Transcript of
LTC Properties, Inc.
LTC Properties, Inc. First Quarter 2024 Earnings Call
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Participants

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Pam Kessler - Co-President and Chief Financial Officer, LTC Properties, Inc.
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Analysts

Austin Wurschmidt - KeyBanc
Juan Sanabria - BMO Capital Markets
Richard Anderson - Wedbush Securities
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Presentation

Operator
Good day, and welcome to the LTC Properties, Inc. First Quarter 2024 Earnings Conference Call. At this time, all participants are on a listen-only mode and a question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded.

Before management begins its presentation, 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 updated -- sorry, are detailed in LTC's Properties' filings with the Securities and Exchange Commission from time to time, including the company's most recent 10-K dated December 31, 2023. 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 call over to Wendy Simpson. Ma'am, the floor is yours.

Wendy Simpson

Thank you operator, and welcome, everyone to LTC's 2024 first quarter conference call. I am joined today by Pam Kessler, Co-President and Chief Financial Officer; and Clint Malin, Co-President and Chief Investment Officer.

In 2023, we completed more than $260 million in investments, all while our team devoted a significant amount of time to optimizing our portfolio. Now after successfully selling $77 million of assets last year and retenanting others, we are concentrating our efforts on producing strategic, long-term and sustainable growth, which is our key focus for 2024. With that in mind, we are evaluating multiple investment opportunities and are confident, we have both the bandwidth and resources necessary to strategically allocate capital to enhance our portfolio and achieve the best risk-adjusted returns for our shareholders. The seniors housing and care industry is on a promising upturn after setbacks related to COVID.

Thanks to favorable demographic trends, improving margins and rising occupancy rates, all signs point to a more robust market. We also are encouraged by the reimbursement landscape, particularly with the anticipated 4.1% increase under the SNF payment rule for fiscal 2025. Reimbursement in several states also is expected to rise. In Florida, where we own seven centers our operators will benefit from an unprecedented 8% Medicaid rate increase, which will result in increased coverage for LTC.

Last week, as expected, CMS issued its final SNF minimum staffing rule. Our industry pushed back on the proposed rule during the comment period with more than 46,000 letters mainly related to the concerns that the mandate is unfunded and that the level of staff required simply does not exist.

According to the American Healthcare Association, 81% of skilled nursing centers do not currently meet the rule staffing requirements. We will continue to monitor the situation and support industry organizations and initiatives to oppose this rule. Looking ahead to the second quarter, we expect FFO and FFO, excluding nonrecurring items to range between $0.65 and $0.66 per share. We also are introducing full-year 2024 guidance, which assumes no additional investment activity, asset sales, financing or equity issuances, but does assume our loan receivables pay off at maturity and includes the rent increase associated with an HMG lease amendment. FFO, excluding nonrecurring items is expected to be between $2.63 and $2.65 per share for the full-year.

Nonrecurring items include the payment of rent related to a property sale in January and $900,000 of credit reserves that get reversed as loans pay off. In summary, as we redirect our efforts towards strategic growth, the entire LTC team is geared up for a highly productive 2024. Now I'd like to turn the call over to Pam.

Pam Kessler

Thank you, Wendy. All numbers I'll discuss today are for the first quarter of 2024 compared with the first quarter of 2023, unless otherwise stated. Total rental revenue increased by $1.8 million due to several factors. First, the receipt of $2.4 million of rent in connection with the sale of a property in Wisconsin in the 2024 first quarter. Second, a property acquisition in Ohio in the 2023 second quarter. Third, more rent paid by HMG and last, annual escalations and other lease adjustments. The increases were partially offset by lower rent related to property sales and operator transitions.

Interest income from sale leaseback financing was comparable year-over-year, but interest income from mortgage loans increased by $1.2 million, principally related to mortgage loan originations in 2023 and the funding of a construction loan in 2024. Interest and other income decreased by $1.2 million, primarily due to the payoff of two mezzanine loans and related exit

IRR and prepayment fee received in 2023, partially offset by income from mezzanine loan origination in the third quarter of 2023.

Interest expense increased by $436,000, mainly due to higher interest rates and a higher outstanding balance on our revolving line of credit, partially offset by scheduled principal paydowns on our senior unsecured notes. Our provision for credit losses decreased by $1.7 million, mostly due to a higher dollar volume of loan originations in the prior year first quarter. Upon origination, we recorded a loan loss reserve estimate equal to 1%, which amortizes as a loan principal is repaid.

Net income available to common shareholders decreased by $8.9 million primarily due to lower gains on sale of real estate compared with last year's first quarter as well as the receipt of exit IRR and prepayment fees in connection with mezzanine loan payoffs in last year's period. This was partially offset by an increase in rental income, higher interest income from loan originations and the lower provision for credit loss. Fully diluted FFO per share was $0.69 compared with $0.66, excluding nonrecurring items, FFO per share was $0.64 compared with $0.67.

The decrease in FFO, excluding nonrecurring items was principally due to dilution from sales under our ATM program, the proceeds of which were used to fund investments and reduce our leverage. During the quarter, we sold a total of six properties in Florida and Texas with 268 combined units and sold our interest in a joint venture in Wisconsin. The combined sales price was $26.3 million. We received proceeds of $25.4 million net of transaction costs and recorded gains of approximately $3.3 million. You can find more details about these sales in the press release we issued yesterday afternoon.

Subsequent to the end of the first quarter of 2024, we sold two assisted living communities in Texas with a combined 70 units that were built in 1995 and previously have been closed. The combined sales price was $500,000 and we received approximately $400,000 of proceeds net of transaction costs. During the first quarter, we funded $2.9 million of a previously disclosed $19.5 million mortgage loan commitment for the construction of an assisted living and memory care community in Michigan. LTC's investment represents 62% of the estimated project cost.

During the first quarter, we sold approximately 139,000 shares of LTC's common stock for net proceeds of $4.5 million under our ATM program. Subsequent to the end of the quarter, we sold approximately 205,000 additional shares of common stock for $6.5 million in net proceeds. Proceeds from the ATM sales were used for investments and to reduce our leverage.

Additionally, we repaid $25.2 million under our unsecured revolving line of credit and repaid $6 million in scheduled principal paydowns on our senior unsecured notes. We also paid $24.6 million in common dividends, marking our 216th consecutive monthly dividend payment, which continued throughout the pandemic when other health care REITs decreased theirs.

Our debt-to-annualized adjusted EBITDA for real estate stands at 5.5x and our annualized adjusted fixed charge coverage ratio was 3.5x. Although our debt-to-annualized adjusted EBITDA for real estate metric remains higher than our long-term target, we anticipate we will achieve this metric by year-end as a result of recent investments, anticipated pay downs on our line of credit using proceeds from loan payoffs and scheduled principal paydowns on our senior unsecured notes.

You can find more detail about our loan receivable maturities on Page 12 of our supplemental. Currently, we have total liquidity of nearly $197 million, including $9 million of cash on hand, $123 million available on our line of credit with $277 million outstanding and roughly $65 million available under our ATM.

Now I'll turn the call over to Clint.

Clint Malin
Thank you, Pam. I'll start my remarks today with recent transactions as well as a few brief updates on some of our operating partners. We have resolved the remaining 10 non-revenue-generating properties discussed on last quarter's call. Three of these properties we re-leased and the remainder were sold. You can find specific details in yesterday's press release. Subsequent to the end of the quarter, we announced the origination of a $12.7 million senior loan to Ignite Medical Resorts, a current LTC operative. The loan, which was primarily funded using our ATM is secured by a skilled nursing and assisted living campus which was built in 2017 and is located in the Houston suburb.

The five-year loan is interest-only at a rate of 9.15%. In accordance with GAAP, we are accounting for the loan as an unconsolidated joint venture, and we expect to generate approximately $884,000 of revenue in 2024. To date, we have managed approximately 80% of our leased maturities through 2025.

First, we executed a term sheet with HMG, whereby we have reached an agreement in principle to amend the mass release covering 11 skilled nursing centers in Texas to extend its term through December 2028. Annual rent in 2024 is $9 million, a $1 million increase over 2023. The rent will increase to $9.5 million for 2025 and $10 million for 2026, escalating 3.3% annually thereafter. The amended master release will provide HMG with two, five-year renewal options with rent in the initial year of the first renewal term adjusting to fair market rent subject to a collar between 2.5% and 12.5%.

As a condition of the amendment, HMG will repay $11.9 million on its $13.5 million working capital note in the 2024 second quarter. On repayment, the remaining balance of the note will be interest-free and will be paid in installments through 2028. Proceeds from this 4% working capital note will be used to pay down higher interest debt or to fund accretive investments. In addition, an operator of five properties not in our top 10, has exercised its renewal option of the master lease for another five years at its contractual rate from March 2025 through February of 2030.

Quickly, occupancy for the Prestige Healthcare loan secured by 15 properties in Michigan was 77% in March 2024, an increase from 73% in the year ago period and up from 75% in January this year. Regarding our assisted living portfolios with quarterly market-based rent resets, we received $525,000 during the first quarter of 2024 and continue to expect to receive $3.3 million in total for 2024.

Now I'll provide insight into our portfolio numbers, which exclude properties transitioned on or after October 1, 2022. Q4 trailing 12-month EBITDARM and EBITDAR coverage for our assisted living portfolio as reported using a 5% management fee was 1.31x and 1.07x, respectively. Excluding stimulus funds received by our operators, coverage is 1.28x and 1.03x respectively.

For our skilled nursing portfolio, as reported EBITDARM and EBITDAR coverage was 1.84x and 1.34x, respectively. Excluding stimulus funds received by our operators, coverage was 1.71x and 1.21x respectively. As a result of occupancy increases and margin improvement, same-store Q4 trailing 12-months EBITDAR coverage has improved from the prior quarter same-store coverage by 11 basis points for our assisted living portfolio and three basis points for our skilled nursing portfolio.

Recent general occupancy trends include private pay occupancy of 88% at March 31, up from 87% at both January 31 and September 30, 2023. For our skilled nursing portfolio, average monthly occupancy grew to 75% in March from 74% in January and 72% in September. The data include approximately 66% of our total same-store private pay units and approximately 87% of our same-store skilled nursing beds.

Our business development team is continuously refining our offerings to meet dynamic customer demands from traditional triple-net leases to structured finance products, including mezzanine loans, preferred equity investments, creative joint ventures and construction and unit tranche loans. We pride ourselves on crafting these customized solutions that cater uniquely to operators' needs, while ensuring any transactions we complete are aimed at further driving shareholder value.

Looking forward, inflation remains somewhat of a wildcard and banks continue to consider their options prior to any decision-making about maturing loans on their books. Regardless, we are building our pipeline with interesting opportunities that are varied by financing vehicle, property type, operator and size.

Now I'll turn things back to Wendy for her closing remarks.

Wendy Simpson

Thank you, Pam and Clint. I'll conclude today with this, LTC is a compelling investment. One, we have consistency of leadership with a successful track record. Two, our monthly dividend is well covered. Three, we have laddered debt maturities matched to cash flow, which reduces refinancing risk. Four, we have built a diversified portfolio balance between skilled nursing and private pay seniors housing, employing various financing structures to provide LTC with a steady stream of income and liquidity and to match our operators' needs.

Last but not least, our smaller asset base makes it easier to drive growth because smaller investments can contribute meaningful accretion. We can achieve significant growth without making a large-scale transformative investments. We recognize that our current stock price multiples is below our historical average. We believe this reflects our focus on asset management initiatives during the pandemic. The majority of our internal resources are dedicated to growth. So our multiples should begin to expand as we demonstrate the conversion of our pipeline to accretive investments.

Thank you, everyone. We appreciate your ongoing support and look forward to talking to you again next quarter. Operator, we're ready to take questions.

Operator
Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions]. Thank you. Our first question is coming from Austin Wurschmidt with KeyBanc. Your line is live.

Q: Thanks. Good morning everybody. Wendy and Clint, you highlighted multiple investment opportunities being evaluated today. Can you share some additional detail around the size and scope of the pipeline and then I appreciate your comment on smaller kind of one-off deals moving the needle, but can you just speak to the competition in the transaction market today?

Clint Malin
Sure. Well, we give a pipeline quote historically, we've given that when deals have near-term visibility and we're building that pipeline and hopefully, next quarter, we'll be able to give more visibility on that. But at this point, we're seeing more opportunities to invest on private pay assets and some select opportunities on the skilled nursing side, such as our recent investment with Ignite for newer skilled nursing assets.

Currently, the inbound skewed towards senior loans, construction loans, mezz and preferred equity investments. But as we see these loan maturities that are coming, we think that will be an opportunity for us to actually look at equity investments and doing sale leasebacks as well as joint ventures.

Q: So I guess what's the appetite to do some of those loan type investments? And what do you think the average duration of those deals are?

Clint Malin
We definitely have appetite to do. We definitely have appetite, and it's going to be, I would say probably somewhere in the three to five year range.

Q: Got it. And then just from a funding perspective, I mean how are you thinking funding to pick up in investment. Should we expect that you'll over equitize those and further drive down that or kind of hang in around [Technical Difficulty].

Wendy Simpson
We will equitize. Austin, we will use equity.

Q: Understood and thank you.

Operator
Thank you. Our next question comes from Juan Sanabria of BMO Capital Markets.

Q: [Technical Difficulty] sounds like it's still skewed towards loans if you can kind color on cap rate that would be great.

Clint Malin
Sure, Juan. Your line is cutting out a little bit. But I think regarding cap rate, I mean, right now, we're looking at on new investments in the 9% range, plus or minus, depending on whether it's yield loans or owned assets for mezz and preferred equity, there's usually around a 9% target rate that would go with an IRR exit around 12%.

Q: Thanks and then hoping you can give a little color on the normalized FFO guidance from the second quarter numbers that you provided at the outset and if you can give any color on [Technical Difficulty].

Pam Kessler
Sure. Juan, it's really hard to hear you because it's cutting up, but I think you asked about our guidance, the quarterly and annual guidance, it includes everything that we've announced, but we have not included any assumption for additional investments, but it does include the increases in rental rates from HMG and then also our transition portfolio that we gave guidance on last quarter, we're reiterating that. So there's nothing else in there. We kind of give a base rate for guidance and then allow analysts and investors to layer on their own investment assumptions beyond that. And then what was the second part of your question?

Q: The timing on the [Technical Difficulty].

Pam Kessler
Yes, yes, I'm sorry. The timing on the loan repayments that is outlined in the supplemental on Page 12, but it is in the fourth quarter. We have two loans that are maturing in the fourth quarter, totaling about $80 million. And we're in discussions with the operators on that the borrowers. And as we've talked about before, in giving loans, it is not our strategy to do all loans. We have loans that we make available to operators to meet their needs. But we always do look to possibly convert those to long-term equity ownership. So if there's an opportunity to do that, we will or if there's an opportunity to stay in those investments in some capacity, we would look to do that as well. We like these two investments. So we're in discussions with the operators on that.

Operator
Thank you. Our next question is coming from Rich Anderson with Wedbush. Your line is live.

Q: Yes, I'm getting some mental vertigo here with the echo. I hope you can hear me. But I only have one question. A lot of structured deals you talked about, Clint. I'm wondering what's your comfort level in terms of loans, or I should say anything else besides fee simple ownership as a percentage of the total, how willing -- how far are you willing to go up on that and before risking being viewed as a mortgage reader or something like that, you're anywhere near that. But I'm just curious if you have a threshold in mind about how high you want to go on that level of investment?

Pam Kessler
Hi Rich, it's Pam. We don't have a set threshold, but we are very mindful of that. And we really look at our structured product as a marketing tool and a way to get exposure with operators that might not normally look to REIT financing and that want to retain some ownership in the properties. I mean that's been a big hurdle in marketing sale leasebacks to operators.

There are operators out there that are like, "I'll never do a sale leaseback with a REIT" Well, that's a big portion of the marketplace that we feel if we can get an inroad with them and they can get exposure to LTC and our way of doing business that they might actually convert to ownership equity. We saw that happen with Pruitt. They had never done a sale leaseback with a REIT before and they did one with us. And we worked long time on that relationship. And that's what our business development team is out there doing, looking for operators that are new to REIT refinancing and getting an inroad with them.

Clint Malin
Rich, it's not just yield focused. As Pam said, this is really an opportunity to partner with operating companies with an investment structure; therefore, familiar with that leads us to dialog and other opportunities they might have. So it's really more marketing, as Pam mentioned. But from a mortgage REIT standpoint, we're staying an equity REIT.

Q: Okay, I'm sure of that. I do have one more question. The question was asked, how you're financing the stuff and the quick answer from Wendy, whether really is going to use equity. But through your ATM, you raised about $10 million or $11 million this year. So that doesn't really fill the gap so much that amount at least in terms of what I'm thinking about for your activity going forward. So when you -- can you expand upon the funding strategy beyond just saying we're using equities that -- but certainly more in the way of issuance. But also, are there other priorities downstream from equity that you might use more dispositions? I'm just -- if we can get more color on the financing side of things, that would be great. Thanks.

Pam Kessler
Sure. Sure. It's Pam. So equity on the ATM is our primary way of financing your one-off investments, like the KD loan that we did this year. We've almost equitized that 100%. And going forward, for the smaller one-offs or two property portfolios, the ATM is great. If we were looking at a large portfolio transaction -- I know it sounds very old fashioned, but there's still an overnight marketed deal that could be done. And that's a good way to place stock in the hands of new potential investors. But we don't have anything like that on the horizon right now. And as I discussed, we have the $80 million in loan proceeds that currently we're anticipating are going to pay off. And so those would also be used to fund new investments.

Q: Okay. What about disposition?

Pam Kessler
We've done a lot of dispositions over the past 24 months, and we don't have anything immediately on the horizon. So we're not looking right now at financing growth with any more dispositions.

Q: Okay. That's it from me. Thank you.

Pam Kessler
Thank you.

Operator
Thank you. [Operator Instructions]. Our next question is coming from Michael Carroll with RBC Capital Markets. Your line is live.

Q: Yes, thanks. Sorry, I was missing some of these questions during getting some bad feedback, seems like everything is fine now. But can you provide some background on the HMG lease negotiations? I know last quarter, you temporarily extended that lease to August. And today, you announced the amendment through the end of 2028. I guess, what changed there? I guess, what facilitated this lease amendment that increased your rent and extended the lease term?

Clint Malin
Hey Mike, it's Clint. So we've been actively working on this. As the buildings have increased occupancy as margins have improved, it's really trying to figure out how do we structure that from a rent basis. You had the pending staffing rule that was out there, it was just finalized recently. So there were these elements that were out there that we needed to collectively focus on with HMG to be able to look at a longer-term horizon, which it took some time to do that. But as you saw from the rent growth that we're getting off of this not only in 2024, but going forward, that was a positive as well.

Q: Okay. And then correct me if I'm wrong, Clint, but are there two assets excluded from this master lease.

Clint Malin
There are not. We talked initially about...

Pam Kessler
He's talking about the other master lease.

Clint Malin
Yes, there's two -- we have two separate master leases, yes. And then also often is on the -- we have the line of credit outstanding with HMG as well that we needed. That was a temporary financing, not temporary, but a short-term financing when we recently took the properties back from senior care centers. So we wanted to be able to get that paid off to redeploy at higher yields because that was a 4% yield on that line of credit.

Wendy Simpson
So yes, they needed to get up. A working capital line of credit.

Pam Kessler
Yes, yes. And they need a longer-term lease to do that. And just to clarify for everybody, with HMG, we have two separate master leases. We have -- we've had one which covers two properties that was preexisting this new 11 property master lease. I think there was some confusion around that. So there are two separate master leases. We are just talking about the 11 property master lease.

Clint Malin
Also on that, two, is as we want to look at how do we get -- probably ramp up rent on this? What was important to us in this negotiation was getting a fair market rent reset at some point, and we were able to negotiate that into the overall terms of the amendment.

Q: Okay. And then what's the rent on the two asset master lease and do you plan on selling those?

Clint Malin
No, we don't have any plans on selling those. Obviously, it was structured before and it's typical -- look at a 10-year initial term.

Q: Okay, Sorry, the feedback or the echo is back. So it's hard to ask a question. But just real quick on the market-based lease rent forecast that you provided that you capped at the $3.3 million for 2024. Does that rent include anything related to the ALG April transitions? I know they are not paying rent through October, but are they expected to pay rent in November and December? And is that included in that $3.3 million number?

Clint Malin
There's no rent included in that number for those buildings.

Wendy Simpson
Just asking about the non-revenue producing?

Clint Malin
Yes. That's not in the $3.3 million.

Q: Okay. Great. And do you expect to get rent from those assets after the free rent period?

Clint Malin
Correct.

Q: Okay. thanks.

Clint Malin
Thank you.

Operator
Thank you. As we have reached the end of our question-and-answer session, I will now turn the call back over to Wendy Simpson for closing remarks.

Wendy Simpson
Thank you all for joining us for the first quarter, and we're really excited about this year, and we hope to bring you additional good news after our second quarter end. Have a great day.

Operator
Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your lines at this time, and have a wonderful day. We thank you for your participation.