LTC Properties, Inc.

Second Quarter 2020 Analyst and Investor Conference Call

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CORPORATE PARTICIPANTS

Wendy Simpson, *Chairman and Chief Executive Officer*

Pam Kessler, *Co-President and Chief Financial Officer*

Clint Malin, *Co-President and Chief Investment Officer*

Lynne Katzmann*, Founder & CEO, Juniper Communities*

PRESENTATION

Operator
Good day and welcome to the LTC Properties, Inc. Second Quarter 2020 Analyst and Investor 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. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your touchtone phone. To withdraw your question, please press star, then 2. Please note this event is being recorded.

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

Wendy Simpson
Thank you, Operator, and good morning, everyone. Welcome to LTC's 2020 Second Quarter Conference Call. Joining me today are Pam Kessler, Co-President and CFO, and Clint Malin, Co-President and Chief Investment Officer. I'm also thrilled that Lynne Katzmann, Founder and CEO of Juniper Communities, is joining us as a special guest. We are including on our call an informative session with Lynne, designed to provide insights and an operator's perspective on the challenges caused by the pandemic and the lessons learned while meeting these challenges. I would also like to acknowledge Pam and Clint, who recently were promoted to co-presidents in recognition of the many important contributions they have made to LTC over the years. With me, they share a strong strategic vison of LTC's future. Please join me in congratulating them for these well-deserved promotions.

Before I begin to review our business, I want to thank our operating partners for all they have done for their patients, residents, and employees during the pandemic. They have aggressively dealt with unprecedented challenge over the last several months, while also solving problems creatively and compassionately.

Speaking of creativity, I would like to share this story from one of our memory care communities that recently made national news. After being separated for more than 100 days from her husband Steve, who is suffering from early onset Alzheimer's, Mary Daniels was focused on finding a way to reunite with him. Our operator, ALG Senior, headquartered in Hickory, North Carolina, thought outside of the box and offered Mary a part-time job as a dishwasher. Both Mary and the community are taking this job seriously. She received substantial training on assisted living care and has been tested weekly for COVID-19. Now, after each shift, Mary visits Steve in his room, where they watch TV and lay in bed together holding hands. She uses her paycheck to buy gift cards for the staff in recognition of the very hard work they are doing to care for her husband and others' loved ones.

There are similar stories from many of our operators around the country. In fact, I hope Lynne will share some of her own. We commend them for working tirelessly to provide care where it is needed the most and have confidence they will continue to meet this new normal with diligence, strength, and grace.

Although most states were able to successfully flatten the curve earlier on in the pandemic, COVID-19 cases have spiked around the country, potentially overtaxing our healthcare systems. In our industry specifically, uncertainties remain around PPE, sanitizing supplies, testing, and staffing. Demand for testing has increased, resulting in growing lag times between tests and results, while some testing results have been found to be unreliable. The recent decision by CMS to provide point-of-care COVID-19 test supplies to skilled nursing facilities should help, but, to our knowledge, there is no similar program for private-pay communities.

It is quite impressive to see how our industry has come together during this time. In addition to the work being done by operators, several industry organizations have launched initiatives, including intensive lobbying of Congress for additional relief funding, limited liability protection, and the prioritization of testing, PPE and access to a vaccine when available. They have also engaged PR firms and launched media campaigns in an effort to enhance the perception of our industry and refute recent trends of negative press. LTC is honored to be an active participant in several of these programs.

Moving more specifically to LTC's second quarter results, most directly due to COVID costs and other COVID impacts, we have placed our Senior Lifestyle portfolio on a cash basis as of July 1st due to a shortfall in May and June rent payments. Senior Lifestyle's total quarterly rental obligation to LTC is approximately $4.6 million. For the quarter ended June 30, 2020, we received a total of approximately $1.8 million. In July, we received approximately $1.1 million. While recent rent payments have been trending up, at June 30th, Senior Lifestyle owed us $2.8 million for the second quarter of 2020, which is reflected in our receivable balance as of that date and is covered by an undrawn letter of credit that we hold. In cooperation with Senior Lifestyle, we are evaluating our options for the portfolio, which may include seeking new operators for the 23 properties and/or pursuing sales of some of the 23. A split of the portfolio among several different regional operators, some of whom could be new to LTC Properties, provides an opportunity to reduce portfolio concentration, while building relationships with operators new to LTC with whom we can grow.

We have proactively managed operator concentration in our portfolio. Our current Senior Lifestyle is one of only two operators where income and asset concentration exceeds 10%. Not surprisingly, the quarter has been quiet with respect to new investments. However, we are continuing to court potential operating partners and evaluate structured finance opportunities, which typically have shorter investment durations, and we believe offer better risk-adjusted returns in today's market.

While the market still remains uncertain with respect to 2020, the foundation we have built will serve us well when restrictions loosen and we can again actively engage with potential acquisition candidates. Being well capitalized allows us to more quickly step into situations than some other financing sources. Although I believe that it is unlikely we will close any major transactions in 2020, I also believe that LTC will continue to play a strategic and important role in seniors' housing and care financing over the long term.

As we discussed last quarter, we are not giving 2020 FFO guidance due to COVID-related uncertainties.

Now, I'll turn the call over to Pam.

Pam Kessler
Thank you, Wendy. As Wendy discussed, we have placed Senior Lifestyle on a cash basis as of July 1. Additionally, we wrote off our straight-line rent and lease incentive balances related to Senior Lifestyle as of June 30. Primarily due to this write-off, total revenues decreased $17.8 million from last year's second quarter. Decreased rent from Preferred Care was also a contributing factor. These declines were partially offset by acquisitions and completed development projects, increased rent from 2019 lease transitions, and higher rent from Anthem.

Interest income increased $469,000 in the 2020 second quarter due to the funding of additional loan proceeds and expansion and renovation projects. Income from unconsolidated joint ventures decreased $128,000 in 2Q 2020 due to mezzanine loan payoff and reduced income from our preferred equity investment and a joint venture with an affiliate of Senior Lifestyle.

During the fourth quarter of last year, we recognized a $5.5 million impairment charge related to our $25 million investment in the joint venture. In the second quarter of 2020, the four properties comprising the JV were sold, as discussed on our last call. Accordingly, we received partial liquidation proceeds of $17.5 million and recognized a loss on liquidation of unconsolidated joint ventures of $620,000. We have a receivable balance of a million dollars related to additional proceeds t hat we anticipate receiving throughout the second half of 2020.

Interest expense decreased $164,000 due to lower outstanding balances and lower intertest rates under our line of credit in 2Q 2020, partially offset by the sale of $100 million of senior unsecured notes in the fourth quarter of 2019. G&A expense was comparable year over year.

Net income available to common shareholders decreased $18.6 million due primarily to the write-off of Senior Lifestyle straight-line rent receivable and lease incentive balances as well as the loss on the liquidation of our unconsolidated JV.

NAREIT FFO was $0.31 per diluted share for the second quarter of 2020 and $0.75 per diluted share for the same period last year. Excluding the non-recurring items already discussed in the current period, FFO per share was $0.76 this quarter compared with $0.75 in last year's second quarter.

During the 2020 second quarter, we received $17.5 million from the sale of the properties in the JV with an affiliate of Senior Lifestyle as previously discussed and $2.1 million related to the partial paydown of an outstanding mezzanine loan. We funded $2 million of additional proceeds under an existing mortgage loan with an affiliate of Prestige Healthcare, which is secured by four skilled nursing centers with a total of 501 beds. The additional proceeds bear interest at 8.89%, increasing 2.25% annually thereafter. We also funded $7.4 million in development and capital improvement projects on properties we own, $200,000 under mortgage loans, and paid $22.4 million in common dividends.

At June 30, we owned one property under development, with remaining commitments of $7.4 million. We also have remaining commitments under mortgage loans of $2.7 million related to expansions and renovations on four properties in Michigan.

At June 30, we had $50.4 million in cash and cash equivalents. We currently have over $510 million available under our line of credit and $200 million under our ATM program, providing LTC with total liquidity of approximately $760 million. Our long-term-debt-to-maturity profile remains well matched to our projected free cash flow, helping moderate future refinancing risk, and we have no significant long-term debt maturities over the next five years.

At the end of the 2020 second quarter, our credit metrics compared favorably to the healthcare REIT industry average, with net debt-to-annualized-adjusted EBITDA for real estate of 4.3x and annualized adjusted-fixed-charge-coverage ratio of 4.9x, and a debt-to-enterprise value of 32%.

The effect of the economic fallout from COVID-19 on the real estate capital markets has resulted in our debt-to-enterprise-leverage metrics being higher than our long-term target of 30%.

However, at 4.3 times, we are still comfortably below our net debt-to-annualized-adjusted EBITA for real estate target of below 5 times.

I'd like to quickly discuss rent deferrals before turning the call over to Clint. For the second quarter, rent deferrals were less than a million dollars, or approximately 2% of second quarter rents. Approximately $277,000 of this deferred rent has been repaid. Accordingly, at June 30, there were $653,000 in rent deferrals outstanding, or about 1.5% of rent. In July, we received two deferral requests from operators and granted one in the amount of $80,000 for July and the other totaling $280,000 for August and October rent.

Now I'll turn the call over to Clint.

Clint Malin

Thanks, Pam. I will cover several items today, starting with our Brookdale renewal. Our Brookdale leases, which cover 35 properties in eight states, are the only significant lease renewals through 2022. Given the uncertainties caused by COVID-19, we agreed to extend the maturity date by one year to December 31, 2021. In consideration for the one-year extension, Brookdale agreed to consolidate the four leases we have with them into a single master lease whereby all properties must be renewed together. Brookdale now has three renewal period consisting of one four-year renewal option, one five-year renewal option, and one ten-year renewal option. Brookdale's notice period to exercise its first renewal option will open January 1, 2021 and close on April 30, 2021. The economic terms of rent remain the same as the consolidated rent terms under the previous four separate lease agreements. We have extended a $4 million capital commitment to Brookdale, which is available through December 31, 2021, at a 7% yield.

Moving to our developed projects, as I mentioned last quarter, construction was completed on our assisted living memory care real estate joint venture project, with Fields Senior Living in Medford, Oregon. Fields has received its license to operate, is conducting tours, and plans to open in the fall. Our development project with Ignite remains on track to be completed in the fall.

Next I'll discuss our portfolio numbers. Q1 trailing 12-month EBITDARM and EBITDAR coverage, using a 5% management fee, was 1.39 times and 1.17 times, respectively, for our assisted living portfolio and 1.76 times and 1.31 times, respectively, for our skilled nursing portfolio. Excluding Senior Lifestyle from our assisted living portfolio, EBITDARM and EBITDAR coverages increased to 1.49 times and 1.26 times.

I'd now like to provide some occupancy trends in our portfolio. This data is as of July 17th. For our private-pay portfolio, occupancy is, as of that date specifically and for our skilled portfolio, occupancy is the average for the month to date. Because our partners have provided July data to us on a voluntary and expedited basis before the month has closed, the information we are providing encompasses approximately 72% of our total private-pay units and approximately 93% of our skilled nursing beds.

For additional context, we are also sharing comparative information about occupancy as of March 31, 2020 and June 30, 2020, for the same populations used for the July data. Private-pay occupancy at Mach 31 was 83% and 77% at June 30 and July 17th. For skilled nursing, average monthly occupancy for the same dates, respectively, was 80%, 72%, and 71%.

I'll finish my remarks today with some brief comments on deal flow. While the market remains constrained and there are still complexities to be worked through, we are seeing some interesting opportunities and our business development team is continuing to actively source new deals. By analyzing where we believe the market is headed, we are positioning LTC to be ready to strategically deploy capital as soon as practical and beneficial for us and for our shareholders. We believe that our strong and flexible balance sheet is a competitive advantage. Right now we see better opportunities in structured finance products such as preferred equity investments, mezzanine loans, bridge loans, and unitranche loans for their shorter duration and what we believe to be better risk-adjusted returns in today's market.

Over the longer term, we are continuing to build and enhance operator relationships so that when the time is right, we can return to more standard acquisition and development investments that meet our underwriting criteria and create or enhance growth oriented partnerships with strong regional operating companies. At this time, however, we cannot accurately pinpoint when these type of transactions will resume.

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

Wendy Simpson
Thank you, Pam and Clint. As I reflect back on the quarter, it was encouraging to see some signs of progress as our operators and the seniors' housing and care industry aggressively addressed pandemic-related challenges. LTC is continuing to provide support as needed as our operators now have to deal with the repercussions of the recent spike in COVID cases.

I continue to believe that more and more opportunities will be available to LTC and that we stand prepared to act on them when the time is right.

Now it's my pleasure to introduce Lynne Katzmann, Founder and CEO of Juniper Communities. Lynne started Juniper in 1988 and has grown the company to one of the premier regional senior living companies in the United States. Today Juniper operates 21 communities in three states — Colorado, New Jersey, and Pennsylvania. Of these 21, Juniper leases two in Colorado and three in New Jersey from LTC. These include all care levels, from independent living to memory care to skilled rehabilitation centers. Juniper's mission of nurturing the spirit of life is visible in their physical environments and experienced through their signature care programs.

After Lynne's presentation, we will open the lines for questions. Please take into consideration that Juniper is a private company, and while Lynne may provide some financial-related data in her prepared remarks, please refrain from asking financial questions regarding Juniper's balance sheet or operations. Welcome, Lynne.

Lynne Katzmann
Okay. Thank you, Wendy, and thank you, Clint and Pam. I apologize. Today I'm going to be talking about COVID-19, the impact of COVID-19 from an operator's perspective, and, as Wendy said, Juniper's property spans the continuum; however, today I'm going to be focusing primarily on the AL and memory care experience during COVID.

To summarize my comments briefly, I want to let you know that I want to share with you an understanding of COVID-19 and its impact on senior housing through a chronology of events. I want to talk with you about out June 1st COVID-19 journey, our strategy as well as a three-phased approach to the pandemic. And, lastly, I'd talk — I'd like to share with you some of the lessons I believe we've learned.

First, I want to talk about the COVID-19 reality. The CDC issued its first public alert to the U.S. on January 8th of this year. The first death in the U.S. occurred at Evergreen Healthcare Center in

Kirkland, Washington, on February 29th. On March 11, there were 1100 confirmed cases in the U.S., and it was on that day that the WHO declared COVID-19 to be a global pandemic.

On the next day, on March 12th, the Health and Human Services group placed their first order for N95 masks. At the time, they expected delivery around the end of April. By the end of March, there were 164,000 confirmed cases, with over 3,100 deaths. Four months later, as you all know, we stand at 150,000 Americans dead, with just 1200 — with an additional 1,200 being added yesterday. So the extent of this pandemic is huge, and the timeframe in which this has happened is incredibly short, which has made it that much more difficult for all of us, but especially operators who care for chronically ill older adults to take action.

Juniper's COVID-19 journey, as I said, has three phases. One, we call the crisis phase, which started in March, late March and went through May. Phase 2 is what we are calling our path forward or the beginning of recovery, and Phase 3, which we have not yet experienced, is what we're dubbing the new normal.

I want to now tell you a little bit about our 30,000-foot view of our strategy. Our goal has been to keep our residents and our associates healthy and safe, and our approach has been one which we consider to be proactive and has involved primarily a testing and infection control policy. Part of our strategy has evolved because of our understanding of what successful countries have done, other successful countries have done in combating COVID and looking at the infection-prevention strategies which have lent them more success. Among those are Germany and South Korea.

Our crisis management strategy included four key points. The first was testing, contact tracking and isolation, where we defined the problem, identified our risk, and implemented protective actions that related to what we had identified. Our second piece of our crisis management process related to stepped-up infection control practices, which included everything from hand washing and social distancing to cleaning and disinfecting and, most importantly, the proper use and availability of personal protective equipment, or PPE. The third part of our strategy involved associate training and support, particularly to assure widespread adoption of appropriate practices. And last, but certainly not least, was a new system to ensure enhanced accountability and to document results.

As I said before, our testing strategy was patterned after South Korea, which used a test early and universal strategy, regardless of someone's symptoms. We used — we initiated testing in late March. We used a private lab, and our decision was to test all residents and associates, not just those with significant symptoms — substantially different than what was happening at the time. We started by testing in hot spots in two communities, both of which were LTC properties, one in Colorado and one in New Jersey. Roughly 50% of the people tested were positive, but most notably, of these, 70 to 94% were asymptomatic — 72% of residents, to be specific and 94% of our associates. This is hugely important, because it told us that this disease was transmitted without someone having symptoms and that despite what we were being told by the CDC, we needed to do more.

Juniper used that information to put together what we considered our battle plan, which we believe has been fairly successful. I want to also note that the majority of our communities tested 100% negative, and in those communities, what we did is essentially sheltered everyone including our staff in place. A fun example of this was something we call Camp Wellspring, which took place in memory care, and, as many of you may know, memory care residents are harder to isolate. They naturally like to come out of their rooms and oftentimes wander, and so isolating them individually in their suites is often more difficult.

By creating a safe environment by sheltering in place, by creating small cohorts, we were able to keep people safe and healthy. More importantly, or equally importantly I should say, is that we created a fun environment, one which had tremendous positive impact on our residents and our team members as well as their families. We created an RV camp in our parking lot, and each of the cohorts' — cohorts are like neighborhoods, and so we assigned staff to each of those — neighborhoods, they were not allowed to go to other parts of the building, so similarly, they had to shelter outside of the building in their time off in a distinct location, and we created those. At the end of the day, you — many of our residents felt that they were on vacation. They thought it was great fun, and we've now dubbed it Camp Wellspring. So that's a fun story about that. I will also just note as I'm telling stories that in the communities that sheltered in place, we now have three new babies of women who sheltered in place and gave birth shortly thereafter.

I want to let you know that in terms of testing, right now we are doing viral testing weekly, but the key to this strategy working is rapid, accurate, affordable, and regular testing. Testing affords us the data to keep people who are likely communicable and who can transmit the disease out of the community. That enables us to create a safer environment which keeps everybody healthy, and we've been quite successful in doing that. As of the time we reported to LTC, we have no cases of COVID anywhere in our system among residents and staff.

Moving along, I want to talk a little bit now about some of our other infection control practices and then briefly about staff issues. Infection control practices included stopping non-essential visitors from coming in, screening at the door, taking temperatures of all people, but some of the other things we did include stratifying our residents in terms of risk, understanding their chronic conditions, and monitoring those who were more susceptible to the disease more often. As I mentioned before, we cohorted residents and staff, which was probably one of the more effective measures we took.

PPE, we had an adequate supply. We spent a lot of money on it. One of the more important things we learned is that we had to train people in the use of PPE, and as we all know, wearing a mask is new to many of us; it was to our residents and to our teams, and training people on how to use them, how to put them on, how long to keep them on, how not to touch them, and then doing compliance audits are all extremely important in proper infection prevention.

In terms of disinfecting, we went green, which is something that Juniper has done repeatedly over our 30 years. We used a non-toxic disinfectant which was EPA and FDA approved and utilized foggers to make sure that we disinfected the whole building. The other thing we did that I think was really important, which you may not consider it a direct infection control practice, but we considered it, in fact, a prevention practice, is communication. We communicated early, often, and I believe transparently. As of July 17th, we had communicated 1,980 different times with all of our residence families and their powers of attorney as appropriate. Communication for us, has been critical in getting the support of our teams, of our residents, and our families.

I want to talk briefly about staff issues. One of the things that really impacts all of us as senior living providers is staffing. If someone's sick, obviously they need to be out of the building. If someone's exposed to someone who's sick, they too need to leave. And as such, it meant that in several cases, all of a sudden, within a very short period of time, the staffing you needed was — or your regular staff were no longer available in the same numbers they were before. If you add to that fear, staffing has become difficult, particularly in hot spots. The cost of that staffing has gone up as we've provided appreciation pay, otherwise known as hero pay, and some people call it hazard pay as well.

In addition, personal protective equipment needs to be accessible which we were able to do and use properly. Now, what's the solution to these staffing issues? Well, for us, it was to train all of our available associates to be universal workers; to extend pay when people were sick or exposed, to protect them and their families; to provide appreciation pay, particularly in areas where we had COVID-positive residents; to provide additional incentives for people to shelter in place, to essentially create a bubble around our communities; and, lastly, we used our salespeople as recruiters and found this to be extremely effective in helping us fill empty positions while people were sick.

I want to talk to you now about the second phase, which we call the pathway forward. For us, the goal of this phase is to restore profitability while keeping residents and associates healthy, safe, and engaged. Our approach has been to jumpstart move-ins and implement what we call the five pillars, which in notable Juniper fashion illiterates, so they are prevention, people, program, place, and packaging. Prevention has to do with our testing strategy and infection prevention, including cleaning, disinfecting, and, again, cohorting. People have to do with the schedules for our associates, their assignments, again relating to cohorting and different pay programs. Programming in the pathway forward is about re-opening dining, restoring activities, and perhaps most importantly, establishing safe visitation for families. In terms of place, we were — had been working on making sure there were visible signs that we are beginning to return to normal, while maintaining successful infection prevention and control strategies. And, lastly, under packaging, which you might consider marketing and sales, we focused on message and the delivery of that message.

In terms of driving sales moving forward, I want to tell you a little bit about what we've done and the results to date. In terms of our efforts, we utilize a golden-triangle approach, which includes the executive director, the director of wellness, and the director of sales and marketing. Those three people come together to focus their effort on outreach and in working together, to close sales. We've resituated ourselves' offices, we've changed our tour protocols and moved our model suites to areas which they can be easily accessed without going through other parts of the building. We've created new messaging, we've trained for that, and then we've also demonstrated competency among the appropriate people. We've added additional sales support for targeted communities who had significant reductions in census over the period. We've put together tool kits for rapid move-ins, and we've instituted new rewards.

What have we achieved? Well, in terms of digital leads, which is a major source of leads at this point in time, our July 2020 digital leads are up 33% over April of 2020, and our July 2020 digital leads are up 48% over July 2019. So we are seeing substantial growth in leads. We have put in place some special campaigns and they are working. We've started doing virtual tours; they're catching on. Our communities are now able to do back-stage tours as well as virtual tours, and I'm proud to say that our July 2020 results, while not where they were pre-COVID, we are seeing net census gains and we're very happy about that.

Some of our operator pandemic imperatives that I think you need to know about is that we continue to screen for social isolation issues among our residents. We have expanded Telehealth for mental health care as well, and we've continued to increase access to the Internet and smart devices, and just so you know, we have done over 12,000 virtual visits with families since the start of the pandemic. We've added a variety of different ways for people to meet with their healthcare providers online and have done over 1,400 window visits.

What are the lessons learned? Well, in terms of leadership, vison and the ability to use data to set a proactive course has been extremely important. I think a second lesson learned is that technology is extremely useful and really critical in generating the data and communicating appropriately in times of crisis. Some of the technology that has been — increased in its uses, of course, Telehealth — we've used a variety of ways to communicate with residents' families, and we've used technology to support activities, both social and fitness related. Some of you may have seen the joint effort between LTC and Juniper to develop an industry-accessible virtual connections program, which is — provides a whole host of opportunities for people in our communities at varying levels of care and service need as well as in the community. That's accessible via slvirtual.com, and I thank LTC for that.

I will say that there will, in my mind, be a new model of senior living as we move forward. It may not involve massive restructuring of what exists, but it does involve an emphasis on safety, on dedicated staff, on looking at buildings in terms of small neighborhoods, and increasing social engagement through a variety of ways of integrating what we do with the community at large.

In terms of Phase 3, our new normal, it's a work in progress. We're not there yet. It will involve a variety of different things, including continued use of data — of technology, that is, for data communications; provider access; digital marketing; and residents' engagement. We will continue to integrate health services with other providers outside of our communities. Our neighborhood designs are very important, particularly for cohorting and keeping people safe and giving families and prospective residents an understanding — a visible understanding of how we managed during this type of pandemic. There will be gated entry, where we take temperatures and we screen very tightly over who enters the building, and, of course, cleaning and disinfecting has changed and needs to be visible. So all of those things will be part of our new normal.

And I think that concludes my comments, and I want to turn it back over to Wendy. Thank you.

Wendy Simpson
Thank you, Lynne, and Lynne will be available during our Q&A session, so you can ask her questions about Juniper and about the industry in general. So we'll now open it up to the Q&A.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. Please note 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, 2019. LTC undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after the date of this presentation.

If you'd like to ask a question, it is star, then 1. To withdraw your question, please press star, then 2. At this time we will pause momentarily to assemble our roster.

Our first question will come from Daniel Bernstein with Capital One. Please go ahead.

Daniel Bernstein
Hi. Good morning.

Wendy Simpson
Good morning, Dan.

Daniel Bernstein
Can you hear me? Okay. Good. And just thanks to Lynne for all the color commentary on the operations. I have a quick question for Lynne and maybe LTC as well. Just in terms of how are you thinking about the margins for the business? There's been a lot of talk that maybe margins have been permanently impaired. I know you talked a lot about, Lynne, staffing challenges during this, but how should we think about the margins of the seniors' housing business going forward? Can they come back, or are they somewhat permanently impaired?

Lynne Katzmann
I do believe they can come back. I think that for them to fully be restored, it's going to take time, for two reasons. Number one, obviously we've been impaired both — we have new costs related to PPE and things like testing and additional staffing costs, and on the revenue side, obviously, our occupancy in many places — not in all places — has been impacted. But I do believe that one or two things will help us restore normalcy, if you will, to margins, and I think one of those, obviously, is vaccine, which is effective and utilized wisely. I think the other, frankly, is rapid testing, and I know our experience with testing has created a sense of safety among our staff and also among prospective residents. While there's a cost to that, I do believe that cost will eventually be offset by the government and that margins can return to normal, albeit I do believe it will take some time.

Daniel Bernstein
Okay. I don't know if Wendy or Clint or someone on the LTC side has some thoughts on that in terms of margins, and it may be how you're underwriting assets, or is it just too soon to put a normal number on it, right?

Clint Malin
Sure, Dan. Thank you. I think we think similar to Lynne's projection. It's going to take time to normalize, and what we've said on our last call is, looking at acquisitions right now, it's probably a little more challenging because in the interim, we're not exactly sure what that margin is going to look like. While we focus — looking right now more on structured finance products, but we do think over time — and these are private-pay businesses — there will be normalization of that, and there's going to be this increased sense of security in the environment as far as protocols, staffing, infection control, testing. I think that's going to increase the value perception of the business.

Pam Kessler
Yes, and I would echo what Lynne said about safety. I think the operators that are able to demonstrate a safe environment for seniors, will recover more quickly on the occupancy side.

Daniel Bernstein
Okay. And then turning to Senior Lifestyle, I just want to kind of understand — obviously you were unwinding the JV; that was already known. But I guess we were taken a little bit by surprise by the write-down of the lease. And I just want to understand what warning signs were there, and I know Senior Lifestyle's a much larger operator than just your 23 properties, just trying to understand how much of the non-payment is performance of the assets themselves versus broader struggles at Senior Lifestyle.

Clint Malin
Dan, this is Clint. One thing, we obviously were a little surprised as well. We looked back into April when this — the pandemic was just becoming in the midst of it. I mean, we did offer some deferred rent, as we disclosed, to Senior Lifestyles on that, but also as we disclosed how rent has — was paid in May, June and then trended up in July, at that timeframe, there was a — back in May there was uncertainty regarding securing PPE, staffing costs for hero pay, those were outsized expenses, and, again, in that timeframe, operators were trying to secure PPE not only for the next 30 days. They were trying to get as much as they could, and the per-unit cost associated with that PPE was substantial. When going back and looking at the financial statements during that timeframe, there was definitely a significant increase during the May and June timeframes for hero pay and PPE costs.

Wendy Simpson
And then Senior Lifestyle is a company that they believed in taking their counsel from their legal advisorsin that they could not apply for government support in that program. All of their added costs got taken out of our rent, most specifically. Our smaller operators who were able to get the benefit of support from the PPP program, were able to absorb those costs with that support. Senior Lifestyle just, unfortunately, was in the position that they were unable to get that support.

We do have an agreement with Senior Lifestyle; however, that should that support be forthcoming in the future, and, indeed, the industry is lobbying hard as I said in my comments, any support money they get would come to us to pay for back rent. We do have security on our books for the rent that's unpaid, and their rent is going up, as we indicated. They paid $1.1 million for July, so they're getting closer to their rent. They had one property that they had to close totally because they had a major flooding issue, and they do have insurance interruption policies, we hope that we'll get that money back. There were a lot of things that happened to Senior Lifestyle just as a tsunami type of situation.

Daniel Bernstein
Okay. Okay. And just one quick question. You have $9.9 million from Anthem that you anticipated, but you have some language in the 10-Q that's kind of suggesting that that number might not quite be there. I just want to understand kind of what the expected ramp might be in the second half to pay the full $9.9 million in 2020, if that's the case. Maybe what they paid in 1Q and 2Q, just so I can understand if that — how to — maybe I should think about modeling that ramp.

Pam Kessler
Yes, that was just standard cautionary language around Anthem, because, as you know, we haven't set stabilized rent for them yet, and we were — prior to COVID, we were hopeful to do that at the end of this year. Setting that rent may be pushed back depending on how long the COVID situation lasts, but currently we are projecting that they'll continue to pay as we have disclosed in the supplemental.

Clint Malin
And, Dan, the approach we took in setting rents with Anthem, we didn't want to get into a situation where they were falling backwards, we set the rents based on their projections and allowing — we weren't sweeping all of the cash flow, we allowed them some cushion on that as well as there was — they were growing occupancy.

Daniel Bernstein
Okay. Okay. I'm sure there are a lot of people behind me here, so I'll hop off and let others ask some questions. Thanks.

Wendy Simpson
Thanks, Dan.

Operator
Our next question will come from Connor Siversky with Berenberg. Please go ahead.

Connor Siversky
Hey, everybody. Thank you for having me, and thank you, Lynne, for the comments earlier. That was very helpful. I'm curious about Anthem here as a memory care operator, primarily. How has occupancy or admissions fared for this kind of care versus your assisted living portfolio?

Clint Malin
Hi, Connor, it's Clint. Early on in the pandemic, Anthem did some voluntary admission bans, just trying to get an understanding. As Lynne indicated earlier in her remarks, isolation among memory care residents can be more challenging, we did see because of a self-imposed mission ban on certain communities, that occupancy did come down. But we've actually seen an uptick a little bit on that since they did the self-imposed admission ban. And I would say Anthem falls within the range of what I provided in my prepared remarks as far as occupancy changes. They're not outsized compared to others in the portfolio.

Connor Siversky
Okay. Thanks for that. And then back to Senior Lifestyle, in the supplemental, I think you're expecting about $900,000 per month in rents going forward. I'm wondering in the event that you have to restructure the lease, do you find this to be a meaningful target? And then in the event that you have to dispose of those properties, I know you mentioned net price discovery is a bit of a challenge right now, but how would you address that situation? What would be your strategy to dispose of them?

Clint Malin
We're looking at all options right now regarding the Senior Lifestyle portfolio, between looking at re-tenanting buildings, selling some, it's really going to be a process that solves out as far as what's the best option for us. What you may entail, some buildings remaining with Senior Lifestyle, possibly, we're in that process of identifying potential parties to come in and take over operations on certain buildings. And then we're going to look at an eclectic strategy to see what provides the most benefit for LTC and its shareholders.

Part of that solution could be looking at shorter-duration leases on some buildings, to where we provide maybe more of a rent assistance during a limited time where a new operator can come in and implement changes, and then we can assess that at that point in time to look at what rent would be on a stabilized basis. And this is something we did on two Thrive buildings previously when we transitioned. We did a two-year lease to give the operator one way to look at it, that may be a component of how we look to address re-tenanting some of the buildings with Senior Lifestyle.

Connor Siversky
Okay. And then in a broad sense, looking at rent coverage with and without the contribution from Senior Lifestyle, I know you removed them in one of the footnotes in the supplemental, could you provide any color of how this metric could look with one full quarter of impact from COVID-19?

Clint Malin
Well, right now we have just the one quarter, we've not — that timeframe is evidenced by Senior Lifestyle's costs and the uncertainty with PPE and the hero pay implemented at that time, it's a little bit hard to use that as a trending mechanism going forward. I think looking at that one quarter of coverage, I think is a challenging metric to look at.

Pam Kessler
Yes, and I think for the next couple quarters, coverage is going to be the challenge and reporting is going to create a challenge — or not create, but to have it on the same basis across operators and some who got government assistance and some who didn't, and the different ways that operators might flow it through. Some might show it all at once in revenues; others might bring it in matching increased expenses and decreased occupancy. I'm not sure if the next quarter — if coverage is going to be as meaningful a metric as perhaps it has been in the past.

Connor Siversky
Okay, fair enough. And then the last one for me, wrapping this all together, it seems like you guys are sitting pretty comfortable on that payout ratio. How does your calculus change for the dividend payout in the current environment, or what would it make — what would it take to make you reconsider the current monthly payout?

Pam Kessler
We've kind of targeted this 80% of FAD payout ratio, and that's a conservative metric, and I think in today's environment, we're feeling very comfortable having that conservatism. Even assuming the decrease in Senior Lifestyle rent, the $7.4 million, if you annualize it, we'll still have a $20 million cushion to our current annualized dividend payout ratio, we're comfortable with that. We don't feel the need to make any adjustments.

Connor Siversky
Okay, that's all for me. Thank you very much.

Wendy Simpson
Thank you, Connor. We have time for one more question.

Operator
Our last question will come from Tayo Okusanya with Mizuho. Please go ahead.

Tayo Okusanya
Good morning, everyone. A follow-up on Senior Lifestyle. Is there a reason you guys didn't treat this as for more rent referrals going forward? Like why — what kind of prompted the position to kind of write off AR and move to cash when I think there's so much flexibility in the world right now about how we're dealing with it. Why did you chose to show the rent as delinquent when you could have given more deferral?

Wendy Simpson
It really was a discussion with the operator and what we want to do with that portfolio moving forward. Your question's why we didn't just grant deferrals in May and June versus billing contractual rent? That's your question? Right, Tayo?

Tayo Okusanya
Yes, that's part of the question, yeah, but what's so unique about Senior Lifestyle that kind of this decision was made we're moving to cash rent, but moving implies the process of selling the asset? A bunch of operators right now are struggling because of the COVID backdrop, but I think right now it's — people are kind of working with all of them, deferring rent and doing things like that. This kind of feels like more of a permanent decision around Senior Lifestyle. Is that right?

Clint Malin
Well, I think one factor for consideration is that Wendy made a comment in her prepared remarks about operator concentration and trying to manage that, which outside of Senior Lifestyle and Prestige, we've been able to accomplish that. Being proactive for the company and trying to utilize operator concentration as a risk component, we see being able to bring that concentration down as a positive for the company.

We've not ruled out having Senior Lifestyle stay in some of the buildings. That remains an option, but we think reducing operator concentration long term will be better for the company, we don't have — we're trying to keep concentration if we can below 10%.

Tayo Okusanya
Okay. Is there any chance that Senior Lifestyle feels better three months, six months from now that they could come up to a cash basis and you kind of book your contractual rent, then?

Pam Kessler
For them they'd be on a cash basis for an extended period of time until we had confidence in the collectability of future straight-line rents at the future escalations. But to the extent they were paying their contractual rent in cash, that's what you would see reflected in the financial statements. Yes, if their occupancy reflects a stabilized contractual rent number, then, yes we could — we would reflect that, but we wouldn't be recording the future escalations, I think that's your question, like starting to straight-line again.

Tayo Okusanya
Right. Right.

Wendy Simpson
That would take an extended period of time and collectability surety.

Pam Kessler
The collectability threshold is much higher now, Tayo. I mean, as we know, it's a much higher bar to get that certainty, I wouldn't expect that you would see that for at least a year or so. You would need some good payment history to have that surety.

Tayo Okusanya
Great. And then the last one is for Lynne and Wendy. As leaders in the industry, what if you had a chance right now to speak to the federal government and say, "We need these two things to ensure that the senior housing industry makes it through the pandemic." What are the two really

key things or messages you would love to get across to the government of, “We need A, B and C” to kind of help us get through this?

Lynne Katzmann
This is Lynne. I can take a first stab at that. I think there are several things that I would put at the top of my list. First is funding, funding for a number of things but, in my mind, one of the top priorities needs to be funding for rapid testing and access to that testing. The second thing I would say is that we need to be prioritized for the vaccination when it is available. And, third, I would point to liability protection. I think that that’s going to be a huge issue for the industry moving forward, and the fact that this disease transpired in the way that it did before anyone was really aware of how it was transmitted and how it could be controlled was certainly beyond many people’s ability to control, and that includes us.

Wendy Simpson
Yes, I would agree with Lynne on what is needed – definitely early and accurate and short returns on the testing. And, as Lynne said, we need more support from the government relative to the cost of that testing, and I believe also the industry – not just the industry, but the world needs some protection against the litigation, because we can survive this, we can get back to profitability, and plaintiffs’ lawyers can take us down for instances that nobody could have expected and nobody could have protected against. And I think the litigation proposals are not to eliminate people who have absolutely done the wrong thing. It’s much more to protect people that just didn’t have the ability to predict this type of pandemic. And that’s my political statement for the funding, access, and protection. That’s what we need, that funding, access, and protection.

Tayo Okusanya
Great. Appreciate it, Wendy. Thank you.

CONCLUSION

Wendy Simpson
There you go. Well, thank you all for attending and listening to us, and I look forward to talking to you after the third quarter, and stay well and stay safe. Thank you.

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