—	400	12,422	12,822	2,069	12/23/2011
Columbus, IN	—	348	6,124	—	348	6,124	6,472	103	5/31/2019
Fort Wayne, IN	—	310	12,864	—	310	12,864	13,174	2,201	12/23/2011
									3

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Initial Cost to Company <sup>(C)</sup>					Costs		Accumulated Depreciation <sup>(B)</sup>	Date Acquired/ Constructed
	Encumbrances	Buildings & Improvements		Capitalized Subsequent to Acquisition	Buildings & Improvements	Total			
		Land	Improvements				Land		
Kenner, LA	—	310	24,259	—	310	24,259	3,881	12/23/2013	
St. Charles, MO	—	344	3,181	—	344	3,181	2,558	10/17/1991	
Voorhees, NJ	—	670	23,710	—	670	23,710	3,816	12/23/2013	
Gahanna, OH	—	920	22,919	—	920	22,919	3,771	12/23/2013	
Broken Arrow, OK	—	2,660	18,477	—	2,660	18,477	3,079	12/23/2013	
Tulsa, OK	17,622	1,980	32,620	501	1,980	33,121	1,929	12/1/2017	
Newberg, OR	—	1,080	19,187	—	1,080	19,187	3,178	12/23/2013	
Greenville, SC	—	560	16,547	—	560	16,547	2,761	12/23/2013	
Myrtle Beach, SC	—	1,310	26,229	—	1,310	26,229	4,231	12/23/2013	
Chattanooga, TN	—	9	1,567	—	9	1,567	1,329	10/17/1991	
Johnson City, TN	—	55	4,077	—	55	4,077	3,040	10/17/1991	
Bellevue, WA	—	780	18,692	—	780	18,692	3,044	12/23/2013	
Chehalis, WA	—	1,980	7,710	7,445	1,980	15,155	879	1/15/2016	
Vancouver, WA (2 facilities)	—	1,740	23,411	—	1,740	23,411	3,950	12/23/2013	
Yakima, WA	—	440	14,186	—	440	14,186	2,348	12/23/2013	
	17,622	14,838	256,772	7,946	14,838	264,718	43,794		
Senior Living Campuses									
Loma Linda, CA	—	1,200	10,800	7,326	1,200	18,126	3,169	9/28/2012	
Bonita Springs, FL	—	1,810	24,382	—	1,810	24,382	3,078	7/1/2015	
Maitland, FL	—	2,317	9,161	491	2,317	9,652	6,376	8/6/1996	
West Palm Beach, FL	—	2,771	4,286	—	2,771	4,286	3,803	8/6/1996	
Nampa, ID	—	243	4,182	—	243	4,182	2,552	8/13/1996	
Michigan City, IN	—	974	22,667	—	974	22,667	378	5/31/2019	
Portage, IN	—	661	21,959	—	661	21,959	368	5/31/2019	
Needham, MA	—	5,500	45,157	—	5,500	45,157	1,395	1/15/2019	
Salisbury, MD	—	1,876	44,084	—	1,876	44,084	763	5/31/2019	
Roscommon, MI	—	44	6,005	—	44	6,005	805	8/31/2015	
Mt. Airy, NC	—	1,370	7,470	150	1,370	7,620	1,125	12/17/2014	
McMinnville, OR	—	410	26,667	—	410	26,667	2,451	8/31/2016	
Madison, TN	—	920	21,829	104	920	21,933	2,748	7/1/2015	
Silverdale, WA	—	1,750	23,860	2,167	1,750	26,027	5,392	8/16/2012	
	—	21,846	272,509	10,238	21,846	282,747	34,403		

NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019  
(in thousands)

	Costs					Date Acquired/ Constructed
	Initial Cost to Company <sup>(C)</sup>		Capitalized Subsequent to Acquisition	Buildings & Improvements	Total	
Encumbrances	Land	Buildings & Improvements				
Entrance-Fee Communities						
Bridgeport, CT	4,320	23,494	2,774	26,268	30,588	2,875
North Branford, CT	7,724	64,430	—	64,430	72,154	5,700
Southbury, CT	10,320	17,143	2,713	19,856	30,176	2,046
Fernandina Beach, FL	1,430	63,420	1,522	64,942	66,372	8,826
St. Simons Island, GA	8,770	38,070	963	39,033	47,803	5,547
Winston-Salem, NC	8,700	73,920	507	74,427	83,127	10,356
Greenville, SC	5,850	90,760	—	90,760	96,610	12,526
Myrtle Beach, SC	3,910	82,140	542	82,682	86,592	11,630
Pawleys Island, SC	1,480	38,620	460	39,080	40,560	5,718
Spartanburg, SC	900	49,190	1,021	50,211	51,111	7,029
	53,404	541,187	10,502	551,689	605,093	72,253
Medical Office Buildings						
Crestview, FL	165	3,349	—	3,349	3,514	2,505
Pasadena, TX	631	6,341	—	6,341	6,972	4,869
	796	9,690	—	9,690	10,486	7,374
Hospitals						
La Mesa, CA	4,180	8,320	—	8,320	12,500	2,676
Jackson, KY	540	10,163	7,899	18,062	18,602	8,309
Murfreesboro, TN	7,284	17,585	—	17,585	24,869	3,190
	12,004	36,068	7,899	43,967	55,971	14,175
Total continuing operations properties	66,204	586,945	18,401	605,346	671,550	93,802
Corporate office	1,291	677	551	1,228	2,519	436
	\$67,495	\$587,622	\$18,952	\$606,574	\$674,069	\$94,238

NOTES TO SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

(A) See the notes to the consolidated financial statements.

(B) Depreciation is calculated using estimated useful lives up to 40 years for all completed facilities.

(C) Subsequent to NHC's transfer of the original real estate properties in 1991, we have purchased from NHC \$33,909,000 of additions to those properties. As the additions were purchased from NHC rather than developed by us, the \$33,909,000 has been included as Initial Cost to Company.

(D) At December 31, 2019, the tax basis of the Company's net real estate assets was \$2,541,329,000.



NATIONAL HEALTH INVESTORS, INC.  
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION  
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017  
*(in thousands)*

	December 31,		
	2019	2018	2017
Investment in Real Estate:			
Balance at beginning of period	\$ 2,818,365	\$ 2,665,903	\$ 2,472,854
Additions through cash expenditures	237,186	147,645	175,793
Change in accounts payable related to investments in real estate construction	1,829	1,689	(1,855)
Change in other assets related to investments in real estate	292	171	—
Tenant investment in leased asset	—	3,775	1,250
Contingent asset acquisition liability relieved	—	(818)	—
Additions through assumption of debt	—	—	18,311
Real estate acquired in exchange for straight-line rent receivable	38,000	—	—
Real estate acquired in exchange for mortgage notes receivable	14,000	—	—
Sale of properties for cash	—	—	(450)
Properties classified as held for sale	(34,826)	—	—
Balance at end of period	<u>\$ 3,074,846</u>	<u>\$ 2,818,365</u>	<u>\$ 2,665,903</u>
Accumulated Depreciation:			
Balance at beginning of period	\$ 451,483	\$ 380,202	\$ 313,080
Addition charged to costs and expenses	76,816	71,349	67,173
Amortization of right-of-use asset	60	—	—
Sale of properties	—	—	(51)
Properties classified as held for sale	(13,906)	—	—
Contingent asset acquisition liability relieved	—	(68)	—
Balance at end of period	<u>\$ 514,453</u>	<u>\$ 451,483</u>	<u>\$ 380,202</u>

### **Corporate Offices**

National Health Investors, Inc.  
222 Robert Rose Drive  
Murfreesboro, Tennessee 37129  
Phone: (615) 890-9100  
www.nhireit.com

### **Transfer Agent - Dividend Reinvestment Plan**

Our transfer agent is Computershare. Computershare will assist registered owners with the NHI Dividend Reinvestment Plan, change of address, transfer of ownership, payment of dividends, replacement of lost checks or stock certificates.

Contact information is:  
Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, RI 02940-3078  
Phone: 1-800-942-5909  
www.computershare.com

### **Annual Stockholders' Meeting**

The Annual Stockholders' meeting will be held at 12:00 p.m. CDT on May 6, 2020 at The View at Fountains:

The View at Fountains,  
1500 Medical Center Parkway,  
Murfreesboro, TN 37129

#### **Special COVID-19 Note**

National Health Investors, Inc. is monitoring the emerging public health impact of the coronavirus outbreak (COVID-19). In the event it is not possible or advisable to hold our annual meeting in person, we will announce alternative arrangements for the meeting as promptly as practicable, which may include holding the meeting solely by means of remote communication. Please monitor our annual meeting website at <http://investors.nhireit.com/News> for updated information. If you are planning to attend our meeting, please check the website one week prior to the meeting date. As always, we encourage you to vote your shares prior to the annual meeting.

### **Annual Report**

A copy of National Health Investors, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the Securities and Exchange Commission is available without charge (as amended by the Annual Report on Form 10-K/A).

### **Incorporation of Document by Reference**

National Health Investors' Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on February 25, 2020 is hereby incorporated by reference.

### **Board of Directors**

**W. Andrew Adams**  
Venture Capital Investments

**James R. Jobe**  
Partner  
Jobe, Hastings & Associates, CPAs

**Robert A. McCabe, Jr.**  
Chairman  
Pinnacle Financial Partners

**Robert T. Webb**  
President (Retired) and Founder  
Webb Refreshments, Inc.

### **Independent Public Accountants**

BDO USA, LLP  
414 Union Street, Suite 1800  
Nashville, Tennessee 37219



