

Letter to Shareholders



Robert G. Adams (left)
Chairman of the Board



Stephen F. Flatt (right)
Chief Executive Officer

Dear Shareholder:

Some 2,500 years ago, Heraclitus, the Greek philosopher, said it well — “The only thing constant is change.” Even the most stable companies and organizations eventually face change, and unquestionably, 2016 has been a year of change at NHC.

Some changes were internal. Effective December 31, 2016, four Company officers retired — CEO Robert Adams; SVP and Controller Don Daniel; SVP and Treasurer Charlotte Swafford; and SVP of Corporate Relations Gerald Coggin. Collectively, these individuals had 167 years of tenure at NHC. While that experience will be sorely missed, NHC’s Board of Directors has great confidence that their successors will continue to build on their wonderful legacy of leadership.

Other changes were external. Changing payment methodologies stemming from a variety of value based purchasing initiatives have created headwinds for post-acute and long term care providers. More patients are being diverted from skilled nursing facility utilization,

and those who do receive skilled nursing care are typically seeing shorter lengths of stay.

But while some change is inevitable, we are determined that the most important practices and values within NHC will not change. First and foremost on that list is NHC’s commitment to our mission statement of being the senior care leader in customer and investor satisfaction. As the senior care industry faces radical change, NHC’s core values of integrity, caring, respect, and compassion for each and every patient will not change.

Another daily practice that will not change is NHC’s commitment to innovation in care delivery. Our “Better Way” culture says it all; NHC is committed to providing the best possible person-centered experience and outcomes for our patients through ever-improving care protocols and enhanced technologies, while improving integration and communication across the entire health care provider continuum.

Finally, NHC will remain committed to being a solid investment for our shareholders. For over 45

years, our investors have looked to NHC to embark upon prudent and responsible growth while, at the same time, continuing to create long-term shareholder value. It is our intent to maintain that course.

As we closed 2016, here were some of NHC’s performance highlights:

Quality and Outcomes

At December 31, 2016, NHC’s 74 skilled nursing facilities had an average CMS 5-Star Quality Rating of 4.06. By contrast, the industry average was 3.18. Seventy-six percent (76%) of all NHC skilled nursing facilities had a 4 or 5 star rating, while only 46% of all U.S. skilled nursing facilities had a 4 or 5 star rating.

Clinical outcomes continue to improve. NHC’s 30-day rehospitalization rates and average length of stays in our skilled nursing facilities are at the lowest levels since the Company began tracking those metrics.

Financial Performance

Net operating revenues for the year ended December 31, 2016 totaled \$926,638,000 compared to \$906,622,000 for the year ended

Letter to Shareholders (continued)

December 31, 2015, an increase of 2.2%. For the year ended December 31, 2016, net income available to common shareholders was \$50,538,000, compared to \$46,324,000, an increase of 9.1%. Excluding the operating losses from two newly constructed skilled nursing facilities and two assisted living facilities placed in service in 2015 and 2016, net income available to common shareholders would have been \$55,164,000, an increase of 13.5% over the 2015 year.

Our occupancy and census mix continue to be strong at our skilled nursing facilities, especially in light of changing health care practices diverting many patients away from skilled nursing facility utilization. In 2016, our occupancy was 89.5%, which was well above the national average. For all service lines, Medicare, managed care, and private pay revenue accounted for 74% of our net patient revenue in 2016.

Dividends

During the second quarter of 2016, we increased our quarterly dividend to \$0.45 per common share, a 12.5% increase.

Growth and Development

As stated earlier, in 2016, NHC stayed committed to our strategy of controlled and disciplined growth. In June 2016, we opened a new state-of-the-art 90-bed skilled nursing facility and 80-unit assisted living facility in Nashville, Tennessee. In December 2016, we opened a new 112-bed skilled nursing facility in Columbia, Tennessee, which replaced the former NHC Hillview facility. Currently, we have 30 skilled nursing beds under construction as an addition to our healthcare center in Springfield, Missouri. We also have 180 assisted living units under construction in three markets across two states: Bluffton, South Carolina; Garden City, South Carolina; and Murfreesboro, Tennessee. All of the developments under construction are expected to open in 2017.

Conclusion

As 2016 rolls into 2017, there are indeed some new faces in senior management, but they embrace the timeless values that our founder, Dr. Carl Adams, engrained in NHC. For over 45 years, our consistent goal has been to provide exceptional person-centered care, to empower our partners, to have prudent, disciplined growth, and to enhance your investment. Those principles remain our goal in the days ahead.

Sincerely,



Stephen F. Flatt
Chief Executive Officer

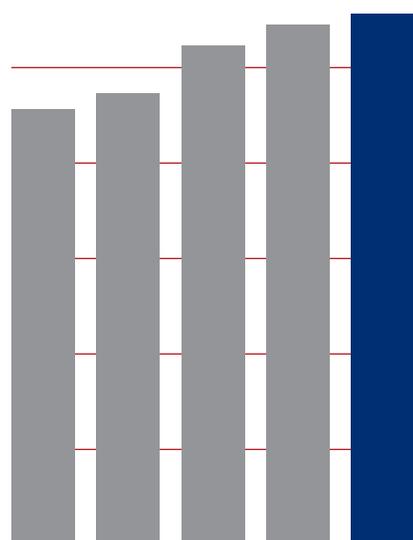


Robert G. Adams
Chairman of the Board

Net Operating Revenues

(in millions)

\$761 \$789 \$872 \$907 **\$927**

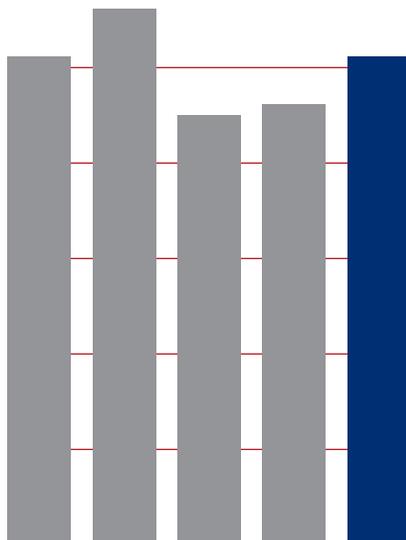


2012 2013 2014 2015 **2016**

Net Income Available To Common

Stockholders (in millions)

\$51 \$56 \$45 \$46 **\$51**

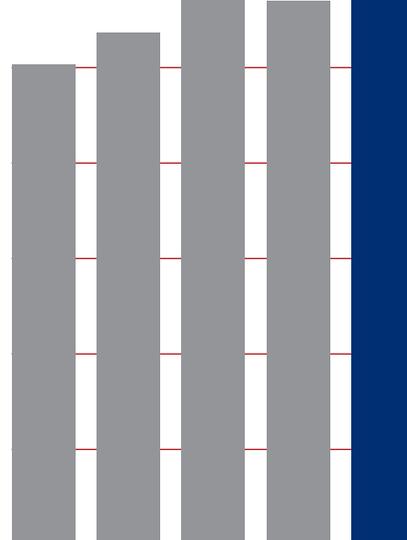


2012 2013 2014 2015 **2016**

Total Assets

(in millions)

\$925 \$984 \$1,074 \$1,045 **\$1,087**



2012 2013 2014 2015 **2016**