LTC Properties

LTC Properties Second Quarter 2015 Analyst and Investor Call

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CORPORATE PARTICIPANTS

Wendy Simpson - *Chairman, CEO and President*

Clint Malin - *Executive Vice President and CIO*

Pam Kessler - *Executive Vice President and CFO*

PRESENTATION

Operator
Good morning and welcome to the LTC Properties, Inc. second quarter 2015 analyst and investor conference call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your touchtone phone; to withdraw your question, please press star (*) then two (2). Please note this event is being recorded. I would now like to turn the conference over to Wendy Simpson, Chairman, CEO and President. Please go ahead.

Wendy Simpson
Thank you, Katherine. Good morning, everyone, and thank you for joining us today. If you'd had a chance to read our press release and/or our 10-Q, you'll understand that we are pleased to report some very accretive growth activity during this quarter and Clint Malin, our Executive Vice President and CIO will discuss our positive outlook for the rest of 2015. Pam Kessler, our Executive Vice President and CFO, will start our presentation with comments and our financial results for the first quarter. Then, after Clint's comments and presentation, she will outline our current liquidity and our current plans for financing additional growth. At this time, I'll turn the call over to Pam.

Pam Kessler
Thank you, Wendy. Normalized FFO increased 8.3% for the second quarter of 2015 to $24.4 million, or $0.67 on a fully diluted per share basis, from $22.5 million, or $0.64 on a fully diluted per share basis a year ago. Revenues for the quarter increased 10.8%, or $3.2 million, year over year. The improvement primarily reflects completed development and capital improvement projects, new investments, new leases and lease amendments, as well as an increase in interest income from mortgage loans resulting from loan origination and the amendment to the Michigan loan, partially offset by a reduction in revenue from properties sold at the end of 2014.

Second quarter interest expense was $3.9 million, an increase of $766,00.00 over the comparable 2014 quarter, due primarily to the sale of senior unsecured notes, lower capitalized interest and greater utilization of our line of credit to fund investments and development.

During the second quarter of 2015, we recorded a $400,000.00 GAAP required one time noncash loan loss reserve related to an additional $40 million investment we funded under an existing mortgage loan secured by 15 skilled nursing properties in Michigan. The cash yield on this investment is 9.4%. General line administrative expenses were $3.9 million, or $1.2 million higher this quarter compared with a year ago, due to increased staffing and other costs associated with more investment activity, higher restricted stock vesting expense, and certain nonrecurring expenditures.

Given our elevated investment activity and current pipeline, we are currently anticipating a G&A run rate of approximately $3.8 million per quarter for the remainder of 2015. During the quarter, we recognized $753,000.00 in income from an unconsolidated joint venture related to a preferred equity investment made at the end of the first quarter of this year. Turning to the balance sheet, as previously discussed, during the quarter we funded an additional $40 million investment under an existing mortgage loan secured by 15 skilled nursing properties in Michigan. Additionally, we purchased 2 development sites for a total of $1.3 million and entered into commitments to construct a 66 unit memory care community in Tinley Park, Illinois, and a

108 unit independent living community in Wichita, Kansas. Clint will discuss these investments and a pending $142 million acquisition of a 10 property senior housing portfolio in more detail.

Also, during the quarter, we invested $3.7 million in properties under development and capital improvement projects, funded $1.5 million under construction loans, received $697,000.00 in mortgage loan receivable payoff and principal amortization and accrued $502,000.00 of deferred preferred equity return in an investment that is accounted for as an investment in an unconsolidated joint venture. Our preferred equity investment earns 15%, of which 5% is paid in cash and 10% is accrued, thereby increasing our investment basis. During the quarter, we had a net borrowing of $44 million under our line of credit. Subsequent to June 30th, we borrowed $24 million and, therefore, currently we have borrowings of $104.5 million outstanding and $295.5 million available under our revolver. Also subsequent to June 30th, we repaid $25 million in principal on our senior unsecured notes outstanding.

In the second quarter of 2015, we granted 26,400 shares of restricted stock and paid $18.9 million in common and preferred dividends. Subsequent to June 30th, we locked rate on the sale of $100 million of senior unsecured notes to Prudential. The notes will bear interest at 4.5% and will mature on August 31, 2030. We anticipate closing the transaction at the end of the month. Also subsequent to June 30th, we entered into a note purchase and private shelf agreement with AIG providing for the availability of $100 million senior unsecured notes. Notes issued under this shelf will bear fixed interest at a spread over applicable U.S. Treasury rates with maturities of up to 15 years from the date of issuance and a maximum average life of 12 years. Additionally, yesterday, we filed an 8-K in conjunction with a new at the market offering program. The $200 million available under the ATM is another source of liquidity for us to fund our acquisition and development pipeline. I will now turn the call over to Clint.

Clint Malin
Thank you, Pam. Good morning, everyone, and thank you for joining us today. We are excited to announce our pending $142 million acquisition of 10 private pay senior housing communities, with Senior Lifestyle Corporation as our operating partner. This transaction is anticipated to close in the third quarter of 2015 and will be immediately accretive to earnings. Continued growth with SLC over the past 8 months, plus the pending $142 million transaction, will position SLC as our largest operator relationship when measured by revenue. We continue to maintain a well balanced operator diversification mix within our portfolio and no one operator accounts for more than 15% of revenue.

On a pro forma basis, annualized income derived from private pay assets within our portfolio will increase by nearly 400 basis points to 40% and this transaction will further diversify our gross investment metric by state, reducing our portfolio concentration in Texas to 18.5% from 20.7%.

This is a unique transaction levered through our long term relationship with SLC, one of the leading providers in the seniors housing space, to be acquired at an attractive price point of approximately $160,000.00 per unit on a portfolio having an average age of 10 years. Average occupancy for the portfolio was 70% as of June 30th. Master lease with SLC provides for LTC to participate in positive future performance of the portfolio through a percentage rent formula, calculated as a percentage of the increase in revenues of the portfolio over a predetermined base revenue amount.

Also, the master lease provides SLC with an opportunity to earn a $10 million deferred contingent incentive fee, allowing them the ability to participate in the value creation of this portfolio. The $10 million incentive fee can be earned by SLC at various times during the term of the master lease, upon achieving certain performance metrics. During the second quarter, we closed on approximately $65 million of additional investments by increasing the loan proceeds of $40 million to Prestige Healthcare, which Pam mentioned, demonstrating the strength of our Michigan investment and expanding our relationship with both Anthem Memory Care and Oxford Senior Living.

With Anthem, we are continuing to finance their expansion in the Chicago Metro market by financing construction of a 66 unit private pay memory care community. With Oxford, we are financing construction of a 108 unit independent living community to be located adjacent to the assisted living and memory care community in Wichita that Oxford opened in October of 2013. This property reached 96% occupancy in January of 2015 and has maintained a monthly occupancy percentage of 100% for the months of June and July.

Including the announcement of our pending $142 million acquisition with SLC, we will have completed over $300 million of accretive investments and multiple development commitments to date in 2015. This marks a banner year for LTC, already exceeding $300 million manual investments with five months still remaining in 2015. Given the strength of our active pipeline, we anticipate deploying additional capital toward accretive investments and development commitments during the remainder of 2015. Currently, we have five transactions under fully executed letters of intent representing approximately $150 million of acquisitions and development commitments. Approximately 80% of our active pipeline consists of acquisitions, with the remaining 20% relating to two private pay memory care development projects sourced through our exclusive development pipeline agreement with Anthem.

These two development projects will bring the number of memory care projects with Anthem to 8, 4 of which are operational and performing better than or equal to our pro forma assumptions. Approximately 60% of our active pipeline is comprised of skilled nursing properties, with the remaining 40% representing private pay seniors housing investments. Although the five letters of intent have been fully executed, I must caution that these transactions remain subject to due diligence and, therefore, may not be converted to closed transactions.

Turning to the portfolio, lease coverage for the trailing 12 month period ended in the first quarter of 2015 remained strong and consistent. I will caveat the following coverage metrics are derived from unaudited financial statements provided to us by our operators and are reported one quarter in arrears. EBITDARM coverage for skilled nursing is 2.35x, assisted living 1.65x, and range of care is 1.8x. EBITDAR coverage, after an allocated management fee of 5% of revenues, is 1.72x for skilled nursing, 1.41x for assisted living, and 1.32x for range of care. Both EBITDARM and EBITDAR coverage metrics increased slightly over the previous quarter.

The main driver increasing these metrics is the continued strong performance of the Michigan loan portfolio with Prestige Healthcare, resulting from continued implementation of their operational improvements and efficiencies. Compared with the previous quarter, occupancy has remained consistent across all property types. Occupancy for the trailing 12 month period ended in the first quarter of 2015 is as follows: Assisted living, 86%; skilled nursing, 79.8%; and range of care, 87.5%. Next, I will provide coverage and occupancy statistics for our portfolio of 37 assisted living communities leased to Brookdale. I'm providing this information because I have heard inquiries about these metrics for Brookdale and other companies' earnings calls this quarter.

For the trailing 12 month period ended in the first quarter of 2015, EBITDA lease coverage after an allocated management fee of 5% of revenues is 1.86x and occupancy is 89.1%. Both coverage and occupancy statistics for our Brookdale portfolio are strong and consistent with the previous quarter. Our quality mix for the portfolio remains strong with 51.6% of our underlying revenue derived from private pay sources. The approximate 400 basis point decrease from the previous quarter is attributable to the addition of the Michigan loan portfolio to same store. Now I'll turn the call over to Wendy.

Wendy Simpson
Thank you, Clint. In addition to our 10-Q, we did file the 8-K last evening for our new $200 million ATM program with JMP, Canaccord Genuity, and Mizuho. This program will provide us with additional options to fund our growth and help us maintain our low debt to equity statistics. Pam, would you comment on our current liquidity and our plans to fund our currently disclosed accretive growth?

Pam Kessler
Yes, thank you, Wendy. LTC is in the enviable position of having low leverage and ample liquidity to fund our current growth trajectory. We currently have $295 million available under our unsecured line of credit and additional $200 million accordion feature, which, combined, gives us approximately $495 million of unused revolver capacity. Additionally, prior to our anticipated sale of senior unsecured notes later this month, we have $133 million of unsecured debt available under our Prudential shelf and $100 million of unsecured debt available under our new AIG shelf. As I previously mentioned, we have locked rate with Prudential on $100 million at 4.5% and anticipate selling the notes to them later this month. We also have the $200 million of equity available on a new ATM program and $575 million available under our shelf registration statement.

At the end of the quarter, LTC's investment grade credit metrics remain one of the best in the healthcare REIT universe, with debt to trailing 12 months normalized EBITDA of 3.2x; a normalized trailing 12 months fixed charge covered ratio of 5.9x; and debt to enterprise value of 19.2%. Pro forma for the $102 million acquisition, the sale of $100 million senior unsecured notes, the line of credit borrowing and repayment of senior unsecured notes, as previously discussed, debt to trailing 12 months normalized EBITDA would be 4.1x; normalized trailing 12 months fixed charge coverage ratio would 5.2x; and debt to enterprise value would be 24.8%. I'll now turn the call back over to Wendy for closing remarks.

Wendy Simpson
Thanks, Pam. At this time, we have high probability opportunities to invest and underwrite over $400 million of 2015 transactions. We've often stated that the sale-leaseback opportunities are bumpy in nature, but this year, we're seeing opportunities and executing on accretive investments while still underwriting development investments that will additionally fuel our FFO/FAD growth in future years. The $400 million additional loan investment and the $142 million leased asset investments are with operators with whom we have existing strong relationships. Of the pipeline, one potentially significant investment would bring a new multi facility operator and a new state to our portfolio, and the other would add two properties to a master lease of a significant current operator. It's exciting to grow in both diversifying relationships and diversifying states while expanding opportunities with already valued operators.

As Pam outlined, we have secured the liquidity we need to complete our 2015 growth as we now project. Additionally, with our new ATM and our bank line accordion, we have access to the liquidity for growth in 2016. We maintain our disciplined capitalization profile and if you've followed our Company for any period of time, you know that I think a 30/70 debt to enterprise value capitalization is not a bright line limit, but it is a point of reference. Pam and Clint have done an absolutely wonderful job of securing capital that allows accretive investments and I look forward to announcing additional investments in Q3 and talking on our next call about these additional investments.

At this time, I'm increasing our FFO guidance by $0.09 to a range of $2.74 to $2.76. This represents an increase of $0.17 for fiscal 2015 guidance from what we first guided in the first quarter. I'm looking forward to being able to increase that guidance when we next talk. Thank for dialing in and I will now open the call to questions. Katherine?

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star (*) then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2).

Our first question comes from Paul Morgan with Canaccord Genuity. Please go ahead with your question.

Paul Morgan
Hi, good morning. This is in terms of the FFO guidance increase, so that includes the Wisconsin deal closing at the end of the quarter or, and nothing else beyond that? And then does it also include shares issued under the ATM?

Wendy Simpson
It doesn't include any shares issued and it includes the Wisconsin deal closing August 31st.

Paul Morgan
Okay, great, and then, you mentioned you highlighted, when you talked about Wisconsin, the $140 million, you're ticking down your Texas exposure. There's been a lot of focus on Texas and do you have any color you could provide on the operating performance of your tenants down there and how comfortable you're feeling with your exposure?

Clint Malin
To the tenants in Texas?

Paul Morgan
Yes.

Clint Malin
Oh, in Texas right now, we've been comfortable. Texas has been bullish on that. I mean, our coverage on one of our largest operators in Texas has been very strong with senior care centers, so Texas is a state that we would continue to look at growth and we have done so over the past number of years, growing in Texas while growing the portfolio, as a whole, continuing to reduce our exposure to the state. So Texas is, we've been very comfortable with it and we'd look at other opportunities there.

Paul Morgan
Okay, great, and then just on the memory care developments, how would you say the lease up is progressing at, you know, maybe some of the Colorado assets and, you know, versus the pro formas and, you know, whether, how you're thinking about kind of the pace of lease up, generally, as you look at new projects? For example, in Littleton you're at 69%, how is that relative to where you're looking at going in?

Clint Malin
We look at a lease up of right around between 18 and 24 months, so right now, all of our memory care projects are at or in excess of the pro forma assumption. So we're very comfortable with where occupancy is at, not just in Colorado, but on other projects, as well.

Paul Morgan
So, in terms of the shadow pipeline and your focus on building that, continue to build that as you look into next year, that's still one of the top priorities?

Clint Malin
It's a balanced approach between looking at development, as well as bringing on acquisitions and we're focusing our developments on companies we have relationships with. You know, at one point in time, we were, back at 2012 starting this program, we were looking at sourcing relationships. Now, we've found partners over the last number of years and we're looking at growing out those relationships.

So unless a relationship happens to come to us that just fits our structure, obviously, we'd take a look at that, but we're not spending as much time as we were at one point, trying to source new relationships for development. We think we can grow our existing relationships and we help to mitigate risks by growing those relationships out, but not relying upon just any one specific project, so if there is any challenges on one building, hopefully the portfolio as a whole helps provide credit enhancement for that portfolio.

Paul Morgan
Okay, great, thanks.

Clint Malin
Thank you.

Operator
Our next question comes from Jordan Sadler with KeyBanc Capital Markets. Please go ahead.

Jordan Sadler
Thank you, good morning. I guess first is just on the volume tick up, in terms of transactions. I think 90 days ago or so, we talked about $100 million or so active pipeline and then a shadow pipeline behind it, so it seems like this stuff from the shadow pipeline has been converted, is that the right way to think about it? Or just any other way you would be able to characterize the change in activity as these deals have started to come through?

Clint Malin
Sure, I think that the shadow pipeline, these things, they ebb and flow, can move fast and some of the shadow pipeline moved into the active pipeline. I think that's the way to look at it.

Jordan Sadler
Okay and so these deals, Clint, if you talk about, maybe give a little bit of color in terms of lead time, how long they've taken to come together and whether or not they were relationship oriented or more broadly auctioned?

Clint Malin
Well, the ones that are in our active pipe, $150 million are in our active pipeline or ones that we've closed on, or announced and closed?

Jordan Sadler
Well, both would be great.

Clint Malin
Sure. Well, looking at the $142 million with Senior Lifestyle, that was a relationship-driven transaction. We've had a relationship with Senior Lifestyle since 2009 and, as I mentioned in my prepared remarks, over the last 8 months, we've continued to grow with Senior Lifestyle, so very much relationship driven transaction there. And on our active pipeline, a lot of that is, I mentioned two projects with Anthem, so that's growing out that existing relationship. Wendy mentioned a new relationship that we've sourced, so it's a combination.

Wendy Simpson
But in that group of new relationships, the new operator and the new state, it was a situation where the operator ran a process last year, we were part of that process. And then there were situations that happened that the deal selected did not get to the finish line. So the process opened after the operator decompressed for a little while and looked at the people who were interested again, and came back to us and so we were a little ahead of the curve by having already done some work on it when it came back to the market.

Clint Malin
I think that process opened up to a smaller population of potential parties because, I think part of that is the way we presented ourselves on the initial round because we gave a very credible offer and I think when they saw the other deal fell apart, we were just a very credible party and coming back to for that transaction.

Wendy Simpson
And on the $40 million Michigan deal, we had an agreement with the operator that every year that they made certain statistics, they could draw down $10 million for four years. And looking at the improvement in their statistics, we said, well, if you'd like it all this year, we are earning a spread on it and you cover very nicely, even including that $4 million, so we amended our agreement to invest earlier than our agreement provided for. So we took the opportunity of making that investment earlier than we had anticipated making it.

Jordan Sadler
Okay, that makes sense, that's helpful. Can you speak to pricing a little bit, the Senior Lifestyle deal comes in a little bit at the lower end of the range we discussed last quarter, but, and then maybe on the shadow pipeline? Or the active pipeline, rather.

Clint Malin
I think that pricing, still, is very competitive, there's a lot of capital providers that are still looking at deploying capital in the space. And you also have a number of, you've got a lot of opportunities out there. I think there's a lot of brokers that are trying to generate activity for

operating companies that may have not considered transactions in the past, so a lot of opportunities and a lot of capital. As far as yields in our pipeline, we're still looking at development projects around the 9% mark.

There is one project we are doing, it would be a take out at C of O, so it'd be, it is a brand new memory care project, but instead of us financing it during the course of construction, or during, us financing on balance sheet, we're just doing take out. So that yield probably drops about 100 basis points from our development projects that we're carrying and funding from land acquisition and on the skilled, we're adding one project into an existing master lease, so the yield on that skilled probably is somewhere between 8.25 to 8.5. But again, part of that is the credit enhancement of the existing master lease that we'd be adding it into.

Jordan Sadler
Okay and just on leverage, what's the pro forma leverage if we're through the active pipeline, just factoring in the financings that were recently done, as well?

Pam Kessler
Yes, it's approximately 25%.

Jordan Sadler
Okay, thank you.

Wendy Simpson
That's not including any expansion of the enterprise value.

Pam Kessler
It's not multiple expansion, but it is increase in stock price.

Jordan Sadler
That's debt to enterprise value?

Pam Kessler
Debt to EV, yes.

Jordan Sadler
Do have a debt plus preferred to EBITDA number, by chance? I can do that.

[multiple voices]

Pam Kessler
No. Oh, I have a debt to normalized EBITDA, it would still be under 5x.

Jordan Sadler
Okay, under 5x.

Pam Kessler
Yes.

Jordan Sadler
Okay, thank you.

Wendy Simpson
Thank you.

Pam Kessler
Yes.

Clint Malin
Thank you.

Operator
Our next question comes from Michael Carroll with RBC Capital Markets. Please go ahead.

Michael Carroll
Thanks. Clint, can you explain the $10 million incentive fee that you mentioned in your prepared remarks?

Clint Malin
Sure, as I mentioned, the occupancy on the portfolio right now, at end of June 30, was 70%. So there is a turnaround aspect to this portfolio and it really was a means of incentivizing Senior Lifestyle that they could recognize value creation for the time and effort they're putting into turning around improving performance at these properties. So it really effected like an earn out, is a way to look at it.

Michael Carroll
So then, if they achieved the incentive fee, then the initial yield on this investment would drop to about a 6.1% or would you get additional?

Clint Malin
We're getting an incremental yield.

Wendy Simpson
It goes into the, they pay rent on that.

Clint Malin
Yes, there's an incremental, there's a return to us on that.

Michael Carroll
Okay, great and then what did they have to achieve to receive that and what's the occupancy levels?

Clint Malin
Well, it would be based on a coverage metric, which they have to go ahead and achieve on that and it would be 1.2x, I think. Brent, is that correct on this one?

Brent Chappell
Yeah, 1.2x coverage but that's got to be seasoned and matured over a period of time, it can't be just a onetime hit of that and then have it drop down below and it's available in increments so they can't take down the whole amount at one time because we want to make sure that it is sustainable performance at these properties before we deploy additional capital toward the investment.

Michael Carroll
Okay, great and what's the coverage ratio on the Prestige loan now after you give them the $40 million of additional proceeds?

Clint Malin
They're continuing to make improvements in operational performance and efficiencies, they are increasing contracts with managed care providers, so we are looking, right now we're at 2x coverage on the existing portfolio without the $40 million, so with the $40 million included, it's probably going to be around, I think, other performance levels, but probably in the 1.5 to 1.6 range.

Michael Carroll
Okay and then they're using that $40 million to reinvest back into the portfolio?

Clint Malin
They will probably use some of that to redeploy back into the portfolio, yes. I mean, there's not a restriction, specifically, that they do that. We made initial $12 million commitment as part of the original loan for capital improvements, which they are continuing to put into the buildings, and then we also made a $20 million commitment to replace two of the, or at least expand and replace two of the properties. So I'm sure they will utilize a portion of those proceeds, but there's no specific restriction that they deploy that into the properties.

Michael Carroll
Okay and then, finally, Pam, can you kind of give us an upbeat on the earn-outs from the Senior Lifestyle and the Veritas leases related to the former ALC asset? And when should we expect those earn-outs to really hit your P&L?

Pam Kessler
Oh, you mean the additional rent?

Michael Carroll
Exactly, yes.

Pam Kessler
Yes, we are still projecting that in next year, to begin next year. We've had a little bit this year, but it's not significant so you haven't really noticed it. But those properties are performing better than we had pro forma-ed them so we expect, next year, to receive more significant percentage rent from that.

Michael Carroll
Great, thank you.

Wendy Simpson
Thank you.

Operator
Our next question comes from John Roberts with Hilliard Lyons. Please go ahead.

John Roberts
Morning, Wendy.

Wendy Simpson
Good morning, John.

John Roberts
You mentioned those of us who have been following your company for a while and, historically, you stayed away from the spread investing that a lot of your peers have done, lower yielding, etc., and you targeted just the smaller one off portfolios with much higher yields.

Wendy Simpson
Mm hm.

John Roberts
Are you changing strategy at this point, targeting more larger portfolios, more spread type investments at this point?

Wendy Simpson
It's not a target, it's an opportunity that we were looking at. If you're thinking about the deal with SLC, it's a very strong relationship we have with SLC. We're in a unique situation, I think, in the terms of our very, very low leverage. It's not a real change in strategy, I'm not a big believer in growth for growth's sake, but this made sense to us and it's got such a nice upside that we thought, one, it was the private pay industry, two, as an operator we really liked, three, we had certainly low cost leverage for something like this to add to our portfolio, but not to change our strategy.

John Roberts
Okay and, Clint, looking at the $150 million you've got with the five properties under LOI, any discussion on the cap rates yields you're expecting on those investments?

Clint Malin
Sure, well, it's actually five transactions, it'll be a total of nine properties.

John Roberts
Okay.

Clint Malin
For the pipeline. Again, the yields would be, on average, 9% on development projects, 8% on development projects that were coming in at basically take out financing at C of O and leasing to the operator at that point, and the skilled nursing yields are between 8.25 to 8.5, and the assisted living and that would come in around 7.5.

John Roberts
Okay, so what percentage, say, or development versus skilled nursing?

Clint Malin
Development is, in that number, is 17%, approximately 20%, and acquisition will be approximately 80%.

John Roberts
Okay, very good, and on the G&A, Pam, is that number a good run rate for next year, as well, or are you expecting another tick up?

Pam Kessler
I would say it's a fairly good run rate. I mean, I would probably tick it up between, somewhere between 3% and 5%, but I wouldn't anticipate any huge increases.

John Roberts
Okay, and, Wendy, you mentioned you may get an increase in guidance next talk, is that around the five transactions under letter of intent?

Wendy Simpson
Yes.

John Roberts
Okay, great, thanks.

Wendy Simpson
Thank you.

Operator
Our next question comes from Daniel Bernstein with Stifel. Please go ahead.

Daniel Bernstein
Hi, good morning.

Wendy Simpson
Hi, Dan.

Daniel Bernstein
I just want to make sure I heard right, is there a percent rent of SLC or was that a different transaction?

Clint Malin
There is a percentage rent amount tied to the SLC portfolio above a certain base revenue.

Wendy Simpson
The assisted living, former assisted living.

Clint Malin
Oh, former, there is one in that, as well, yes.

Wendy Simpson
Right, not with this new

Clint Malin
It's on both, it's the new transaction that we announced, $142 million has a percentage rent on it, as well as the previous transaction when we leased the former ALC Enlivant portfolio. So both of those have percentage rent.

Daniel Bernstein
Okay, is it above and beyond the bumps that you mentioned in the press release at 2.75 or?

Clint Malin
Yes.

Daniel Bernstein
Okay, and how's that being computed, computed on revenue or NOI or? I just want to understand the mechanics of that a little better.

Clint Malin
Sure, it's on triple-net lease, so it's on revenues.

Daniel Bernstein
Okay and then, also, we heard some comments earlier today and other calls earlier in the week about some of the REITs may be pulling back from larger transactions, so I just wanted to understand if you think you are becoming a little bit more competitive for large transactions. I know a previous question you answered was that it was more an opportunity than a change in strategy, but are you becoming a little bit more competitive for large transactions? Have you ever seen any pull back in competition for assets and was the SLC transaction previously marketed and then it came back to you? I just want to understand if you're seeing more re-trading of portfolios.

Clint Malin
One thing about SLC was a relationship driven transaction. I've, the one deal we mentioned that's in our pipeline, that has circulated back, so that's an example within our pipeline of where we've seen that happen. I can't say that I've seen where other REITs are pulling back, necessarily, on other transactions because there are larger transactions that are getting completed by some of our competitors. I think pricing still continues to be competitive but, obviously, not knowing where interest rates are going to ultimately go, it's hard to say what people will do but I still see a lot of capital providers that are actively looking at transactions.

Daniel Bernstein
Okay and then, in terms of rate growth in the seniors housing industry, when you think about that, you don't really have any RIDEA portfolios, but when you think about your existing operators and you look at the NIC data, rate growth has not been as strong as the previous cycle in seniors housing. Do you have any thoughts on that? It seems like wage inflation could pick up a little bit at some point, do you worry about that when you're underwriting portfolios at this point or is that not something that's a critical item?

Clint Malin
Well, it's in that we underwrite to be conservative. If somebody's going to pro forma and that they're going to increase rates 5%, 6%, 7%, we're going to question that in underwriting and bring that down to a number that we feel is more realistic. So it's something that we definitely factor in and we're not relying solely upon just high, large increases in rent, going forward on an annual basis. There could be some wage pressure, too, but we're not relying on large rental increases from the operators would be getting from residents.

Wendy Simpson
I think one of the things that provides us with some cushion are our underwriting disciplines and the fact that, if we're underwriting independent living, if we're underwriting skilled, if we're underwriting memory care or assisted living, always include a 5% management fee, which is sometimes a cushion if you're underwriting to add one asset portfolio to SLC. So I think our underwriting criteria provides us with cushion, both in the fact that we underwrite to a healthy

coverage, including a 5% management fee. So it gives us a little more comfort in terms of changes possibly at the top line.

Daniel Bernstein
Okay and then, nobody's really asked about skilled nursing, everyone's focused on your seniors housing development transactions. I just want to ask you, the CMS came out with rate growth of 1.2%, which is a little bit less than what people expected, we got some bundle payment proposals out there that look like, I don't know, maybe long term, they might put a little bit of pressure on post-acute, possibly, opportunity, as well, but when you're thinking about investing in skilled nursing versus seniors housing, have you changed your view at all as to whether the prospects for seniors for skilled nursing has gotten better or worse over the past couple of months? I just seems like there's some pressure out there on the skilled nursing operators, long term, I just wanted to get your thoughts on that.

Clint Malin
Well, I think on skilled nursing, Dan, I mean, the model's going to continue to evolve into a value based formula where you're going to have to demonstrate value add back into system in a cost effective manner. So really, the key on that is focusing on the companies we're partnering with to make investments, to make sure they have capital to deploy back into the properties, as well as technology. So it's really about the operator that we partnering with on these projects. Skilled nursing has always had ups and downs over the years, but I think it plays a critical point in the healthcare delivery system and, as it relates to the increase that CMS passed, our portfolio, obviously, is strong and covers very well. We've not had, I've talked to our operating partners on the skilled nursing side and nobody has indicated, obviously, they would have liked it to be a little bit more of an increase, but we've not had any concerns indicated to us about that.

Daniel Bernstein
And you're not strategically changing the portfolio more toward seniors housing beyond what you've been doing, nothing that we should read into the SLC transaction, as far as tilting more toward seniors?

Wendy Simpson
No.

Clint Malin
No. Still very interested in skilled. When getting in skilled, we're looking at newer modernized assets that are going to be sustainable to participate on a go forward basis as the reimbursement model continues to change and evolve.

Daniel Bernstein
Okay, okay, I'll take it for what it is. Thank you.

Wendy Simpson
Thank you, Dan.

Operator
Our next question comes from John Kim with BMO Capital Markets. Please go ahead.

John Kim
Good morning, I was dropped out of the call, so I apologize if these have already been asked, but I think, Pam, you mentioned that there was a write down or impairment of a loan. Can you just describe what the catalyst for that was?

Pam Kessler
Yes, it's not a write down or an impairment, it's, basically, there are two types of reserves that are required by GAAP. One is a specific reserve and that's when there are indications that a reciprocal is not 100% collectible, that is not this type of reserve. This a general reserve that's required to be estimated whenever you originate a loan or a receivable balance, you are required at the beginning to estimate, based on historical experience or known trends, general non-specific, what's the estimated non-collectible.

We, based on our 20-year experience, use a 1% estimate, although our experience rate has been less than that. So every time we originate a loan or record straight line rent receivable, we have a 1% reserve on it and that reserve is reversed back into the income statement as the receivable balance is paid off. So you see in our provision for loan losses, in some quarters, it's actually an income number, it's got a bracket around it. But because we originated a loan this quarter, it's an expense, and it's noncash and that's what we've added back to come up with normalized, to calculate normalized FFO. It was the same when we originated the Michigan loan two years ago, we took a 1% reserve on the origination.

John Kim
So the borrower is current on interest payments and you expect the full principal amount to be repaid?

Pam Kessler
Yes.

John Kim
And then, Clint, I think you mentioned on Brookdale, the 1.86, I just wanted to clarify, that was EBITDAR coverage LPM as of the second quarter?

Clint Malin
As of the first quarter trailing 12 EBITDAR after a 5% allocated management fee.

John Kim
Can you describe what the second quarter was like?

Clint Malin
The second quarter for, just a second, actually, we're just receiving their financial statements, so we don't have that on the second quarter information available yet.

John Kim
So how would you describe the operations of the Brookdale assets that you own?

Clint Malin
Brookdale has been performing at these properties consistently at this coverage metric and occupancy for years.

Wendy Simpson
Years.

Clint Malin
So what we're seeing in our portfolio, I know there's a lot of chatter out there on Brookdale's calls and on other recalls regarding performance levels and we, obviously, are monitoring and paying attention to it, but the performance level here has not changed from where it's been over the last two years.

John Kim
Okay. Question on the ATM, can you just remind us how you will determine how you use it or when you use it? As far as what metrics you look at, do you look at NAV or AFFO yield or what price will you utilize it?

Wendy Simpson
Well, I wouldn't put a price out there and when we would use it. We'd use it when we see our pipeline going, the shadow getting fainter and fainter and becoming much more positive that we are going to do the deals. So we'll use it to maintain our debt to enterprise value metrics and we'll use it when the price is, I think, advantageous to us. We've had an ATM in the past, it was several years ago and it was prudently used. I think you see our experience, we've not in the past been heavy users of an ATM.

John Kim
Right, but if it's debt to enterprise value, that's relying on your share price so it becomes a little circular, I suppose? I'm just wondering if there was another metric that you look at.

Wendy Kim
Yes, we also look at debt to normalized EBITDA and we look to keep that around 5x, which is very conservative in our healthcare world.

John Kim
Okay and then, finally, I have a question on Slide 5, footnote 4, it's relatively minor but I just wanted to clarify. The $2.6 million doesn't quite match up to the stated interest rate of 9.4% on $40 million and I just wanted to know if there was something about this loan, as far extending it, if there was a higher rate or something that we're not seeing.

Wendy Simpson
Slide 5, footnote 4, you said?

John Kim
Yes.

Wendy Simpson
Um, mine, that relates to a memory care property but you're talking about the Michigan loan, it sounds like, at 9.4.

John Kim
Yes.

Wendy Simpson
The cash yield on it is 9.4, it was for five years, that rate, and then the step ups start. So that's the cash rate, the GAAP rate is obviously higher because it takes the stream of income over the period of the loan and straight lines it, essentially.

John Kim
Okay.

Wendy Simpson
I'm sorry, so that's what's going on there, if you're looking at a difference between the cash rate and the GAAP rate.

John Kim
Got it, okay, thank you very much.

Wendy Simpson
Yes.

Pam Kessler
Mm hm.

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

CONCLUSION

Wendy Simpson
Thank you, Katherine, and thank you, all, for joining us today, I know it's a busy day for earnings calls. We look forward to talking to you at the end of our third quarter. Thank you very much.

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