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WITH OUR EXPERIENCE AND INNOVATIVE CARE, WE WILL CONTINUE TO BE THE LEADER IN THE SENIOR AND POST-ACUTE HEALTHCARE INDUSTRY.

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Dear Shareholder,

Our theme this year, *Experienced and Innovative Care*, is a great slogan describing why NHC is the leader in the senior and post-acute healthcare industry. In July of 2016, we will celebrate our 45th anniversary. It's not only our experience that enables NHC to be successful, but it is also our ability to be innovative in the delivery of customer-centered healthcare throughout our 45 years. I am convinced that this experience and innovative ability will continue to allow NHC to be a successful leader for many years.

On the cover of this year's annual report, you will see a snapshot of one of our beloved patients surrounded by some of our compassionate NHC partners at our healthcare facility in Ft. Oglethorpe, Georgia. We are proud to say there is over 190 years of collective experience represented by the NHC partners in this picture. Every day we provide customer-centered care to over 15,750 individuals in our skilled nursing facilities, our assisted living and independent living facilities, and our homecare and hospice locations. We remain incredibly grateful for the skill, commitment, dedication and love displayed by our more than 13,000 partners every day, and we remain steadfast in our goal to be the leader in customer and investor satisfaction.

#### **EARNINGS AND FINANCIAL POSITION**

Net operating revenues for the year ended December 31, 2015 totaled \$906,622,000 compared to \$871,683,000 for the year ended December 31, 2014, an increase of 4%. For the year ended December 31, 2015, net income available to common shareholders was \$46,324,000 or \$3.34 per share basic, compared to \$44,699,000 or \$3.24 per share basic, for the 2014 year. Excluding the operating losses from the newly constructed skilled nursing facilities and assisted living facility placed in service less than 12 months ago, net income available to shareholders for the year ended December 31, 2015 would have been \$49,508,000, which is an increase of 10.8% over the 2014 year.

On November 3, 2015, our Series A Preferred Stock was redeemed. There were 8,288,098 shares redeemed under the mandatory redemption for approximately \$130,538,000. The funding of this redemption was provided by our cash on hand and borrowings under our credit facility. The preferred stock redemption will increase our cash flow from financing activities, which will be beneficial to shareholders in the coming years.

Our occupancy and census mix continues to be strong at our skilled nursing facilities. In 2015, our occupancy remained above the national average at 90.0%. The number of homecare patients served increased from 19,222 in 2014 to 19,711 in 2015. Medicare, managed care and private pay revenue accounted for 75% of our net patient revenue in 2015.

#### **DIVIDENDS**

During the second quarter of 2015, we increased our quarterly dividend to \$0.40 per common share, a 17.6% increase.

#### **DEVELOPMENT**

In 2015, shareholder value continued to be enhanced by our controlled and disciplined growth. In April of 2015 we opened a new, state-of-the-art 92-bed skilled nursing facility and 60-unit assisted living facility in Gallatin, Tennessee. Also, in November of 2015, we opened a 60-bed memory care facility in St. Peters, Missouri. We currently have 202 skilled healthcare beds under construction in Nashville and Columbia, Tennessee. We also have 236 assisted living units under construction in Nashville, Tennessee; Bluffton, South Carolina; and Garden City, South Carolina. All of these developments under construction are expected to open in 2016.

#### **CONCLUSION**

For 45 years, our consistent goal has been to provide exceptional customer-centered care, to empower our partners, to have controlled and disciplined growth, and to enhance your investment. We firmly believe this model will continue to make us the portrait of success. We are excited for the future of NHC. With our experience and innovative care, we will continue to be the leader in this changing healthcare environment. Thank you for your continued trust and commitment to NHC.

Sincerely,



**ROBERT G. ADAMS**

Chairman and CEO

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