

# Letter to Shareholders



Stephen F. Flatt  
Chief Executive Officer



Robert G. Adams  
Chairman of the Board

Dear Shareholder,

For almost half a century, NHC has been deeply committed to being the senior care leader in customer and investor satisfaction. That may seem like a small statement, but it represents a big commitment. What's more, the fulfillment of that commitment becomes increasingly challenging as post-acute care — especially the skilled nursing sector — faces the reality of caring for higher acuity patients with less reimbursement.

Nonetheless, in 2017, NHC continued to achieve that lofty goal. Built upon our core values of integrity, care, respect, and compassion for each and every patient, our “Better Way” culture seeks to do just what it says — continually search for a better way to improve person-centered care and quality outcomes, while at the same time finding better ways to deliver that care more efficiently and effectively across the entire health care continuum. Finding better ways to achieve both of those objectives is the key to our staying the industry leader in both customer and investor satisfaction.

Here are a few of NHC's 2017 performance highlights:

## Quality Care

As of December 31, 2017:

- NHC's 76 skilled nursing facilities had an average CMS 5-star rating of 4.25. By contrast, the industry average was 3.37.
- Eighty-two percent (82%) of NHC's skilled nursing centers were rated 4 or 5-star. Nationally, in the industry, only 51.8% were rated 4 or 5-star.

## Financial Performance

In 2017, highlights of NHC's financial performance included:

- Net operating revenues for the year totaled \$966,996,000 compared to \$926,638,000 for the year ended December 31, 2016, an increase of 4.4%.
- Net income available to common shareholders was \$56,205,000, compared to \$50,538,000 for the year ended December 21, 2016, an increase of 11.2%.
- Excluding the start-up losses from two (2) newly constructed skilled nursing facilities and three (3) assisted living facilities placed into service in 2016 and 2017, net income available to common shareholders would have been \$60,014,000, an increase of 13.4% over 2016.

### Dividends

The dividend for calendar year 2017 was \$1.89 per share versus \$1.75 per share in 2016, an 8.0% increase.

### Growth and Development

In 2017, NHC stayed committed to our strategy of controlled and disciplined growth. In February 2017, NHC assumed management of two not-for-profit skilled nursing facilities in Nashville, Tennessee. These two facilities total 175 beds. In March of 2017, we opened a beautiful 76-unit assisted living community in Bluffton, South Carolina. In June of 2017, we opened an 80-unit assisted living community in Garden City, South Carolina, and in July of last year we opened a 24-unit memory care addition to Adams Place in Murfreesboro, Tennessee. Collectively, these three projects totaled \$31 million of investment in new developments.

In addition to the newly opened facilities, NHC currently has two projects under construction which are expected to open in 2018. A 30-bed skilled nursing wing is being added to Springfield Rehabilitation and Health Care Center in Springfield, Missouri, and a 60-unit memory care facility is under construction in Farragut, Tennessee.

### Conclusion

As we face the rapidly evolving challenges of health care, we remain anchored in the timeless values that our founder, Dr. Carl Adams, engrained in NHC. Our consistent goal is to provide exceptional person-centered care, to empower our partners for peak performance, to have prudent and disciplined growth, and to enhance your investment. Thank you for your investment in our efforts.

Sincerely,



Stephen F. Flatt  
*Chief Executive Officer*



Robert G. Adams  
*Chairman of the Board*

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