

## Post 2Q16 Update: Reducing GEN Exposure; Forest Park Largely Settled; Raising Estimates, but Maintain Outlook

SBRA is marketing GEN properties to reduce exposure. Pipeline and liquidity look good. We are raising estimates on 2Q performance, but given the pressures on SNF census and coverage, maintain neutral outlook.

**Raising Estimates for the 2Q16 Beat:** We are raising our 2016 FFO/FAD to \$2.29/\$2.21 from \$2.25/\$2.11 due to the 2Q16 beat, better than expected investment activity post quarter, and higher straight line rent as management is not expecting write-offs of accumulated rent receivables and higher GAAP rents due to lease extensions. We are also raising our 2017 FFO/FAD to \$2.32/\$2.28 from \$2.30/\$2.20.

**Reducing GEN Exposure:** SBRA entered into an agreement with Genesis Healthcare (GEN - Hold-\$2.30) to market 29 additional facilities leased to GEN. Total dispositions will reduce GEN from 78 properties to 43 or around 27% of revenues. SBRA expects to receive \$200M to \$250M in net proceeds from the sale of GEN assets which they believe could be accomplished by 2Q17- end.

**Solid Pipeline & Liquidity:** Post-quarter, Sabra invested \$87.6M in two seniors housing and one skilled nursing property and announced it would invest an additional \$22M in a senior housing property. The 3Q investments topped what we had modeled. Management is optimistic about the investment pipeline which they peg at \$300M and is comprised of mostly assisted living and memory care properties. SBRA has ample pro forma liquidity (over \$500M) so we do not see a need to raise equity near term.

**Forest Park Fully Repaid; Guarantee Recovery Potential:** SBRA received full repayment on the Forest Park loans in the amount of \$285.5M, which included \$8.9M prior period interest income and fees. There is potential to collect additional funds from tenant lease guarantee. SBRA has offered a discount to the amount owed to speed up the collection process, but management is open to pursuing litigation.

**Coverages Contract, Not Surprised:** Same-property stabilized skilled nursing coverage contracted to 1.26x from 1.34x sequentially, including Sabra's largest tenant, Genesis Healthcare, which reported fixed charge coverage decline to 1.27x from 1.34x in 1Q16. We were not surprised by this given GEN's weak 4Q15 and 1Q16 performance. Holiday Retirement portfolio held steady at 1.18x.

**Maintain Outlook:** Overall we view 2Q as positive. SBRA received full payment on the Forest Park loan and is reducing its GEN exposure and tenant concentration. However, there is uncertainty surrounding the amount of future rent credits awarded to GEN (in the amount of 7.5% of the net proceeds on GEN asset sales). Given ongoing supply risks in senior housing and pressures on skilled nursing census, we maintain our neutral outlook.

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Changes	Previous	Current
Rating	—	Hold
Target Price	—	NA
FY16E FFO	2.25	2.29
FY17E FFO	2.30	2.32
FY16E FAD	2.11	2.21
FY17E FAD	2.20	2.28

Price (08/25/16):	\$25.46
52-Week Range:	\$26 – \$15
Market Cap.(mm):	1,661.2
Shr.O/S-Diluted (mm):	65.2
Enterprise Val. (mm):	\$2,601.0
Avg Daily Vol (3 Mo):	576,351
LT Debt/Total Cap.:	45.0%
Book Value/Share:	\$18.81
NAV (US\$):	\$21.00
Premium/Discount:	1.1 %
Dividend(\$ / %)	\$1.68 / 6.6%
S&P Index	2,172.47

FFO	2015A	2016E	2017E
Q1	0.53	0.56A	0.56
Q2	0.53	0.61A	0.58
Q3	0.59	0.55	0.59
Q4	0.64	0.56	0.59
FY Dec	2.29A	2.29	2.32
P/FFO	11.1x	11.1x	11.0x

FAD	2015A	2016E	2017E
Q1	0.52	0.53A	0.55
Q2	0.52	0.58A	0.57
Q3	0.53	0.54	0.57
Q4	0.55	0.55	0.58
FY Dec	2.11A	2.21	2.28
P/FAD	12.1x	11.5x	11.2x



**Company Description**

Sabra Health Care REIT is a healthcare REIT. As of June 30, 2016, Sabra's portfolio consisted of 178 properties including 102 skilled nursing facilities, 75 senior housing facilities, one acute care hospital and 14 investments in loans receivable and 11 preferred equity investments. Sabra's properties had 18,390 beds/units across the United States and Canada.

Sabra Health Care REIT Earnings Model

(in thousands, except per share data)

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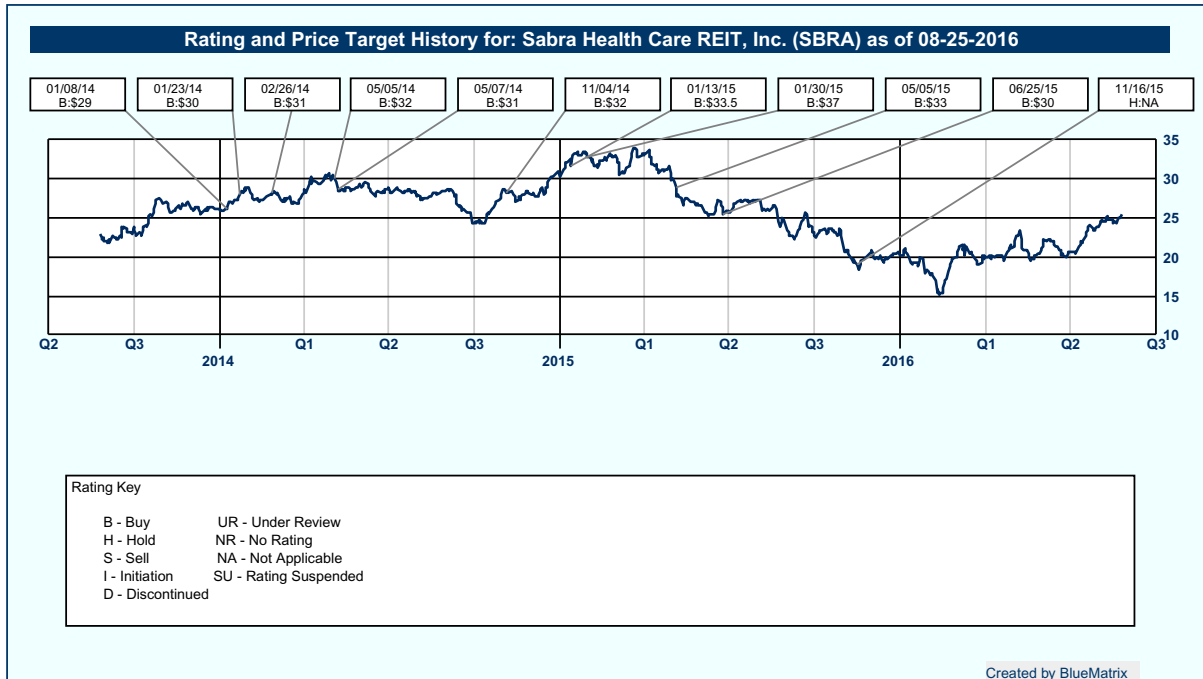
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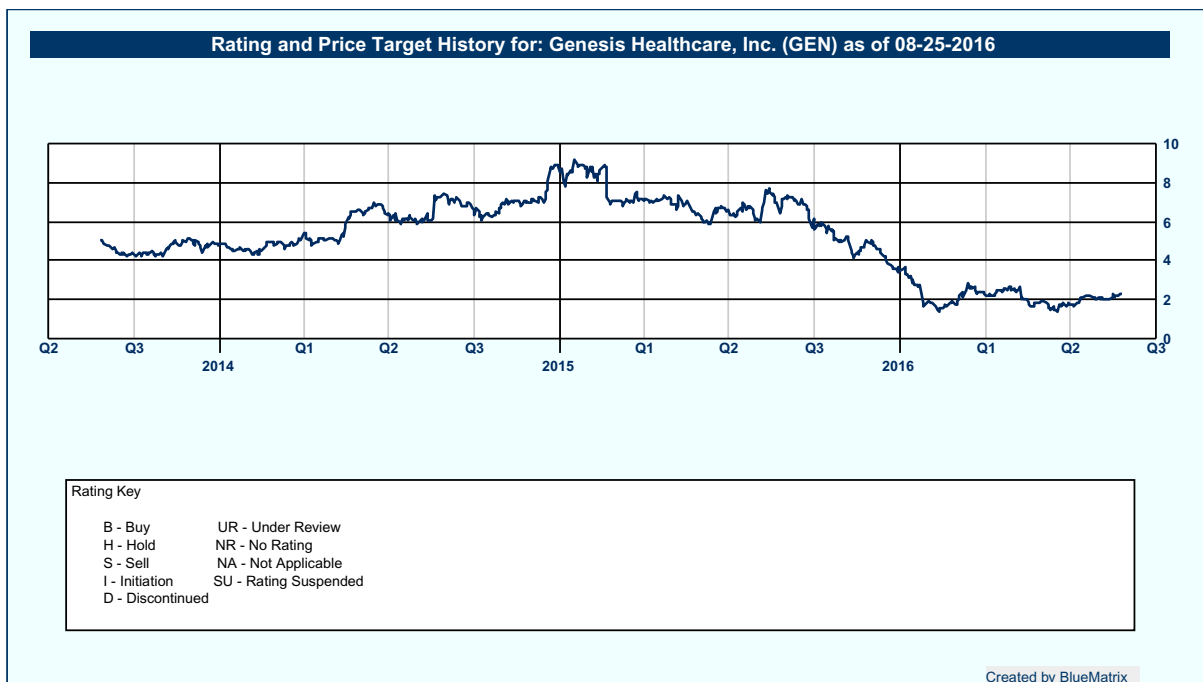
	2014 A	1Q15 A	2Q15 A	3Q15 A	4Q15 A	2015 A	1Q16 A	2Q16 A	3Q16 E	4Q16 E	2016 E	1Q17 E	2Q17 E	3Q17 E	4Q17 E	2017 E
Assumptions:																
Acquisitions during period, net of property sales (1)	\$862,984	\$672	\$321,900	\$84,720	\$76,200	\$483,492	\$0	(\$68,156)	\$100,000	\$50,000	\$81,844	\$75,000	\$75,000	\$75,000	\$75,000	\$300,000
Rate of return on new acquisitions (GAAP)	7.81%	7.50%	8.80%	7.96%	7.94%	8.05%	7.75%	8.25%	7.75%	7.75%	7.88%	7.75%	7.75%	7.75%	7.75%	7.75%
Mortgage investments during period (1)	\$12,960	\$7,252	\$19,200	\$3,200	\$6,180	\$35,832	(\$3,024)	(\$187,610)	\$5,000	\$5,000	(\$180,634)	\$5,000	\$5,000	\$5,000	\$5,000	\$20,000
Rate of return on new mortgage investments	9.25%	9.0%	9.00%	5.62%	11.51%	8.86%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%
Revenue growth - triple-net properties	1.8%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Revenue growth - operating properties	7.3%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Revenue growth - interest income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating expense % of income																
NOI growth on acquired (sold) properties	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Annual percent growth in interest on new mortgages	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Normalized G&A as % of NOI	7.1%	8.6%	6.7%	4.6%	5.1%	6.2%	4.7%	3.8%	4.5%	4.4%	4.4%	5.2%	4.7%	4.6%	4.5%	4.7%
Average interest rate on average debt outstanding	5.3%	5.7%	4.9%	4.7%	4.7%	5.0%	4.8%	5.0%	5.0%	5.0%	5.0%	4.9%	4.9%	4.9%	4.9%	4.9%
Average interest rate on average cash balance	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Cash Used To Fund Acquisitions	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Additional debt issued (retired) during period	\$200,064	\$157,329	\$187,798	\$102,649	\$58,046	\$505,822	\$894	(\$179,539)	\$84,967	\$43,134	(\$50,545)	\$43,342	\$43,222	\$42,139	\$42,163	\$170,867
Additional common equity issued during period	561,567	5,941	173,726	0	1,023	180,689	1,785	(1,851)	10,000	5,000	14,934	30,000	30,000	30,000	30,000	120,000
Additional common shares issued during period	20,268	187	5,900	0	48	6,135	91	(91)	406	201	607	1,182	1,159	1,137	1,116	4,593
Projected FAD/stock price multiple	14.3x	15.6x	12.1x	10.9x	9.0x	9.1x	9.5x	9.8x	11.7x	11.8x	11.8x	12.0x	12.3x	12.5x	12.7x	12.7x
Ending common stock price	\$30.37	\$33.15	\$26.74	\$23.18	\$19.19	\$19.19	\$20.09	\$20.64	\$24.64	\$24.89	\$24.89	\$25.39	\$25.89	\$26.39	\$26.89	\$26.89
<b>Sabra Healthcare REIT Quarterly Earnings Model</b>																
(in thousands, except per share data)																
NOI from existing properties: (2)																
Existing property rental income	\$161,483	\$49,505	\$49,896	\$53,173	\$57,277	\$209,851	\$55,312	\$55,297	\$55,600	\$55,900	\$222,109	\$56,200	\$56,500	\$56,800	\$57,100	\$226,600
Existing property operating income	0	0	0	0	0	1,585	1,915	1,959	1,983	2,008	7,866	2,020	2,031	2,042	2,054	8,147
Operating expenses	0	0	0	0	0	(1,136)	(1,412)	(1,440)	(1,463)	(1,478)	(5,788)	(1,494)	(1,492)	(1,504)	(1,505)	(6,304)
Other investment income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NOI from existing properties	161,483	49,505	49,896	53,173	57,277	210,301	55,815	55,816	56,121	56,435	224,187	56,726	57,039	57,338	57,649	228,752
NOI from acquired (sold) property - cumulative	0	0	0	0	0	0	0	0	200	1,600	1,800	2,800	4,300	5,700	7,100	19,900
NOI from development put in service - cumulative	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest income from existing mortgages: (2)																
Interest income from existing mortgages	22,035	6,067	6,690	6,761	7,910	27,428	5,332	16,993	5,300	5,300	32,925	5,300	5,300	5,300	5,300	21,200
Interest Inc. from new mortgage investments - cumulative	0	0	0	0	0	0	0	0	(2,600)	(2,500)	(5,100)	(2,400)	(2,300)	(2,200)	(2,100)	(9,000)
<b>Total NOI and mortgage interest income (2)</b>	<b>183,518</b>	<b>55,572</b>	<b>56,586</b>	<b>59,934</b>	<b>65,637</b>	<b>237,729</b>	<b>61,147</b>	<b>72,809</b>	<b>59,821</b>	<b>60,835</b>	<b>253,812</b>	<b>62,426</b>	<b>64,339</b>	<b>66,138</b>	<b>67,949</b>	<b>260,852</b>
Other income and expenses:																
Legal expenses / Acquisition Costs	(3,194)	(310)	(4,293)	(540)	(518)	(5,661)	0	0	(500)	(300)	(800)	(400)	(400)	(400)	(400)	(1,600)
Other income (expense)	1,560	(89)	(91)	(73)	2,543	2,290	32	2,409	0	0	2,441	0	0	0	0	0
General and administrative expenses, ex acq. costs	(23,250)	(7,693)	(5,569)	(3,451)	(4,076)	(20,789)	(4,714)	(4,636)	(4,634)	(4,734)	(18,718)	(5,634)	(5,484)	(5,534)	(5,584)	(22,236)
EBITDA	158,634	47,480	46,633	55,870	63,586	213,569	56,465	70,582	53,887	55,801	236,735	56,392	58,455	60,204	61,965	237,016
Reconciliation of EBITDA to funds from operations:																
Add: Interest income on cash balance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less: Provision for doubtful accounts and write-offs	0	0	(2,972)	(2,489)	(6,237)	(11,698)	(2,523)	(223)	0	0	(2,746)	0	0	0	0	0
Less: Interest expense	(46,958)	(13,880)	(14,052)	(15,176)	(16,110)	(59,218)	(16,918)	(16,427)	(15,700)	(16,500)	(65,545)	(16,800)	(17,200)	(17,700)	(18,200)	(69,900)
Less: Dividends on preferred stock	(10,242)	(2,561)	(2,560)	(2,561)	(2,560)	(10,242)	(2,561)	(2,560)	(2,561)	(2,560)	(10,242)	(2,561)	(2,560)	(2,561)	(2,560)	(10,242)
<b>Reported Funds from operation (FFO)</b>	<b>101,434</b>	<b>31,039</b>	<b>27,049</b>	<b>35,644</b>	<b>38,679</b>	<b>132,411</b>	<b>33,907</b>	<b>51,372</b>	<b>35,626</b>	<b>36,741</b>	<b>158,202</b>	<b>37,031</b>	<b>38,695</b>	<b>39,943</b>	<b>41,201</b>	<b>156,874</b>
Legal and other non-recurring revenues and expenses	4,930	348	4,400	2,910	3,180	10,838	2,956	(11,609)	500	300	(7,853)	400	400	400	400	1,600
<b>Normalized Funds from operation (FFO)</b>	<b>106,364</b>	<b>31,387</b>	<b>31,449</b>	<b>38,554</b>	<b>41,859</b>	<b>143,249</b>	<b>36,863</b>	<b>39,763</b>	<b>36,126</b>	<b>37,041</b>	<b>150,349</b>	<b>37,431</b>	<b>39,095</b>	<b>40,343</b>	<b>41,605</b>	<b>158,474</b>
Add: Amortization of deferred financing costs	4,045	1,261	1,268	1,300	1,314	5,143	1,221	1,273	1,270	1,270	5,034	1,520	1,520	1,520	1,520	6,060
Add: Non-cash comp	9,851	2,918	1,754	717	734	6,123	1,818	1,834	1,934	2,034	7,620	2,434	2,454	2,534	2,584	10,036
Add: Non-cash interest and other premium	(1,235)	969	2,497	375	717	4,558	338	820	820	820	2,798	250	250	250	250	1,000
Subtract: Amortization of debt premium	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Straight Line rents	(19,221)	(5,656)	(6,178)	(6,438)	(6,463)	(26,735)	(6,470)	(5,432)	(4,680)	(4,510)	(20,092)	(4,610)	(4,740)	(4,870)	(5,000)	(19,220)
<b>Funds available for distribution (FAD)</b>	<b>99,794</b>	<b>30,879</b>	<b>30,790</b>	<b>34,508</b>	<b>36,161</b>	<b>132,338</b>	<b>34,770</b>	<b>38,258</b>	<b>35,470</b>	<b>36,655</b>	<b>145,709</b>	<b>37,025</b>	<b>38,609</b>	<b>39,777</b>	<b>40,959</b>	<b>156,370</b>
<b>Normalized FFO Per Share, excluding acquisition costs</b>	<b>\$ 2.27</b>	<b>\$ 0.53</b>	<b>\$ 0.53</b>	<b>\$ 0.59</b>	<b>\$ 0.64</b>	<b>\$ 2.29</b>	<b>\$ 0.56</b>	<b>\$ 0.61</b>	<b>\$ 0.55</b>	<b>\$ 0.56</b>	<b>\$ 2.29</b>	<b>\$ 0.56</b>	<b>\$ 0.58</b>	<b>\$ 0.59</b>	<b>\$ 0.59</b>	<b>\$ 2.32</b>
Growth	21.2%	(5.8%)	(7.7%)	6.1%	11.7%	0.9%	7.2%	14.9%	(6.6%)	(12.1%)	0.0%	(0.5%)	(4.9%)	6.3%	5.7%	1.2%
Reported FFO, including transaction costs	\$ 2.17	\$ 0.52	\$ 0.45	\$ 0.55	\$ 0.59	\$ 2.12	\$ 0.52	\$ 0.78	\$ 0.54	\$ 0.56	\$ 2.41	\$ 0.56	\$ 0.57	\$ 0.58	\$ 0.59	\$ 2.30
<b>FAD per common share equivalent - norm. - diluted</b>	<b>\$ 2.12</b>	<b>\$ 0.52</b>	<b>\$ 0.52</b>	<b>\$ 0.55</b>	<b>\$ 0.55</b>	<b>\$ 2.12</b>	<b>\$ 0.53</b>	<b>\$ 0.58</b>	<b>\$ 0.54</b>	<b>\$ 0.55</b>	<b>\$ 2.21</b>	<b>\$ 0.55</b>	<b>\$ 0.57</b>	<b>\$ 0.57</b>	<b>\$ 0.58</b>	<b>\$ 2.28</b>
Growth	19.6%	(2.8%)	(3.2%)	2.8%	1.3%	(0.5%)	2.4%	12.8%	2.3%	0.5%	4.7%	4.8%	(2.4%)	6.7%	5.1%	3.1%
Dividends per share	\$ 1.47	\$ 0.39	\$ 0.39	\$ 0.41	\$ 0.41	\$ 1.60	\$ 0.42	\$ 0.42	\$ 0.43	\$ 0.43	\$ 1.70	\$ 0.43	\$ 0.43	\$ 0.44	\$ 0.44	\$ 1.74
Weighted average common shares and OP units:																
Common shares and units outstanding - basic	46,433	59,185	59,324	65,160	65,173	62,211	65,248	65,303	65,182	65,588	65,300	65,789	66,971	68,129	69,266	67,539
Additional common share and units issued	389	374	220	238	252	271	200	200	200	200	150	200	200	200	200	200
Converted warrants, options, prefer., debentures, etc.	46,822	59,559	59,544	65,398	65,425	62,482	65,248	65,503	65,585	65,889	65,556	66,580	67,750	68,898	70,024	68,313
Weighted avg. shares and units outstanding - diluted FFO	221	334	198	130	146	202	577	281	280	280	355	300	300	300	300	300
Weighted avg. shares and units outstanding - diluted FAD	47,043	59,893	59,742	65,528	65,571	62,684	65,825	65,785	65,865	66,169	65,911	66,800	68,050	69,198	70,324	68,613
Balance Sheet Information:																
Average cash balance	19,475	32,982	5,107	18,758	19,454	19,075	8,284	60,990	112,847	112,847	73,742	112,847	112,847	112,847	112,847	112,847
Ending cash balance	61,793	4,171	6,042	31,473	7,434											

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For a price chart with our ratings and any applicable target price changes for SBRA go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=SBRA>



For a price chart with our ratings and any applicable target price changes for GEN go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=GEN>

The rating and target price history for Sabra Health Care REIT, Inc. and its securities prior to February 25, 2015, on the

above price chart reflects the research analyst's views under a different rating system than currently utilized at Stifel. For a description of the investment rating system previously utilized go to [www.stifel.com](http://www.stifel.com).

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