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

Wendy Simpson – Executive Chairman
Pam Kessler - Co-President and Co-Chief Executive Officer
Cece Chikhale – Executive Vice President, Chief Financial Officer and Treasurer
Clint Malin - Co-President, Co-Chief Executive Officer Chief Investment Officer

Analysts

Austin Wurschmidt - KeyBanc Capital Markets
John Kilichowski - Wells Fargo
Rich Anderson - Wedbush
Michael Carroll - RBC Capital Markets

Presentation

Operator

Greetings. Welcome to the LTC Properties, Inc. Fourth Quarter 2024 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions].

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, 2024. 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.

Wendy Simpson

Thank you, operator, and welcome to LTC's 2024 fourth quarter conference call. Before I turn the call over to Pam and Clint, our co-CEOs, and Cece, our Chief Financial Officer, I want to say thank you to everyone on today's call for your steadfast support.

Leading LTC for the past 17 years has been an incredible honor. Today, as Executive Chairman, my excitement for the company remains as strong as ever. In fact, with RIDEA driving our growth strategy, I could not be more optimistic about our future. I have had the privilege of working alongside this very talented group for more than two decades. They have a proven track record of navigating numerous complex real estate cycles and an unprecedented pandemic, while consistently delivering value to our stakeholders and our industry. Additionally, the recent promotions of Gibson Satterwhite to Executive Vice President Asset Management and Mike Bowden to Senior Vice President Investment further recognizes the talents of our highly experienced team.

As we finalize our search for a new Chief Investment Officer, our focus is on adding a seasoned executive who will assist us in growing our RIDEA platform. We anticipate completing the search in the second quarter. The board is fully confident this team will continue to drive our business forward. The team's depth of experience, a board that brings fresh perspectives with half of its members having joined us in the last five years, and an aggressive but achievable plan for growth, LTC is positioned to thrive this year and well into the future.

With that, I'll turn things over to Pam.

Pam Kessler

Thank you, Wendy. Throughout 2024, we worked to position LTC for long term growth. Of note, we reduced our leverage and continued our policy of having well staggered debt maturities matched to our projected cash flow. For 2025, we are focused on further diversifying our portfolio to ensure a balance with respect to operator, geography, property type, and investment vehicle. And importantly, we are unlocking a strong catalyst for growth by adding a RIDEA structure to our business.

After extensive analysis and consultation with industry experts as to implementing a RIDEA platform, we are now moving quickly to execute our strategy while actively building out the infrastructure necessary to make this strategy a success. As we've discussed, we have identified several opportunities to cooperatively convert selected existing triple net leases into RIDEA structures and are targeting $150 million to $200 million in initial gross investment assets currently on our balance sheet. We expect to complete these conversions from triple net to RIDEA during the second quarter. Currently, we expect that year one NOI from these conversions will offset the initial expense incurred to build the platform.

Once the conversions are complete, we will provide full year guidance for 2025. Cece will provide our first quarter guidance during her remarks. In short, for us, RIDEA isn't just a strategy, it has the potential to be transformative. When combined with a robust suite of tailored financing solutions to support operators' success, we will unlock long-term growth potential for LTC.

Now I'll turn things over to Cece for a review of our fourth quarter financial results.

Cece Chikhale

Thank you, Pam. All the numbers I'll be discussing today for the fourth quarter of 2024 compared with the same period in 2023, unless otherwise noted. Net income available to common shareholders decreased by $10.1 million, primarily due to a decrease on gain on sell, an increase in impairment losses, and higher G&A. These were partially offset by a decrease in interest expense, a decrease in our provision for credit losses, and an increase in one-time straight-line rental income related to restoring certain master leases from cash basis to accrual basis as required by GAAP.

FFO excluding non-recurring items improved $2.1 million, primarily due to lower interest expense, rent increases from fair market rent resets, previously transitioned portfolios and escalations, an increase in interest income from construction loan funding in 2024, and lower transaction costs. The increase was partially offset by lower revenues due to property sales and mortgage loan payoffs, as well as higher G&A. On a fully diluted per share basis, FFO was $0.72 compared to $0.57 last year. Core FFO, which excludes non-recurring items, was $0.65 per share in the 2024 fourth quarter compared with $0.66 per share in the 2023 fourth quarter.

Recapping our fourth quarter activities, some of which was discussed on last quarter's call, we received the payoff of a $51.1 million mortgage loan secured by a senior housing community in Georgia, sold a closed property in Colorado for $5.3 million and recorded a $1.1 million gain, repaid $95.8 million under our unsecured revolving line of credit, repaid $5 million in scheduled principal paydowns on our senior unsecured notes, entered into a new $400 million ATM program which includes a forward feature, and subsequently terminated our $200 million ATM program. We sold 476,370 shares of common stock for $17.5 million in net proceeds under these ATM programs and paid $25.8 million in common dividends.

Subsequent to the end of the fourth quarter, we sold a 29-unit assisted living property in Oklahoma for $670,000. Upon sale, the property was removed from a master lease covering five assisted living properties in Oklahoma. Rent under the master lease was not reduced as a result of the sale. Repaid $7 million under our senior unsecured notes and borrowed $15 million under our revolving line of credit.

At the end of the last quarter, our total liquidity was approximately $680 million, up from $229 million at the end of September 2024. We have $9.4 million of cash on hand, $281 million available on our line of credit, and $390 million available under our ATM. Each of these metrics improved from the end of the 2024 third quarter. Our debt to annualized adjusted EBITDA for real estate is down to 4.3 times from 4.7 times for the third quarter, and our annualized adjusted fixed charge coverage ratio is up to 4.7 times from 4.2 times for the third quarter. Our first quarter 2025 guidance for core FFO is between $0.64 and $0.65 per share. This guidance assumes no additional investments, asset sales, financing, or equity issuances.

Now I'll turn the call over to Clint.

Clint Malin

Thank you, Cece. There is increasing momentum in our pipeline, which is expanding as a result of our entrance into RIDEA. We're seeing numerous opportunities from both proactive outreach and inbound inquiry and are having some of the most productive conversations with operators that we've had in recent memory.

Our strategy has always been to listen closely to what operators want and need and provide them with a robust set of flexible and innovative solutions. RIDEA is now part of that toolbox and is anchoring our external growth story. While RIDEA represents our largest growth opportunity, we will continue to deploy other financing vehicles like triple net leases, mortgage loans, and structured finance. Currently our pipeline is valued at approximately \$100 million, including potential RIDEA transactions. We are in one of the best positions for accretive growth in recent years.

Moving on to a few operator updates, ALG paid their contractual rent obligation with no deferral concession for January and February in a timely manner, and we expect the same for March. ALG is continuing to work towards exercising their purchase options, but we don't have a formal timeline as they are still evaluating financing opportunities. We received \$4.3 million from Prestige during the fourth quarter related to retroactive Medicaid payments they received. The security we now hold of approximately \$5 million combined with their current pay should allow us to receive full contractual interest through at least the end of this year. Occupancy in this portfolio increased 740 basis points from January of last year to January of this year.

For our portfolio of 15 properties subject to market-based rent resets, we received \$3.7 million in rent in 2024 and expect that to increase to \$4.8 million in 2025. We expect all 2025 lease maturities to be addressed by the end of the second quarter and also are actively working on 2026 maturities. Next year, we have about \$19 million in annualized GAAP rental income maturing, including with two operators in our top 10, to make up 89% of that \$19 million. One operator is expected to renew.

The other has informed us that for strategic reasons, they do not plan to renew. We are actively negotiating offers to sell the seven skilled nursing centers that make up this portfolio. Based on feedback we're receiving from potential buyers, we believe that we will fully replace the \$8.3 million of annualized gap rent for this portfolio by strategically redeploying the capital received from these sales at rates available to us today. We expect to complete the transactions in the fourth quarter of this year.

To summarize, LTC is in one of the best positions for accretive growth than it has been for a while. We have made tremendous progress in diversifying our portfolio, shoring up our balance sheet, and importantly, adding a new investment structure that should become a mainstay for growth.

Thank you all for joining us today. We look forward to talking to you again next quarter to discuss our first quarter results.

Operator, we're now ready to take questions.

Operator

Certainly. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Your first question for today is from Austin Wurschmidt with KeyBank Capital Markets.

Q: Hey, and good morning. Clint, I was wondering if you could just provide some additional detail about who the operator is that gave notice that they don't intend to renew. And then share a little bit more around, I guess, the sale and redeployment of proceeds and what the timeline of that looks like. I'm not sure I caught everything in the prepared remarks.

Clint Malin

Sure, not a problem, Austin. So, this operator has, they've decided to downsize the organization, and they've made a strategic decision to exit the states where we have the properties in the portfolio. So, the assets they cover, and we have credit enhancements to secure rent is paid through the maturity. This is a process we've gone through. It's consistent with our historical recycling of capital on older skilled assets. And this is a strategic decision to recycle capital and sell into a strong market for private buyers of older assets. And by doing this, we feel we're going to be able to reduce our average age of our portfolio, and we'll continue to strategically reduce exposure to skilled nursing.

And we think that this, the timing of this sale and our interest in our idea line up well, and we think that by the end of the year, we'll be able to execute on these transactions. And with the rates available to us today, we think we'll be able to replace the income.

This is something similar to our previous maturity with Brookdale, where we demonstrated our ability to transition assets, whether through sales or releasing, to go ahead and recover or in the case of Brookdale, recover more income than they were under the existing Brookdale lease.

Q: So you think given, where you can sell those assets today, that you can redeploy that into shop on an earnings neutral basis? Did I hear you correctly?

Clint Malin

Correct. Yes.

Q: Okay, that's helpful. And then in the prepared remarks, you guys referenced that you expect a neutral earnings impact from the transition from triple net to RIDEA. Is that accounting for taking on the CapEx as well for those assets? And can you share what the yield is on in-place NOI for the $150 million to $200 million that are initially being transitioned? Thank you.

Pam Kessler

Yeah, it does, Austin. It takes into account the expected one-time expenses related to setting up a platform, like establishing a database and all of that. As far as the in-place yield, about 8%.

Q: That's helpful. That's all from me.

Clint Malin

Thank you.

Operator

Thank you. Your next question is from John Kilichowski with Wells Fargo.

Q: Thank you. Good morning. I'll start with the conversion to the pipeline. Sorry, the echo is getting to me a little bit. What percentage of your portfolio by the end of 2025 is going to be run rate to expected to be spot versus net lease?

Clint Malin

Well, I think with the conversion that Pam spoke about in her prepared remarks, we're currently about 50-50 right now. I think you're going to see that over time, that's going to continue to increase more weighted towards shop.

Q: Okay. And then maybe just when I think about you now preparing to talk to the platform, for some of your net lease peers, we've had your discussion, they're like, we're not prepared, at least internally. What should we expect on the G&A side as you prepare on the shop operating platform?

Pam Kessler

After we establish the platform, we'll give you a run rate on that increased G&A, but right now, as we said in our prepared remarks, we expect the increase in NOI from the shop portfolio to offset those expenses this year.

Q: Got it. Okay. Thank you.

Operator

Your next question is from Juan Sanabria with BMO.

Q: Hi, good morning. This is Rob [Technical Difficulty]. Just curious if you could elaborate on [Technical Difficulty] in the RIDEA [Technical Difficulty] could you share [Technical Difficulty] discussion.

Clint Malin

Sure. Well, right now, the discussions that we are having with operating companies has been very robust. And as I mentioned in the prepared remarks, we've had some of the most productive conversations in recent memory in regard to RIDEA. We've had -- I think this is what operators are looking for.

And you see a lot of companies gravitating towards the RIDEA platform. And so this has really opened up conversations with a big part of the market that we were missing out previously by not doing RIDEA. So the business development side, we've been probably the most active on this front in the last couple of years. So the traction is tremendous, and we're really ramping up evaluating opportunities.

Q: And on the pipeline [Technical Difficulty] how do you expect more [Technical Difficulty] you're seeing, what's the fee simple loan split and what part of the pipe includes RIDEA?

Clint Malin

Sure. Normally, we cut our pipeline for transactions under LOI. But given just the ramp-up in our underwriting, we have -- we're going through a number of transactions. We're about $100 million. I'd say right now that's about 50% RIDEA and about 50% loans. The majority of it is on private pay assets. And one of the exciting things that we're hearing and talking to operators is really looking at rightsizing the relationship with capital partners. And I think that our entrance into RIDEA is well timed, and it gives operators different optionality for -- to work with smaller REITs to rightsize that alignment of interest between capital and the operator.

Pam Kessler

You look at -- comparing triple net and RIDEA. RIDEA really gives us a better long-term organic growth outlook than the stated 2%, or CPI increases in triple net leases. So we're really looking at future growth for LTC. RIDEA really provides an outsized return versus a triple net investment.

Q: And then on the leach portfolio, just curious if there's any outside risk that ability to sustain rents if Medicaid is cut under the new DC administration?

Clint Malin

As I mentioned in the prepared remarks, Prestige has done a good job growing occupancy, over 730 basis points over the last year. As when we structured this transaction with Prestige at the end of '23. We gave them a long runway to be able to recover occupancy, and they've been able to accomplish that 700 basis points from January '24 to January -- through December of '24.

So we're encouraged to see that. We did receive the retroactive Medicaid payment that was to us. So we're encouraged by that. And our hope is they continue to increase occupancy and improve operational performance.

Q: Thank you.

Operator

Your next question from today is from Rich Anderson with Wedbush.

Q: Thanks, good morning. I hope that echo is gone. It was giving me vertigo. So in terms of like where you go from here, you mentioned, Pam, $150 million to $200 million internal transitions to RIDEA. What is the -- is there a much larger number that you think can execute? And the reason why I ask is I'm wondering when RIDEA can truly make a dent in the portfolio in terms of its influence in your growth profile? It could take a while for it to become a meaningful part of the pie chart, but maybe I'm wrong about that. So that's the question.

Pam Kessler

We will have the bucket of transition assets or lease-up assets. We call them -- these are the leases that are currently on market-based resets. So if some of those operators wanted to transition to RIDEA, that would be a natural progression for that. But right now, we are only targeting the two that we discussed in our prepared remarks. We think most of the growth will come from externally from investments through RIDEA.

Q: Okay. And what's your vision like three or five years from now that you think you'll get to some level, 25% of the total pie. Do you have something like that in mind right now?

Pam Kessler

Senior housing, like 25% to maybe 50%, depending on the acquisition volume.

Q: RIDEA yeah.

Pam Kessler

It's -- yes, sorry. It's predominantly what we're seeing and interest in from operators, from our customer base and new operators. We've got a lot of inbound calls from new operators that we haven't done business with in the past because they don't do triple net. So it's really opened up a big area for us to -- make entry into.

Clint Malin

And also, Rich, as we talked with you specifically about it really just opens up the opportunity set of conversations and deals that we can look at. So it really is giving us a lot more opportunities to explore.

Q: Okay. Is there something about the nature of your portfolio that took this long for you to sort of go after the RIDEA structure. I mean it's -- the law has been around since 2007. But has it not been evident, just in the corner of the business, that you work in that you've really needed until somewhat more recently? Or I'm just -- I'm wondering about why now, I guess, on RIDEA?

Clint Malin

A couple of things. One is just lessons learned through the pandemic, and we participated on the downside in a triple net lease, but it was hard to recover and participate in the upside. And then just looking at deal flow and pricing cap rates of where we can execute on. So the culmination of what we went through to the pandemic, and then just being able to look at opportunities to invest and where that growth is, it's really RIDEA to be able to invest at those cap rates.

Pam Kessler

And meeting the demand, I mean, in all of our meetings with operators, this is what they want, and this is what they're requesting. And for so long, we said no, no, no. And the strategic planning meeting is we're sitting around saying, well, why are we saying no? I mean, because it is a big undertaking. I don't want to diminish the efforts of everyone here at LTC. We're a small company to put this platform in place and do it right. But we're fully committed to it once we evaluate it and said, yes, this is the best path forward for LTC for future growth.

Clint Malin

And it's really -- we've been able to experience this recently, Rich, just by -- on the business development front of getting meetings, having conversations about opportunities. I mean, it's ramping up substantially, and that wouldn't be happening if it wasn't for RIDEA. So really, the ability to increase the pie of what we're looking at, we feel we're getting a lot of traction with this.

Q: Okay. And just real quickly for you, Clint, the $8.3 million of rent that's associated with the seven property portfolio, is there any amount of that you're vulnerable to missing out on during 2025 as you execute the sale and redeployment? Or do you -- has the security deposits cover all the [Technical Difficulty] Hello?

Clint Malin

Rich, so we're fully expecting the operator to pay rent on the portfolio through maturity or sale of the assets.

Q: When does that mature?

Clint Malin

January 31.

Pam Kessler

'26.

Q: Got you. Thank you very much.

Clint Malin

Thank you.

Operator

Your next question is from Michael Carroll with RBC Capital Markets.

Q: I know in your prepared remarks, Pam, you kind of mentioned and you've kind of been talking about in the Q&A about building your infrastructure for your RIDEA platform. I mean can you provide some color on what that means? I mean how are you going to build this infrastructure? And what do you -- what type of investments do you need to make to make sure you're tracking this RIDEA investments? And I don't know, are you going to be helping your operators make these types of decisions? Or are you going to be letting your operators' kind of run this without much advice from you?

Pam Kessler

It's really the database to collect all the operational information at the property level and accounting systems and some personnel. We view this as a partnership, a strategic partnership. So we'll be working with our operators. But we're -- the manager would be in charge of the day-to-day operations. That's how RIDEA works. But obviously, strategic decisions, capital improvements and future investments that would be made together with the operator.

Q: So how long does it take build that type of database and what type of information are you requesting your operators to give you? Is it both operational and financial information? Like are you getting like tour activity and other types of leading indicators from them?

Pam Kessler

Yeah. That type of information is crucial. Towards the lease to conversion ratios, all of that. And yes, we will be collecting that from our operators. So that's pretty standard RIDEA information. We talk to people, industry experts and our peers. That's the type of information they're collecting and helping. It really does help the operators to provide them information not just in our portfolio, but what's happening in the marketplace and better -- more information helps better informed decisions.

Q: Okay. And then related to the January 2026 expiration. I mean can you give us an idea of what the coverage ratios are on those properties and -- or at least how it pertains to the averages that you guys quote in the supplemental?

Clint Malin

I would say right now, we haven't given coverage by specific assets, but these assets cover and we have strong credit enhancements on it. So the ability to collect rent for the duration of this lease is not a concern for us.

Q: Okay. And then, Clint, I know for Austin's question earlier, you mentioned that the reinvestment of these proceeds were into RIDEA assets, kind of what you kind of highlighted about your prepared remarks. Did I hear that correctly? Or do you when you think you can regain this $80 million plus of NOI? I mean, it's RIDEA investments, right, not debt investments or anything like that?

Clint Malin

Primarily, RIDEA. But look, it's going to be a timing of executing on the sales and then deploying that capital. And it will be a combination probably of timing of RIDEA investments as well as other investments we'd make, which could be loans, triple net leases. That really goes back just to the timing. But what we see right now in the market as far as rates available to us today, we think that we can recapture recover -- redeploy at the same yield to retain that income in the portfolio.

Q: Great. And then just last one for me. There was a small tenant that looks like you had a short-term one-year renewal. Can you describe why it was only a one-year renewal, if there's any risk to that tenant? Or are you working on a bigger renewal with them now?

Clint Malin

The operator is looking at doing a larger financing and adding these two properties into that larger financing. So this was an accommodation to give them more time to be able to accomplish that. And the purchase option they have is based on fair market value. But as consideration for this extension, we've increased the floor for that. So really, this is a long tenure that we've had in our portfolio and a combination to help them to accomplish a larger financing.

Q: Great. Thank you.

Operator

Your next question for today is from Omotayo Okusanya with Deutsche Bank.

Q: Hey, guys. This is Sam on for Tayo. I was just wondering if you guys could provide some details around the circumstance leading to the restoring of accrual bid accounting for the two master leases?

Pam Kessler

Sure. We evaluate our leases on a quarterly basis, at least as we have on a cash basis of accounting. And with the sustained strong operational performance, in these portfolios, we had a higher confidence level that we would receive contractual rent through maturity.

Q: Got you. And maybe you guys [Technical Difficulty] what the tenants were -- if you think this will occur again in 2025?

Pam Kessler

We haven't disclosed the tenants -- we typically don't talk about our tenants on an individual basis. But we do have more -- if your question is how many more we have on a cash basis, about 50% of our portfolio is on a cash basis, and we're evaluating that quarterly. So it could -- right now, there's none that we have that high confidence level that would require us to put them back on a cash basis.

But we are looking at it, but possibly in 2026 and 2027, especially as you get closer to the maturity of leases and you have that higher level of confidence and insight into what you project, that they'll be able to pay through maturity. That's really the crux of putting them back on a cash basis -- I'm sorry, accrual. Taking them off a cash basis and putting them on accrual.

Q: Got it. That's all I got on my end. Thanks guys. Appreciate the time.

Operator

We have reached the end of the question-and-answer session, and I will now turn the call over to Wendy for closing remarks.

Wendy Simpson

Again, thank you all for joining us today. We are very excited, as you can hear for the future of LTC. And we look forward to talking to you relative to our first quarter results in just a few short months. Have a great day.

Operator

This concludes today's conference. And you may disconnect your lines at this time. Thank you for your participation.