# LTC Properties, Inc.

## 1Q18 Analyst and Investor Call

## Thursday, May 10, 2018, 8:00 AM Pacific

**CORPORATE PARTICIPANTS**

**Wendy Simpson** - *CEO*

**Pam Kessler** - *CFO*

**Clint Malin** - *CIO*

## PRESENTATION

**Operator**
Good morning and welcome to the LTC Properties First Quarter 2018 Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad. To withdraw your question, please press "*" then "2."

Before management begins its presentation, please know that today's comments, including the question and answer session, may include forward-looking statements subject to risks and uncertainties that may cause actual results and events to differ materially. These risks and uncertainties are detailed in LTC Properties' filings with the Securities and Exchange Commission from time to time, including the company's most recent 10-K dated December 31, 2017. LTC undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after the date of this presentation. Please note, this event is being recorded.

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

**Wendy Simpson**
Thank you, operator, and hello, everybody. Welcome to LTC's 2018 first quarter investor call. Joining me today are Pam Kessler, our CFO, and Clint Malin, our Chief Investment Officer.

I'll begin with some brief introductory comments, including the sale of our Sunrise portfolio, an update on Anthem, and a slight upward revision of our 2018 guidance. Pam will follow me with a discussion of our financial results, and Clint will provide commentary on our portfolio, pipeline, and operator partner performance. I'll come back with a quick wrap-up before we begin questions and answers.

Earlier this month, we announced the successful closing for the sale of our Sunrise portfolio. As you know, the master lease related to the portfolio expired on April 30, and we had been seeking to re-lease or sell the collection of six senior living centers in Ohio and Pennsylvania. The properties generated good cash flow and are located in strong markets. As the result of a rigorous process to identify a new lessee or buyer, we determined it more prudent to sell the portfolio for $67.5 million and reinvest that capital into newer, more modernized assets. Pam will provide additional details shortly.

Although we did not make any significant investments during this quarter, we funded a new loan with Prestige Healthcare and identified some new, potential opportunities. Clint will provide additional color later in the call.

Next, I'll provide a brief update on Anthem. As a reminder, we anticipate 2018 rent from them to be $5.2 million.

Two Anthem properties in the Chicago area that we had previously discussed as having occupancy challenges have improved. Tinley Park occupancy was 56% at April 30, up from 47% at the end of January. And Burr Ridge, the occupancy has grown to 71% from 67% on January 31. On last quarter's call, I indicated the two Kansas communities operated by Anthem would remain in their portfolio. Anthem has solidified key leadership roles in these communities, which should help position them to gain momentum.

Anthem's Glenview, Illinois memory care community, which opened in December of last year, was 50% occupied at April 30, up from 24% at January 31. The newly constructed community in Oak Lawn, Illinois expects to admit its first resident later this month. As a reminder, that completes our development with Anthem, and now Anthem's entire focus is on profitably operating our portfolio while providing care to their residents.

We are encouraged that Anthem is paying higher rent in line with our expectations and that they have made some progress on occupancy, but we are continuing to work closely with them to make sure they achieve the goals they committed to for 2018.

Before I turn the call over to Pam, I want to provide an update to our guidance for 2018. Assuming no additional investment activity, financing, or equity issuances, FFO is now expected to be between $2.96 and $2.98, per share for the full year, which at the midpoint is a penny higher than our previous forecast.

Now I'll turn things over to Pam. Pam?

**Pam Kessler**
Thank you, Wendy.

NAREIT FFO was $0.75, which is $0.03 lower than in last year's first quarter. The decrease was the result of a reduction in rental income related to properties we sold last year, Anthem's previously disclosed default, and higher interest expense resulting from an increase in net borrowings. This was partially offset by higher income from acquisitions, completed development and capital improvement projects, and mezzanine loans accounted for as unconsolidated joint ventures.

Revenue was down about $800,000 from last year's first quarter, primarily due to reduced rental and interest income. Higher income from unconsolidated joint ventures, which represents income from mezzanine loans, was a partial offset.

G&A expense was generally in line with last year, and as typical, seasonally slightly higher in the first quarter due to the timing of certain expenditures. G&A is expected to be approximately $4.6 million to $4.7 million per quarter for the remainder of 2018.

As Wendy mentioned, we funded a loan with Prestige Healthcare for $7.4 million and committed an additional $1.7 million for the renovation of a 112-bed skilled nursing center in Michigan. During the quarter, we also funded $11.3 million under existing commitments for development and capital improvement projects.

At March 31, we owned three properties under development and two under renovation, with remaining commitments totaling $40.5 million. We also have $17.2 million in remaining commitments under mortgage loans for expansions and renovations on seven properties located in Michigan.

Related to Sunrise, as Wendy discussed, subsequent to the end of the quarter, we sold the portfolio for $67.5 million and received net proceeds of approximately $65 million. We expect to record a gain on sale of roughly $48 million in the second quarter. The immediate use of proceeds was to pay down our line of credit. However, given the nearly $58 million of capital commitments remaining, the proceeds are ultimately being recycled into new assets with a better strategic fit for our portfolio.

During the quarter, we borrowed $24 million under our line of credit to fund the loan origination and capital improvement projects already disclosed. We also repaid $4 million in senior unsecured notes and funded our $0.19 per share monthly common dividend.

We continue to maintain a strong balance sheet with substantial flexibility and liquidity to fund our growth initiatives. Our long-term debt maturity profile remains well matched to our projected free cash flow, which helps moderate future refinancing risk. Additionally, we have no major long-term debt maturities over the next five years.

Currently, after the Sunrise sale, approximately $545 million remains available under our line of credit, $68 million under our shelf agreement with Prudential, and $185 million under our ATM program, giving us a total of $798 million of availability. We will continue to apply our strategic and conservative capital allocation philosophy, which has worked well for us through several real estate and business cycles.

At the end of the first quarter, our credit metrics compared well to the healthcare REIT industry average, with debt to annualized normalized EBITDA of 4.6 times, a normalized annualized fixed charge coverage ratio of 4.7 times, and a debt to enterprise value of 31%. Pro forma for the sale of the Sunrise properties, our debt to annualized normalized EBITDA is 4.3 times, our normalized annualized fixed charge ratio is 4.8 times, and our debt to enterprise value is 29%.

Now I'll turn the call over to Clint for a discussion of our portfolio and pipeline. Clint?

**Clint Malin**
Thanks, Pam.

Our active pipeline is valued at approximately $50 million. We are currently engaged with two potential off-market transactions comprised of four properties with two private-pay operators, both of whom would be new to our portfolio.

The transaction I've discussed before in Oregon comprises the acquisition of an independent living community and the development of an assisted living and memory care community on an adjacent land parcel to create an integrated campus. The second potential transaction is for the purchase of two private-pay memory care communities in Texas, which were built in 2014 and 2015, respectively. The communities include a total of 84 units, comprised of both private and companion-suite accommodations. We are selectively looking at stand-alone memory care in certain markets where we can work with a well-capitalized operating partner and where there is a solid potential for relationship growth.

Additionally, we are continuing to cultivate several off-market opportunities, both with existing operator partners and with companies that can expand operator diversification within our portfolio. As I mentioned last quarter, off-market opportunities take a bit longer to complete, so they are not included in our active pipeline. We are exercising patience while we continue to identify new opportunities. We feel good about LTC's position and ability to attract new investment opportunities, which should help us grow well into the future.

On the heels of the sale of the Sunrise portfolio, we recently began the process of either selling or re-leasing two properties in California. These properties are assisted living communities operated under a master lease that is expiring at the end of November. The operator has notified us they will not renew the lease, but the communities do generate positive net operating income. While both re-leasing and selling the properties are viable alternatives and the properties are in good condition, they are approximately 20-years old, so we believe considering a strategic recycling of capital on these assets is a prudent consideration. We have engaged an intermediary to assist us with the process, and anticipate completing a sale or having a new lessee in place by the lease expiration.

We will continue evaluating our portfolio to find additional, strategic opportunities, and as I've mentioned before, future asset sales are likely to be single assets or small portfolios as we don't foresee the opportunity for any additional large portfolio sales in the near future.

I'll end my comments with a discussion about our current portfolio. Last quarter, I mentioned quarter-over-quarter census declines at two properties in the Thrive master lease. I'm pleased to report the Corpus Christi, Texas community has improved to 67% occupancy at April 30 from 57% at January 31. Also, occupancy at the Louisville, Kentucky community increased to 75% from 73% over the same period of time. Since December 31, 2017, all properties in the Thrive master lease have experienced occupancy gains with the exception of their memory care community in Jacksonville, Florida. At April 30, occupancy was at 54% compared with 63% at December 31, 2017. As a reminder, both the Jacksonville and Louisville communities were transitioned to Thrive's master lease in the fall of 2017. We continue to actively monitor our portfolio with Thrive and are engaged with them as they progress through the lease-up of the six communities in their master lease, which have opened at various times during the past three years.

This quarter we are reporting pro forma portfolio statistics which exclude the Sunrise portfolio due to the sale. As a reminder, these metrics are reported one quarter in arrears and represent approximately 85% of our fourth quarter trailing 12-month cash rent. Q4 trailing 12-month EBITDARM and EBITDAR coverage, using a 5% management fee, was 1.46 times and 1.24 times respectively for our assisted living portfolio and 1.83 times and 1.33 times respectively for our skilled nursing portfolio.

While coverage in our assisted living portfolio was stable, our skilled nursing portfolio coverage declined by five basis points from the previous quarter. A decline in revenue for three of our operating partners is the primary driver for the coverage degradation in our skilled nursing portfolio. The revenue reduction was a combination of declines in both Skilled and Medicaid census. In some cases, these operating partners were not able to manage down cost in tandem with the census declines. As an offset to the downward pressures going forward, one of our operating partners is anticipating Medicaid rate increases later in the year. Additionally, the proposed 2.4% Medicare rate increase beginning October 1, 2018 should be a positive impact to our operators. We are continuing to engage with our operating partners on a regular basis to monitor their performance through this current environment.

Now, I'd like to turn the call back to Wendy.

**Wendy Simpson**
Thank you, Pam and Clint.

As you've all likely heard by now, there has been an industry-wide drop in senior housing occupancy, with average rates falling to a six-year low according to NIC, including a 90-basis point decline from last year's levels. In fact, the most recent NIC report did not provide much good news for our sector. However, we all know that the long-term demographic trends remain strong.

I believe LTC has managed well through this challenging seniors housing environment. We have remained highly disciplined, innovative and well-funded, being careful not to make investments that are not real value add to LTC. We could grow for growth's sake, but that's not LTC's style. We are measured, strategic and conservative in everything we do, and that framework has served us well.

We plan to continue along the same path of meeting the needs of our operating partners through financing flexibility and creativity, while maintaining a steadfast focus on sound investing. If it takes us a bit longer to complete deals in this environment, we're okay with that, knowing that when we enter into a transaction it will be one that benefits not only our partners but the shareholders of LTC.

As I say on every quarterly call because I feel it is important to reiterate, we have built a portfolio to generate FFO through 2018 and beyond. We are well capitalized, and we successfully have demonstrated our ability to provide creative ways to add value for our partners and our shareholders. And we will continue to focus on the needs of our partners, while continuing to drive long-term value through a culture of trust, transparency and shared success.

Thank you for joining us today. We will now take your questions.

**QUESTION AND ANSWER**

**Operator**
Thank you. At this time, if you would like to ask a question, you may press "*" then "1" on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2."

And our first question will come from Jordan Sadler of KeyBanc Capital Markets.

**Jordan Sadler**
Thank you and good morning. I wanted to just touch base on the gain on the Sunrise assets. I think, Pam, in your commentary you said initially you paid down the line, and then you'll use ultimately the proceeds to fund some of the remaining capital commitments. But, just from a tax perspective, can you maybe elucidate the point how that capital gain will fit within your overall distributions requirements for the year? Will there be any 1031 activity, or is this going to be absorbed through a dividend increase or special or what?

**Pam Kessler**
Hi Jordan. We're not anticipating any special dividend. We have room in our dividend to support more sales without necessitating a special dividend. So, no, we're not contemplating that in any of our sales transactions this year.

**Jordan Sadler**
Okay.  And no 1031s, obviously?

**Pam Kessler**
No.

**Jordan Sadler**
Okay, okay.  And I guess--I don't know if it's too technical, but I thought this gain is well over $1 a share, and your current dividend is certainly 2.25 or thereabout.  Would this put upward pressure on you guys to increase that normalized dividend this year, or there's enough room because you're--relative to your operating cash flow?

**Pam Kessler**
Yeah, there's room.  This does not--this sale doesn't alter our dividend policy for the year.  As you know, we target an 80% FAD payout ratio, so we're comfortably within that for this year.

**Jordan Sadler**
Okay.  And then separately, Clint, you spoke to the $50 million active pipeline.  The cap rates that you'd be targeting on the memory care facilities in Texas and then in Oregon?

**Clint Malin**
We're looking in the 7 to 7.5 range.

**Jordan Sadler**
Okay.  And the last one, Clint, for you is just on the expiration in November.  What is the rent and the coverage on those facilities today?

**Clint Malin**
The rent on these facilities is [unintelligible].  You want cash rents or do you want GAAP rents on those two buildings?

**Jordan Sadler**
Yes.  I guess--.

**Clint Malin**
--I have the--so, right now, on the cash rents for these two buildings, it is on the trailing 12 about 3.2 million.

**Jordan Sadler**
3.2. I assume the GAAP is lower?

**Clint Malin**
Correct.  And the coverage on this is right around 1 times.

**Jordan Sadler**
Is that cash coverage?

**Clint Malin**
Correct.

**Jordan Sadler**
Okay.  Thank you, guys.

**Clint Malin**
Thank you.

**Wendy Simpson**
Thank you, Jordan.

**Operator**
Our next question will come from Chad Vanacore of Stifel.

**Chad Vanacore**
Hi, good morning.

**Wendy Simpson**
Good morning.

**Chad Vanacore**
So, really quickly, I missed the FFO guidance - is it right up $0.01, so that’s $2.96 to $2.98?

**Pam Kessler**
Correct.

**Chad Vanacore**
Okay.  And then, Clint, you gave some helpful numbers on the Thrive occupancy gains.  Can you give us some color on how all the margin and expense management on those properties are performing post-transfer?

**Clint Malin**
The margin side, we have some compression on the margins.  As far as--we've mentioned before on the last quarter’s call about on the Louisville community that there was some higher acuity residents that Thrive had to manage down on that, and there has been some utilization of agency labor usage in a couple of the properties.  So, we've been engaged with Thrive and working with them, and they're working to make sure they're managing that down.  So, the transition of buildings does take a little bit of time to go ahead and accomplish.  We've seen that in other circumstances.  And I think we've been working, and they're managing through, they're aware of it.  I think they're--we're making progress on those.

**Chad Vanacore**
Okay, great.  That’s it for me.  Thanks.

**Clint Malin**
Thank you.

**Operator**
And next we have a question from Michael Carroll of RBC Capital Markets.

**Michael Carroll**
Yeah, thanks. Clint, can you provide a little bit more detail on the three tenants that you mentioned that weighed down coverage results. Where are their coverage ratios at right now, and are they implementing other types of policies to help improve their operating performance, or they're just waiting hoping for Medicaid and Medicare rates to increase?

**Clint Malin**
Sure, good question. We haven't given coverage by specific operator, but in the case of one operator in particular, which we've talked about on previous calls, is they did see a decline in Medicare and Skilled Census, which they have taken note of and indicated they probably can do a little better in managing through increasing that Census. And quarter over quarter, for that one operator, we have seen an increase in skilled mix, not back to where it was say probably 12 months ago, but sequentially, quarter over quarter, they made progress on that.

We do have one operator in the portfolio that has definitely made a push for gravitating away from rehab and more towards complex care, pulmonary, cardiac, vent programs, and they've invested a lot of time and capital and resources into that, putting policies, procedures, hiring up, buying equipment. So, they've made that investment, and now they're very pleased with the proposed rule of the PDPM model that would shift reimbursement more towards complex care. So, they're excited about that. Obviously, those reimbursement rates would not take effect until 2019, so that's off into the future, but I think they're making positive steps to gravitate towards that. So, it's one example of what we're seeing with one of the operators.

**Michael Carroll**
And how big are these tenants right now? And has all of the weakness shown through the coverage ratio? Should we expect the coverage ratio to decline again next quarter?

**Clint Malin**
Given the, I mean, the tick down, obviously, the larger operators that contribute to a tick down on that--so, these are operating companies that are large organizations and have scale, and we might see a tick down possibly in coverage because we've got strong quarters back in 2017 falling off, in a couple of cases, we have maybe a weaker third quarter. But, sequentially, we've seen growth. So, growing coverage again may take a little bit more phase-in. Just as we have strong quarters that are in the legacy part of that trailing 12 if they fall off and you have more challenging courses still remain, it takes a while for coverage to regain.

**Michael Carroll**
Okay. And then I guess, Clint or Pam, maybe you could talk about how many coverage ratios or how many leases do you have right now where the coverage ratios are considered fairly tight? I mean, the average EBITDAR ratio is just above 1.3. I mean, is most of your coverage ratios above 1.2? I guess what's the distribution?

**Clint Malin**
I would say the distribution is--we don't have any large outliers of material rent within our portfolio, so it would fall within that band.

**Michael Carroll**
Okay. Thank you.

**Clint Malin**
You're welcome. Thank you.

**Operator**
The next question comes from Daniel Bernstein of Capital One.

**Daniel Bernstein**
Hi. I wanted to continue down the line of questioning on the SNF coverages and those properties you talked about you that were struggling. Are there corporate guaranties there, given that they're large entities? And if you could talk a little bit about security on those leases?

**Clint Malin**
In one case, we do have a corporate guarantee. Another case, we have the parent company as the lessee. So, it’s a combination of that and different operators. We have a strong security deposit on one, and we've got a corporate entity as the lessee on one, and then we have a strong letter of credit as well as a corporate guarantee on another.

**Daniel Bernstein**
Okay. And those tenants are current on the rent?

**Clint Malin**
Correct.

**Daniel Bernstein**
Okay. And then going back to Sunrise, I just want to understand the--obviously, your peers saw value in the assets and re-leased them, and so I just want to understand the thought process that went through on that sale versus lease for the Sunrise assets and just a little bit more?

**Clint Malin**
We run a very rigorous process engaging bankers to assist in the process. We had options to look at both leasing and sales, and I think for us, given the pricing is attractive for us to look at for the buyer, they had a strong relationship with a company that was growing in that marketplace, and I think it worked well for them to layer this into an existing operator relationship.

**Daniel Bernstein**
Is it also part of a strategy to reduce the age of the portfolio? I know you talked about some additional assets that could be sold later this year that are all 20 years old. So, what’s the strategy to, I guess, improve the age of the portfolio going forward?

**Clint Malin**
It’s absolutely a consideration. I mean, Dan, we've talked about--a number of our last calls about continuing to want to invest and reduce the average age and invest in new and modernized assets. And you can see that by our lease up page in our supplemental, we have--that’s been a strategy of ours. And so, when we have a situation of looking at re-leasing or selling assets, and it comes down to, if we can get an attractive price where we think we can reinvest that capital to bring in newer and modernized assets, we think that strategy makes sense for us. And that’s the same thing we're going to look at on the two buildings that the lease expires at the end of this year, we'll look at pricing and look at lease options, and we'll see what is the best option for us, but it’s definitely a consideration. As assets age, we want to look at how do we continue to reduce the average age in the portfolio. We think that’s a good long-term strategy for us.

**Daniel Bernstein**
How significant was the age of the portfolio in your lease coverages in seniors housing improving versus I think many other REITs have had some deterioration, given the oversupply in the industry, and just want to understand the performance of your seniors housing versus maybe the industry?

**Clint Malin**
As far as the average age, I don't--maybe we have the average age. Right now, we executed on the sale of some of the ALC assets a couple of years ago. We did a follow-up sale on four assets, and we sold the Sunrise asset. So, that alone is 25 properties that were probably all in the late '90 to early 2000 vintage. So, the selling of those assets and then investing in new development on a lot of these private assets, I mean, definitely has changed our average age in our private pay portfolio. And we can get the number to you on the average age, so we can follow up.

**Pam Kessler**
Yeah, I think it's around 12 years as I'm recalling it. It's in one of our prior presentations, but it really is--I don't think that average age is that indicative because we've got a lot of newer assets that are less than five years old, and then we have portfolios that are more legacy and that are 20 years old. So, the mean there is not that meaningful I don't think.

**Clint Malin**
And we do have--we have a portfolio with Brookdale assets, which has very strong coverage, and those were late '90s, early 2000 vintage properties. But, again, those are properties that have very strong coverage.

**Daniel Bernstein**
Okay, okay, I'll yield the floor. Thank you for all the color.

**Clint Malin**
Thank you.

**Operator**
Again, if you'd like to ask a question, please press "*" then "1" at this time.

Our next question will come from Karin Ford of MUFG Securities.

**Karin Ford**
Hi, good morning. Wanted to see if I could get your latest thoughts on where the Anthem lease should ultimately shake out as they continue to make progress on the leasing. Do you think the end of the year is sort of the right time to cease the forbearance and any thoughts on where the permanent rent will ultimately be set?

**Wendy Simpson**
I won't predict the permanent rent. I would--I think we gave quarter by quarter rent last time, and I don't have it in front of me, but I would assume that it would be no less than the fourth quarter run-rate for 2019. We've got to see how well Glenview is doing, which seems to be doing extremely well, and we'll see about Oaklawn. They're on a month by month, quarter by quarter review, so right now, they're showing some increases in occupancy. The industry has had some problems with the last flu season and some not admit periods because of illnesses

within properties. We'll have to see how that has impacted Anthem and monitor it constantly going forward.

And so, like we have in the past when we had to explain ALC, we will keep explaining Anthem and Thrive as they lease up, and we certainly will give you as much color into them as we possibly can. But, to predict where they're going to be by the end of the year, I don't want to go over any more than what we have given for the fourth quarter cash rent right at this moment.

**Karin Ford**
Okay, fair enough. Question for Clint on the investment pipeline - sounds like it's heavily weighted towards senior housing as opposed to skilled. Are you guys looking at skilled within the larger portfolio, or is the goal really to focus on senior housing on the new buys and in new development?

**Clint Malin**
We've always been a supporter of the skilled nursing side. It just so happens that opportunities that we've looked at haven't been a good fit for us on the skilled side. I mean, we would continue to look at it for the right opportunity and the right operating partner, and obviously, we'll look to expand with existing operators in our portfolio. So, it just happened that opportunities haven't come across in the skilled side yet that have fallen into our active pipeline.

**Karin Ford**
Thanks. And then just last one for me--sorry if I missed this, but did you guys give an update as to where your properties stand within the Preferred Care bankruptcy?

**Clint Malin**
We did not give an update on that, Karin, but right now, they are progressing in the bankruptcy. Right now, they have I think June 11 is the date to assume or reject leases. We understand that Preferred Care has filed an extension, 90-day extension for that. We still--mindset in Preferred Care has indicated they would want to assume our leases. I think part of that--the extension of the assumption rejection date relates to the transition of the buildings in New Mexico and Kentucky. I believe I read on Omega's transcript they're working on transitioning I think it's 16 buildings that was referenced on their earnings call that they are transitioning to operators within their portfolio, which should occur in the fourth quarter, I believe, what was mentioned on Omega's call. So, I think that's the gating item to being able to conclude their bankruptcy is exiting the New Mexico and the Kentucky property leases they have.

**Karin Ford**
And they're still fully current on rent, correct?

**Clint Malin**
That is correct.

**Karin Ford**
Thank you.

**Clint Malin**
Thank you.

**Wendy Simpson**
Thank you, Karin.

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

**CONCLUSION**

**Wendy Simpson**
Again, thank you all for spending your time and listening to our presentation.  We look forward to talking to you again early fall.  Thank you.  Have a great day.

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