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LTC Properties, Inc. *(LTC)*

Q4 2012 Earnings Call

CORPORATE PARTICIPANTS

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CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.

Clint B. Malin
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OTHER PARTICIPANTS

James Milam
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Daniel M. Bernstein
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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the LTC Properties Fourth Quarter 2012 Analyst and Investor Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions]

I'd like to remind everyone that today's comments, including the question-and-answer session, will include forward-looking statements. These statements are subject to risks and uncertainties that may cause actual results and events to differ materially. These risks and uncertainties are detailed in LTC Properties Inc.'s filings with the Securities and Exchange Commission, including the company's 10-K dated December 31, 2012. Please note this event is being recorded.

I would now like to turn the conference over to Wendy Simpson. Please go ahead.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

Hello and thank you for joining us today. The presentations will begin today with Pam Kessler, our Executive Vice President and Chief Financial Officer, who will comment on our financial results and our operator coverage statistics. Pam?

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.

Thank you, Wendy, and good morning. I'm going to talk about quarter-over-quarter performance and I'll refer you to the 10-K and press release supplement that was filed yesterday for year-over-year comparisons.

Revenues during the quarter increased $723,000. This was due primarily to rental income increase of $936,000 due primarily to acquisitions and a one-tine rent escalation from Americas of $255,000, which resulted from a faster-than-anticipated lease-up of the Bakersfield and Vacaville properties that were formally leased to Sunwest.

Mortgage interest income decreased $263,000 primarily due to the prepayment of a $16.2 million loan related to assisted living properties that we discussed last quarter on the conference call. Interest and other income were comparable between the two quarters.

Interest expense in the fourth quarter results are comparable to the third quarter. General and administrative expenses increased $824,000 primarily due to bonuses that reflect an increased level of investment activity in 2012 as compared to prior years.

During 2012, LTC's transaction volume, that's properties acquired, loans originated and development commitments signed, was $244 million as compared to $109 million in 2011. Net income available to common shareholders increased $271,000 resulting from rental income from acquisitions partially offset by higher G&A expense.

Normalized fully diluted FFO per share was $0.57 this quarter compared to $0.57 last quarter, and normalized fully diluted FAD per share was $0.56 this quarter and $0.56 last quarter.

Turning to the balance sheet, we had a very active fourth quarter on the investment front, which Clint will talk about in a moment. From a liquidity standpoint, at December 31, we had $115.5 million drawn and $124.5 million available under our line of credit. Additionally, we have $100 million available under our shelf agreement with Prudential. Subsequent to December 31, we borrowed $2 million under our line of credit and, therefore, we currently have $117.5 million drawn and $122.5 available under our line of credit.

During the quarter, our last limited partner redeemed a total of 20,000 shares in our limited partnership. We elected to satisfy this redemption through the issuance of 20,000 shares of common stock.

At December 31, we had no more outside limited partners. The $7,000 balance on the balance sheet represents the former limited partners' accrued preferred return, which was paid in January. Therefore, you will not see a line item for this next quarter.

During the quarter, we granted 26,300 shares of restricted stock at a grant price of $34.90 per share. Subsequent to December 31, we granted 20,000 shares of restricted stock at a grant price of $36.26 per share. During the fourth quarter, we paid $15 million in preferred and common dividends.

Turning to operator statistics, in discussing operator statistics, I'll just give the general caveat that these numbers come from our operators, are unaudited and have not been independently verified by us. Additionally, the occupancy and lease coverage information is for the trailing 12 months third quarter compared to the trailing 12 months second quarter 2012.

Occupancy in our same-property ALF portfolio was flat at 78%. Excluding properties leased to Assisted Living Concepts and Extendicare, occupancy in our ALF portfolio was 87%. EBITDAR lease coverage after a 5% management fee was 1.4 times. Before management fee, or EBITDARM, coverage was 1.7 times. Occupancy in our same property SNF portfolio was 79%.

EBITDAR coverage after an implied 5% management fee was 1.8 times. Before management fee or EBITDARM, coverage for our SNF portfolio was 2.5 times. Occupancy in our same property range of care portfolio, which consists of properties that provide any combination of skilled nursing, assisted living, independent living and/or memory care services was 87%. EBITDAR lease coverage after a 5% fee was 1.4 times. Before management fee or EBITDARM, coverage was 1.9 times.

The underlying payor mix for the nine months ended September 30, 2012, for our same property portfolio, which includes skilled nursing, assisted living, memory care, independent living, and properties with a combination thereof, was 60% private pay, 14% Medicare and 26% Medicaid. Within our same property SNF portfolio, the underlying payor mix was 25% private pay, 25% Medicare and 50% Medicaid.

I'll now turn the call back over to Wendy.

Wendy L. Simpson

President, Chief Executive Officer & Director, LTC Properties, Inc.

Thank you, Pam. Clint Malin, our Executive Vice President and Chief Investment Officer, will discuss our fantastic fourth quarter acquisitions and development and underwriting and make comment on our current deal flow and pipeline.

After a very active 2012 fourth quarter, we've internally discussed that we had we had this call on January 2, our pipeline would have been zero because we closed so many deals at year end. But after a slow start, we've seen a good build to the pipeline. Clint?

Clint B. Malin

Chief Investment Officer & Executive VP, LTC Properties, Inc.

Thank you, Wendy. Good morning, everyone. 2012 was a tremendous year for LTC and we ended it with the best quarter of investment activity in memory. As Pam mentioned for 2012, we made a total of $244 million current revenue generating investments and development commitments, and this investment activity expanded our operator base by adding five new relationships to our portfolio.

During the quarter in a sale lease back transaction, we acquired two assisted living facilities and three standalone memory care facilities for an aggregate purchase price of $82 million, master leasing the properties to an industry affiliate of Juniper Communities.

Additionally, LTC entered into an agreement to purchase a 72-unit assisted living facility from Juniper for $12 million, including the assumption of a $6.8 million HUD loan, which is scheduled to close in 2013 subject to HUD approval.

Also during the quarter, we acquired three vacant parcels of land in Kansas, Texas and Kentucky in separate transactions for an aggregate purchase price of $3.8 million. Simultaneous with these purchases, we entered into lease agreements and development commitments with three separate and unrelated operating companies in an aggregate commitment amount including land cost, not to exceed $39.9 million to fund the construction of two combination-assisted living and memory care communities with a total of 158 units and 143-bed skilled nursing facility.

Additionally, in the quarter, we originated a $5.1 million, two-year-interest-only bridge loan to an affiliate of Juniper, secured by a 70-unit assisted living facility. We also originated a $10.6 million construction and mortgage loan, $2.6 million of which was funded upon origination. The loan is secured by 106 bed skilled nursing facility that's currently operating and a $5.6 million acre parcel of land upon which 106 bed replacement facility will be constructed.

The agreement gives us the right to purchase the replacement facility for $13.5 million during an 18-month period beginning on the first anniversary of the issuance of the certificate of occupancy. The facility will be operated by Fundamental, who's also an operator of four of our SNF properties and will operate our new SNF replacement property in Amarillo. Upon exercise of the purchase option, the new facility will be added to a master lease with Fundamental at a lease rate equivalent to the then current interest rate on the loan.

All of the investments I just mentioned were previously announced. In addition to these announced deals, we invested $8.3 million in development and capital improvement projects during the quarter at a weighted average yield of approximately 8.9%. Growth with our existing portfolio relationships is a strategy that helps spur our 2012 investment activity, and we look forward to more opportunities in 2013.

The transaction with Juniper was the culmination of a great year of investment activity for LTC, establishing a solid new relationship with a highly experienced and well regarded operating company in the seniors housing space. Additionally, this transaction adds to the diversification of our operator base, geographic footprint and enhances private pay metrics as well as adds newer physical plans to our portfolio with an average age of approximately 12 years, with all but one of the properties located in the top 31 MSAs.

Our pipeline is active but given the rush of activity in the fourth quarter as Wendy mentioned, as well as a typical lull in first quarter closings, the 2013 investments – any investments in 2013 will fall into latter quarters. We are seeing deals ranging from AL to private pay standalone memory care to skilled nursing in addition to numerous development opportunities. At this point, our pipeline stands in excess of $200 million.

Additionally, we're continually in contact with our customers regarding expansion, redevelopment and renovation opportunities within our portfolio which we hope will soon further add to our investment pipeline.

We will continue our disciplined underwriting approach, be selective in asset quality, and the establishment of relationships with operating companies possessing strong operational track records. We continue to successfully execute on our investment strategy by growing our operator base, completing follow-on deals with existing relationships, acquiring newer assets, growing our development platform plus funding expansion and redevelopment and renovation opportunities within our portfolio while maintaining the balance between private pay and government-reimbursed revenues.

Now, I'll turn the call back to Wendy for her comments.

Wendy L. Simpson

President, Chief Executive Officer & Director, LTC Properties, Inc.

Thanks, Clint. I'm not sure how we could be more pleased with our 2012 year. We said at the beginning of the year that we were diligently pursuing opportunities to commit today for the development of assets that would be significant additions to LTC's portfolio.

As you can see from our supplemental, we underwrote approximately $78.3 million to build and develop new properties. Two of these projects, Amarillo, a replacement SNF and Littleton, Colorado, a stand-alone memory care property are both on track to open in the first half of 2013 and have been on schedule and on budget.

Amazingly, even though they started late in the fourth quarter, our projects in Wichita and Slinger, Wisconsin constant are well underway despite construction sometimes being difficult in winter months. In 2011, as we had more investment opportunities and deals in SNF assets, we purposely turned our attention to adding more private pay investments in order to maintain a balance in our asset portfolio.

We began an initiative to identify new and entrepreneurial operators of memory care communities. During 2012, we established relationships with operators such as Anthem, Oxford and Mustang Creek and have worked with them to develop assets for our portfolio and their operations platforms. We look forward to doing additional development with these companies and building other new relationships in 2013 and the future.

While pursuing development opportunities, we did not lose sight of the accretive benefit of our core sale leaseback transactions. In 2012, we closed on $161 million of sale leaseback transactions. And I am pleased to report that the assets we have purchased in the past two years have been newer, competitively positioned and operated by dynamic companies who are strategically looking to grow on strong operating platforms.

In the summer we added the great Carestream properties and at year-end we were so pleased to be able to add Juniper and their wonderful properties to our portfolio. Clint has already detailed the many benefits to LTC from these additions and I just want to reinforce our appreciation for the opportunities these two operators have given to LTC and our shareholders. Plus, I want to express my appreciation to all of our operators for their contributions to the strength of LTC.

Our two master leases with Assisted Living Concepts and Extendicare come up for renewal as of December 31, 2013, at which time the lessee is required to give us at least 12 months advance notice. There has been significant attention placed externally and internally on these 37 properties due to operational and corporate challenges being experienced by ALC.

We continue our scheduled physical inspections to these properties, and I have commented on past calls that ALC has been maintaining and investing in these physical assets.

In preparation to discussions that are likely to take place later this year, I have personally begun to see all of the 37 properties. To date, I have been to one Idaho, one Ohio, and all eight of our investments in the state of Washington. My goal is to get to all of these properties this year either by specifically planned trips or as side trips during other business travels.

Of the 10 properties I've already seen, every one of them is extremely well maintained. The available rooms were all rent-ready and most with new carpet and new bathroom tiles. Many of the properties had new roofs and none had any current roof problem. The kitchens were neat and clean. Many had new countertops and, where needed, new equipment. ALC has adopted a new standard decor package, and most of the properties I visited had recently been repainted and received new wall art. All of the storage areas, maintenance offices were neat and clean and well organized.

In the dining room, even though occupancy has been low in these properties, all of the tables were set with linens, center table decorations and all place settings. I had them open every wall panel, every hallway door and found everything clean and neat in the utility area. I walked the perimeter of each property and did not notice any significant physical business issues. The ALC operations people I've met we're all courteous and encouraged by the operational changes that Dr. Roadman had made at ALC and continues to make at ALC.

Also in preparation to discussions about the potential lease renewals, we are talking to companies to begin strategic analysis of these 37 assets and their market. We want to be as prepared as possible to evaluate these assets' ongoing operational assets and their positioning or possible repositioning opportunities.

All of this great investment activity had to be paid for, and we have used our line of credit and completed the private placement of notes during the summer to fund these investments. At year-end, we had debt-to-market-cap of 21.4%, not including our preferred stock as debt. If you include the preferred stock as debt, we were at 24.2% debt- to-market-cap. We continue to have a strong balance sheet with debt to normalized EBITDA of 3.7 times, a normalized interest coverage ratio of 8.4 times and a normalized fixed charge coverage ratio of 6.3 times.

We have debt capacity and availability to fund growth in 2013 and maintain our discipline of having no more than 30% debt to market cap and a well structured debt maturity schedule. However, we would look at equity to fund additional growth at the appropriate time and, more importantly, at the appropriate price and to forestall the question of what I think the appropriate price is, I'm not prepared to give you a number today.

A couple of weeks ago, we announced the retirement of Andy Stokes, our Senior Vice President of Marketing and Strategic Planning. Over this past six years, Andy has made a major contribution to our market presence and growth. We will miss him at the office but continue to keep him personally and professionally as a friend.

At this time, using our base case, not assuming additional acquisition for development, not assuming changes in debt financing or equity issuance, but assuming the sale in the first quarter of about $11 million of older SNF assets. We are projecting normalized diluted FFO of approximately $2.46 to $2.48. However, the first quarter of 2013 will have a one-time expense related to Andy's retirement.

At this time, I want to thank you for taking your time today to listen to our presentation, and now we'll take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from James Milam at Sandler O'Neill.

James Milam
Analyst, Sandler O'Neill & Partners LP

Q

Hi, guys. How are you?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Hi, James.

James Milam
Analyst, Sandler O'Neill & Partners LP

Q

Just quickly on Andy, what's the G&A bump in the first quarter and that is included in guidance, Wendy?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

It's not included in – no, it's...

James Milam
Analyst, Sandler O'Neill & Partners LP

Q

Okay.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

What I gave you was normalized.

James Milam
Analyst, Sandler O'Neill & Partners LP

Q

Okay. Got it.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

That's going to be – it's going to primarily related to the acceleration of restricted stock.

James Milam
Analyst, Sandler O'Neill & Partners LP

Q

Okay. And are you prepared to give us the number or should we wait?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Yes. I'm not prepared right now.

James Milam
Analyst, Sandler O'Neill & Partners LP

Q

Okay. No problem. And then bigger picture with Andy leaving, obviously the portfolio has changed a little bit with all of the development – with the development program, and he was a big part of building the new relationships. I guess I'm curious how you're thinking about filling that position and whether there is a different skill set now that maybe you would like to have and I guess how you're thinking about cultivating the existing relationships that you have now? Obviously, I expect Clint will be a big part of that, but just wanted your comments there.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Yes. We're still trying to decide how to replace Andy. It's not a simple thing to do. Over the last year, Andy has developed another person on our staff, Mark Hemingway, who's been going with him to a lot of the regional meetings and developing relationships. So we already have somebody doing part of Andy's job. We will be adding to Clint's staff to take some of the actual paper pushing out of Clint's hands and add some development opportunity and let Clint spend a little bit more time in the field developing relationships.

James Milam
Analyst, Sandler O'Neill & Partners LP

Q

Okay. And then two quick ones on ALC, the first one, Wendy, did you notify them before you visited the assets that you have toured so far?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Yes. We gave them – we have to give them at least 24 hours notice of coming out.

James Milam
Analyst, Sandler O'Neill & Partners LP

Q

And do you push up to the 24 hours or do you give them – I guess I'm just curious if they had weeks to prepare for your visit or if you were...

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

No. They didn't have weeks. They had a couple of days.

James Milam
Analyst, Sandler O'Neill & Partners LP

Q

Okay, perfect. And then on ALC, the coverage declined a little bit. I guess I'm curious if you have any insight into whether that's from them having all of the linens out on the tables, even if the assets aren't occupied, if those are operating expenses that they're running now to try to improve the occupancy and the operations of the assets, or if there's something else in the coverage that we should be aware of.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

From the – no. From the people I talked to out in the field, they have now have a full complement of staff at every property. So they're fully staffed, they had reduced staffing to – I don't want to say ridiculous level but certainly a level that was not appropriate. They all have maintenance people for at least 30 hours a week where sometimes they had maintenance people for 8 hours a month. So it's from a buildup of staffing and it costs to do these things before they get the rooms rented. So it definitely is – you can tell that they're putting money back into the properties to have them prepared for the increase in occupancy, which hasn't come yet.

A lot of the administrators that I met were there for approximately one year. So a lot of them are very new administrators.

James Milam
Analyst, Sandler O'Neill & Partners LP

Q

Great. Thank you, guys.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

You're welcome. Thank you.

Operator: Our next question comes from Michael Carroll with RBC Capital Markets.

Michael Carroll
Analyst, RBC Capital Markets LLC

Q

Thanks, guys. Within your investment pipeline, can you break out the SNF and senior housing opportunities you're seeing and then maybe also break out the acquisitions and development opportunities?

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.

A

Sure. Yes. Don't want to go through the specifics of dollar by dollar but there is a diversity in the pipeline consisting of all of those. There are a number of skilled nursing facilities that we are looking at, but there also are a number of assisted living and memory care communities that are out there that are potential sale leaseback opportunities.

And we have been working with a number of companies on the development platform. So we are layering that in as well. So I think it's a really well balanced pipeline that will continue to add the diversity and balance in our portfolio of private pay and government-reimbursed revenues.

Michael Carroll
Analyst, RBC Capital Markets LLC

Q

Okay. And then how big would you be? Do you want to grow that development pipeline? I think represents 5% of your enterprise value right now. Would you be willing to double that or...

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Well, we've said in the past, Mike, that we were doing about $100 million a year of accretive acquisitions. We'd be comfortable at about $50 million a year of development. So, if you do more acquisitions, you can naturally do a little more development, but that's about the balance.

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.

A

And also, we try to manage that process, too, because as we have development projects that are coming online, we've got to look at opportunities that we're bringing on. And so there may be a little bit more or less at any given point because we're managing the roll-off into properties that are coming online.

Michael Carroll
Analyst, RBC Capital Markets LLC

Q

Okay. So you have about $50 million invested currently and then as you complete, you would put on more, is that what you're saying?

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.

A

Correct, yes.

Michael Carroll
Analyst, RBC Capital Markets LLC

Q

Okay.

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.

A

There could be some overlap in adding...

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Yes.

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.
A

Adding it on, depending on the opportunities that present themselves.

Michael Carroll
Analyst, RBC Capital Markets LLC
Q

Okay. And then my final question is at what point would you talk about, I guess, clearing your line and then how would you decide between doing that with equity or long-term debt?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.
A

We would look at the time that we were looking to perm out the line, we would look at what the equity markets looked like, what were opportunities on debt unsecured, we could even do a little secured. We don't have – we have like $2 million of secured debt on our balance sheet right now. We could do a little secured. It would really be opportunistic, and obviously, with an eye to staggering the maturities if it was debt like we have done in the past.

If we were a lot closer to 30%, which we're getting further away, if we're a lot closer to 30% and we saw a pipeline as robust as we currently see ours, equity would be a little bit more attractive to us but I think we'll be terming out the debt and using our line for acquisitions.

Michael Carroll
Analyst, RBC Capital Markets LLC
Q

Okay and then when could we expect for you to achieve that 30% target ratio of leverage?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.
A

I don't know, third or fourth quarter of this year, maybe?

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.
A

Or maybe a little later.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.
A

Later?

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.
A

Yes.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.
A

You think we can go through all this year?

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.

A

Yes.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Okay, yes, then 2014. Because it's total market value so I mean absent any total collapse in the stock market, or our stock price, yes I think we could probably go through the balance of this year. And by the end of this year, we'll have a more definitive answer on ALC, and we really believe that it still is a drag on our stock. And as we get closer and closer and work more and more to make it a possible earnings pickup, then I think the equity would be more reasonable.

Michael Carroll
Analyst, RBC Capital Markets LLC

Q

Okay, great. Thank you.

Operator: The next question comes from Dan Bernstein, Stifel.

Daniel M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hi, I guess good morning for you. I just want to start off wishing Andy best of luck going forward.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Thank you. He's not here. He's out at marketing, I think.

Daniel M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.

Q

I enjoyed seeing Andy at the conferences so...

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Yes.

Daniel M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.

Q

I guess we'll still see him there perhaps.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Yes.

Daniel M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.

Q

The $246 million to $248 million did that include any capital market transactions?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.
A

No.

Daniel M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.
Q

It doesn't. And at term out, what do you think the kind of rates that you might get today? I mean let's call it a 10-year secured under the Prudential line, what kind of rate do you think you'll get today?

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.
A

If we were doing something similar to what we did last year, the private placement. It was a 12-year final maturity, 10-year average life, it will be sub-5 that's what we're being told today, but the debt markets are – can be a little fickle and volatile so...

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.
A

we also, Dan, when we have the opportunity with Juniper, they were already looking at possibly doing some agency financing. So, that is a possibility for us to do on those assets maybe and that would be in the 4 to 4.5 range. But that would be...

Daniel M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.
Q

For 30 year?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.
A

I'm sorry?

Daniel M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Is that for 10 years?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.
A

For 10 years. Yes. Fannie Mae and Freddie Mac do 10 years.

Daniel M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.
Q

I was thinking HUD is 30 year but ...

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.
A

Oh yeah. Not HUD.

Daniel M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.

Q

I don't think you want to go there.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

I don't think I can deal with HUD yet. But we have to balance the fact that that's secured debt. Yes. So, anyway, we're looking at all those opportunities.

Daniel M. Bernstein
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And in last quarter on the transcript, you – I guess you kind of indicated that price is your best mitigator of risk. On a couple of other earnings calls, we've heard that senior housing, I guess, cap rates may still be compressing some, especially for maybe some of the secondary markets that you compete in and look at. Are you seeing any pricing pressure, further pricing pressure, on senior housing cap rates and is there a point where you start to get concerned that the price you're paying no longer gives you that risk cushion that you've wanted to see in the past?

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.

A

Dan, this is Clint. We haven't seen, I guess, a lot of compression on the cap rate for the senior housing assets. They definitely are competitive and there's definitely competition out there for those assets, but we've been very disciplined in our underwriting and part of the reason that we've started doing the development platform is looking at the pricing point, getting into existing operational assets and having concern about that and looking at alternative ways to mitigate that to balance out our private pay revenues and hence the reason for the development pipeline on the private pay side.

But there are opportunities for onesy-twosy senior housing assets that they are priced where it's possible for us to acquire them to have coverage because we don't want to get into a relationship where an operator is not able to make money because he's not able to have a profitable operation and that's just an inherent risk for our portfolio, and we don't want to put ourselves or our operator in that situation.

Michael Carroll
Analyst, RBC Capital Markets LLC

Q

Okay. And so just the price at this point is it's not causing you too much of a concern.

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.

A

You've got to really dive in to find the right opportunity because there are some that are priced a little bit more but there are unique opportunities out there. But I think that coming online, there's a lot of talk in the industry about development and that may cause some mitigation in the pricing for the existing operational asset.

Michael Carroll
Analyst, RBC Capital Markets LLC

Q

Okay. And then, I don't know, Pam, if you can back over the Emeritus dollar amount that you mentioned earlier that was in the rent for the fourth quarter. Maybe you could just explain I guess what that was. Is that a one-time bump in the rent or is that something we should model going forward as permanent?

Pamela J. Shelley-Kessler A
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.

No, it was one-time, that's why I mentioned it.

Wendy L. Simpson A
President, Chief Executive Officer & Director, LTC Properties, Inc.

But isn't it in the base?

Pamela J. Shelley-Kessler A
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.

It's in the base, right.

Wendy L. Simpson A
President, Chief Executive Officer & Director, LTC Properties, Inc.

And they get increases on that.

Pamela J. Shelley-Kessler A
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.

Exactly. So it's in this quarter. So if you're taking this quarter and modeling it forward, that would be correct.

Daniel M. Bernstein Q
Analyst, Stifel, Nicolaus & Co., Inc.

Okay. So take this quarter model it for there's nothing to pull out of the numbers?

Wendy L. Simpson A
President, Chief Executive Officer & Director, LTC Properties, Inc.

Right.

Daniel M. Bernstein Q
Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Okay. That's fine. That's all for me. Thank you.

Wendy L. Simpson A
President, Chief Executive Officer & Director, LTC Properties, Inc.

Thank you, Dan.

Operator: Our next question comes from Karin Ford at KeyBanc.

Karin A. Ford Q
Analyst, KeyBanc Capital Markets

Hi. Good morning. I just wanted to ask on ALC, I think in conversations past, you guys have thought that the 1.1 times coverage level you were going to see this quarter was probably going to be the trough level. Is that still your expectation and are you – as you're travelling around, are you getting a sense that they are starting to get some traction on the occupancy side and maybe starting to push cash flows up a little bit?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

A small amount of traction. The good thing is there hasn't been a significant loss in occupancy, and I think that it takes a while to turn around the reputation and they're working very diligently on doing that. So, I think they're probably fully expensed now, because they seem to be fully staffed of the one-third of the properties that I've seen. So, yes, I'm hoping as they hope that it'll be turning around.

Karin A. Ford
Analyst, KeyBanc Capital Markets

Q

Yes. And there hasn't been really any new news from them on sort of the strategic alternatives and some asset sales they were doing looking at? Have you had any conversations with management of ALC, and do you have any update as to what the bigger picture is there?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

No. I haven't had any discussions with them. I've been waiting for them to finish their quarter and file their quarters, so we haven't seen anything – I don't like to push them to try to get insider-type information. So I'm waiting for them to go public with what they have to report and then have follow-up with a discussion.

Karin A. Ford
Analyst, KeyBanc Capital Markets

Q

Great. And then last question just on investments. You said the pipeline was over $200 million I think that's the biggest number I think I've ever heard you guys say in the time that I've covered you.

Just curious as to why you think the opportunities are greater today than they've been? Is it that you're casting your net a little bit wider? You're doing a better job finding new operators? And it seems like you guys have a much more focus on the sort of higher-quality stuff. So how are you able to push the pipeline up so high today?

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.

A

I think it's casting a wider net. I think that the bifurcation of the REIT space into large cap REITs and small cap REITs has opened up doors for us. So I view that as a positive and then the development platform has added to that. So I think you take all three of those and that's what's added to the increase.

Karin A. Ford
Analyst, KeyBanc Capital Markets

Q

And who would you say are your biggest competitors? Is it other REITs, is it private guys?

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.

A

It's a combination. I mean, we definitely see small cap REITs, we see NHI on certain transactions and Sabra as well. We don't always run into them but on certain deals, we do see them out there. There are a number of private

REITs that we have seen and then there's regional banks are starting to open up their lending and you will see us in competition on that as well and some private equity money too. So it's from a number of different sources.

Karin A. Ford
Analyst, KeyBanc Capital Markets

Q

So regional banks are doing construction loans or just mortgage loans?

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.

A

I heard that they've done – they are doing construction loans but it's on a limited basis and usually there are some types of cap on the exposure to a client. So it's hard for them to replicate that multiple times with a regional bank.

Karin A. Ford
Analyst, KeyBanc Capital Markets

Q

Got it. Okay thanks so much.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Thank you, Karin.

Operator: [Operator Instructions] And our next question comes from Rich Anderson at BMO Capital Markets.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)

Q

Hey, good morning out there.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Good morning.

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.

A

Good morning.

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.

A

Good morning.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)

Q

So, Wendy, when you did your tour, was there anything – you kind of – sort of said this, but I just want to ask it bluntly. Was there anything that endeared you more to ALC having seen the upkeep and all the sort of stuff that maybe this could all work out with them to a better degree in the future, or do you still kind of feel the same way that you did prior to these visits?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Well, I've got to say that I much admire the fact that they are paying as much attention to our properties as they must be paying attention to their properties because it would be maybe, I don't want to say understandable, but for them to say, well, these are not our properties and we're not going to put any into them, and we can argue with LTC about what that means.

But if Dr. Roadman were continuing to run the company and he continued to make progress and the company righted itself, it would be less of a hassle for us to continue on with ALC at an increased run rate than it would be to make changes. But it encourages me that when we have – if we have an opportunity to have new operators go out and look at these properties that they will be properties that people will be able to take and make money out of.

I mean, for instance, I looked at a property in Ohio because Clint and I went to Kentucky for a groundbreaking for our Cold Spring property. And this property in Ohio is getting $50 a day for a smaller studio, $60 for a regular studio and $80, I think, for a 1 bedroom. And the Medicaid in the State of Ohio is $1,200 to $1,300 a month. So, a company that would be Medicaid-friendly, and I'm not saying that ALC should change their policy or whatever, but – and I ask the administrator whether she could fill it up if she took Medicaid and she thought she could.

So these things – it's different in every market, but it gives me comfort that I believe an operator either ALC as a revised operator or a reorganized operator or a new operator will be able to make these properties viable again.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)

Q

So, my understanding is Medicaid is a relatively small piece of the puzzle when it comes to assisted living, in the neighborhood of 5% or 10%. Is that about right?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Well overall, yes, but in certain markets and certain properties, it could be higher.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)

Q

Okay. But even still would that really – I mean, say they decide to accept more of a Medicaid census, would that – really wouldn't close the gap much at all relative to their depressed occupancy level, would it? I'm curious how that would be the game changer in terms of getting occupancy up to a more stabilized number.

Pamela J. Shelley-Kessler
CFO, Secretary, EVP & Head-Investor Relations, LTC Properties, Inc.

A

Rich, this is Pam. It's not the game changer. It's just another portion of the strategy. They're staffing up. What they had done was go more toward an IL-type going down the acuity spectrum while during the recession, all the other operators were taking higher acuity residents and providing more services and being able to increase occupancy.

They were a little delayed, I think, in that strategy, but now they've kind of seen the light and they're staffing up levels so that they can take the higher needs resident and provide the services. And therefore, I think they'll be able to increase occupancy that way because they can offer the services.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.
A

But if they increase their occupancy by just 5%, that would be a game changer from where they are.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Yes, okay. Fair enough. Do you think a potential reasonable outcome might be, say, half goes back to ALC and half goes to market? Do you think that that's a possibility?

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.
A

That's a possibility. There's – I'm open to every possibility.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Okay. And then just a last question and I don't know if this was kind of again directly alluded to on the call but you have sequestration talks still looming. What is the tone of your tenants as it relates to that issue or the transaction market kind of – that was also discussed in the call but directly on the issue of sequestration, is it holding people up a little bit? Is it making your operators nervous? Is it holding up the transaction environment? Anything along those lines, can you give some observations on what you're seeing?

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.
A

Sure. In my conversations with operators, I mean that's sort of baked into their analysis and I think sort of expectation and we have – in our underwriting, we're taking that into consideration. So I think that's fully accounted for and with our portfolio, we have strong coverage and even if and when that does happen, it's not going to materially affect the coverage of our portfolio.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Clint, is there almost like having gone through an 11% average cut, is a 2% cut actually welcomed in some ways?

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.
A

I think it's – either way I think it's seen as – I mean that's a win but it's not more.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)
Q

Yes, although the broader implications of sequestration might be the bad stuff, right?

Clint B. Malin
Chief Investment Officer & Executive VP, LTC Properties, Inc.
A

Correct.

Rich C. Anderson
Analyst, BMO Capital Markets (United States)

Q

Okay, thank you.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

A

Thank you, Rich.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Wendy Simpson for any closing remarks.

Wendy L. Simpson
President, Chief Executive Officer & Director, LTC Properties, Inc.

Okay, thank you. Again, I want to thank you for the attention you've given to LTC, and we look forward to our first quarter call. While we might not have a lot of acquisitions to talk about, I'm sure we'll be able to talk about activity that we'll have for the rest of the year. So, thank you very much and have a good day. Goodbye.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.