Transcript of
LTC Properties, Inc.
LTC Properties, Inc. First Quarter 2025 Earnings Call
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Participants

Clint Malin - Co-President & Co-CEO, LTC Properties, Inc.
Cece Chikhale - Executive Vice President, Chief Financial Officer, Treasurer and Secretary, LTC Properties, Inc.
Gibson Satterwhite - Executive Vice President, Asset Management, LTC Properties, Inc.
Pam Kessler - Co-President & Co-Ceo, LTC Properties, Inc.
Wendy Simpson - Executive Chairman, LTC Properties, Inc.

Analysts

Juan Sanabria - BMO Capital Markets Corp.
Austin Wurschmidt - KeyBanc Capital Markets, Inc.
Richard Anderson - Wedbush
Michael Carroll - RBC Capital Markets Corp.
Omotayo Okusanya - Deutsche Bank Securities, Inc.

Presentation

Operator

Good day ladies and gentlemen, and welcome to the LTC Properties, Inc. First Quarter 2025 Earnings Call. At this time, all participants are on 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 31st, 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 your host Mr. Clint Malin. Sir, the floor is yours.

Clint Malin

Hello, and welcome everyone to our first quarter 2025 earnings call. With me today are Wendy Simpson, our Executive Chairman; Pam Kessler, our Co-CEO; Cece Chikhale, our CFO; and Gibson Satterwhite, our Executive Vice President of Asset Management.

This year is off to a great start. Through our RIDEA platform, we now have a SHOP portfolio totaling $176 million in gross book value through the cooperative conversion of 13 properties from triple net leases. We completed the conversion with Anthem Memory Care on May 1st and expect to complete a conversion with New Prospective Senior Living within the next 30 days.

What's more, we've added to LTC's bench strength with the appointment of our new Chief Investment Officer and demonstrated the depth of talent in our company with the promotions of several executives, as discussed last quarter. The implementation of our RIDEA strategy has resulted in an increase in our investment pipeline giving us a clear pathway to growth by more fully aligning our interest with those of our existing and new operators and unlocking additional opportunities for performance driven upside.

Currently, our pipeline stands at $300 million of which RIDEA opportunities represent approximately 50%. We welcomed our new Chief Investment Officer, Dave Boitano on April 21st. Dave adds even deeper expertise to our team. Spending most of his career in seniors housing at Ventas, he played a pivotal role in sourcing investments and had direct underwriting responsibility for $5 billion in transactions. As we expand our RIDEA platform, Dave's experience and substantial industry relationships will contribute to our future growth. You will be hearing directly from Dave on our next quarterly call. We've clearly laid the foundation for transformative expansion and with growth as our focus for 2025, we are moving into the future with momentum and confidence.

Next, I'll turn the call over to Cece for a review of our first quarter financial results.

Cece Chikhale

Thank you, Clint. All of the numbers I'll be discussing today are for the first quarter of 2025 compared with the same period in 2024, unless otherwise noted. In yesterday's earnings release, we provided a detailed description of our financial results. So this morning, I'll focus my comments on items of note.

Fully diluted FFO per share, excluding non-recurring items, our core FFO grew to $0.65 from $0.64. Fully diluted FAD per share excluding non-recurring items or core FAD increased $0.70 from $0.67. Core FFO and core FAD increased primarily related to a decrease in interest expense, rent increases from fair market rent resets, escalations and amendments, an increase in income from unconsolidated joint ventures and an increase in interest income from additional loan funding. These were partially offset by lower interest income due to mortgage loan pay-offs and principal pay-downs, an increase in G&A and lower rental income from properties sold.

During and subsequent to the first quarter, we sold shares under our ATM for net proceeds of $9.6 million. These proceeds are being used to fund the initial investment in our RIDEA platform, comprised of our purchase of Anthem's leasehold improvement for roughly $1.4 million which will be capitalized and a $6.5 million lease termination fee to New Perspective, which will be expensed as well as one-time RIDEA platform transaction costs of approximately $1.1 million to $1.5 million.

Our total liquidity is approximately $681 million. Our debt to annualized adjusted EBITDA for real estate is 4.3x and our annualized adjusted fixed charge coverage ratio improved to 5.0x from 4.7x for the fourth quarter of last year. Today, we are providing full year 2025 guidance for core FFO per share between $2.65 and $2.69 and core FAD per share of between $2.78 and $2.82. Please refer to our supplemental for our assumptions for this guidance.

Now I'll turn things over to Gibson.

Gibson Satterwhite

Thanks, Cece. I'll start with RIDEA, where we've made meaningful strides since our last update. In close collaboration with our partner Anthem, on May 1st, we transitioned 12 memory care properties from triple net leases into our SHOP portfolio. The Anthem portfolio currently is 81% occupied. Additionally, we have agreed to cooperatively convert one independent and assisted living property operated by New Perspective into the portfolio with the target closing date of June 1st.

The New Perspective property is stabilized, while Anthem offers some upside as that portfolio progresses toward increased occupancy. In 2025, for our current SHOP portfolio, we are projecting SHOP NOI in the range of $9.4 million to $10.3 million. Note that these figures are reflected in the guidance Cece shared earlier. In addition to the $600,000 to $800,000 FAD CapEx estimate outlined in our earnings release, we committed $4,000,000 for renovations.

Regarding Prestige, we received full contractual cash interest of $5 million through $3.8 million of cash interest paid and the application of $1.2 million from their security. Subsequent to March 31st, Prestige received $2.3 million in retroactive Medicaid payments, which were funded into our security deposit, which now equals approximately $6 million. When combined with the current cash pay, we expect to receive full contractual interest at least through May 2026. As a reminder, our loan modification in the fall of 2023 introduced a current pay interest component and a mechanism to increase our security from Prestige's retroactive Medicaid payments.

It also included LTC's participation in excess cash generated by the portfolio beginning in 2025. This structure was designed to provide more than a two year runway for Prestige to recover from occupancy challenges experienced during the pandemic. With the level of security we now hold and increased occupancy and performance, our investment is on much stronger footing and is continuing to improve.

From our portfolio of 14 properties subject to market-based rent resets, we expect to collect $5.1 million of revenue this year, up from guidance of $4.4 million last quarter on a same property basis. Current guidance for this portfolio on a same-property basis represents an approximate 50% increase from the $3.4 million of rent received related to these properties in 2024.

Regarding the operator's decision not to renew their lease on seven skilled-nursing centers for strategic reasons, we're continuing the sale process and remain committed to replacing at least $8.3 million of 2025 GAAP rent. We plan to strategically deploy sale proceeds in the growth opportunities we have discussed. One property is currently under contract, and we expect the remaining six to be under contract in the second quarter with all sales expected to close in the fourth quarter of this year.

Now I'll hand the call over to Pam.

Pam Kessler

Thank you, Gibson. With momentum building and growth as our key priority, we're actively pursuing and underwriting opportunities to add newer stabilized assets with prospects for improved performance that enhance portfolio quality and amplify LTC's upside potential. We expect SHOP to represent a growing share of our portfolio, as we scale our platform.

By complementing our RIDEA strategy with investments in traditional and structured finance transactions that offer compelling initial yields, we're building a resilient performance driven-portfolio structured for long-term value creation. We see RIDEA as a game changer for LTC. Backed by a seasoned team, ample access to capital and a growing investment pipeline, we're prepared to execute with discipline and precision to capture new opportunities ahead.

Before we open the call to questions, I'll turn things over to Wendy for closing remarks.

Wendy Simpson

Thank you, Pam. The entire Board and I are energized by the progress LTC has made and even more enthusiastic about the opportunities ahead.

Before transitioning to Q&A, I'd like to recognize Doug Korey, who recently retired to focus on his health and family after a remarkable forty year career in the industry. LTC was fortunate to have him as part of our team for the last decade.

Doug was instrumental in broadening our strategy beyond traditional triple net investments, was a champion for innovative and flexible structured finance solutions that expanded our capabilities and deepened our industry connections. We will miss Doug's sharp insight, dry humor, and steady hand, and we wish him and his family all the best in this next chapter.

Operator, we're ready for questions from the audience.

Operator

Thank you. [Operator Instructions] Our first question is coming from Juan Sanabria with BMO Capital Markets. Your line is live.

Q: Hi, good morning. I hope you guys are doing well. I'm just curious on ALG. What's assumed in guidance with regards to their option to buy those assets and how is that process going and their ability to secure financing to move that process forward?

Pam Kessler

Thanks, Juan. This is Pam. Yes, they are still working on their financing in this uncertain rate environment with the wild swings in treasuries you can imagine. It's an off-and-on sort of prospect at this point, but we are hopeful that they will be able to refinance this year. However, our guidance assumes that, they don't and that they continue to pay full rent.

Q: Great. And then, just on the New Perspective, if you could just give a little bit more color on the lease term payment that you're paying there, the $6.5 million and how that was kind of arrived at and the payback period you guys are thinking about given I think you said that asset is a bit more stabilized. So just hoping for a little bit more color there.

Clint Malin

Sure, Juan. It is a stabilized asset and with New Perspective, it's a company we've known for many years, looking at doing investments then we only have the one asset with them, and they do have SHOP experience with other REITs. So we see them as a growth opportunity for LTC going forward. And really they've been very successful with this asset we have with them and really paying this amount for lease termination was really to reward them for the value creation that they've created and gives us really a runway with them to be able to look at new opportunities and grow our SHOP portfolio.

And so, that was our rationale in doing that with New Perspective and really for us to launch this platform with these assets we were familiar with both Anthem and New Perspective, it was a great starting point for us.

Q: Thanks. And then just one more for me. Just on the SHOP platform, should we expect other triple net to SHOP conversions? And on the pipeline, what percentage would you say is kind of fee simple SHOP, of the $300 million.

Clint Malin

As I mentioned in my remarks, Juan that is 50% represents RIDEA, for the pipeline. There's going to be some opportunity for potential other triple net conversions, not of scale. We're really looking at SHOP as an external growth story.

Q: Thank you. Good luck.

Operator

Thank you. Our next question is coming from Austin Wurschmidt with KeyBanc Capital Markets. Your line is live.

Q: Thanks. Good morning, everybody. Can you just talk about how you arrived at the NOI range for the SHOP assets over the remaining 8 months of the year and kind of what that range implies, for either sequential or year-over-year growth?

Gibson Satterwhite

Sure, Austin. Hi, this is Gibson. Let me get to it. One second. So we looked at, the SHOP portfolio, because these are conversions. We looked at 2024 on a pro forma basis. So we're saying we have similar accounting treatments. So if you look at 2024, the portfolio is 85% occupied. So we're only assuming 85% occupancy for 2025. And I can get into some detail why later.

Right now, on a full year basis, 2025 over 2024, we've got $15.2 million versus $14 million. So that's $15.2 million in 2025 over $14 million for 2024. A big driver of the growth going forward from where we are now is continued lease up in the Anthem portfolio. They had higher-than-normal discharges in Q4 and we expect them to get back to occupancy that they had in Q3 last year.

Q: And then beyond occupancy, are there other opportunities on the expense front? Just curious how you're thinking about the growth profile of this portfolio, as we think about the next several years?

Gibson Satterwhite

Well, with respect to the portfolio that we talked about converting, I think that we do have some upside beyond the end of 2025. But we end up in 2025 assuming about 87% occupancy for on a unit basis portfolio versus 86% in Q3 of 2024. We try to make realistic budgets. Anthem has made some progress on cost reductions and efficiencies in their staffing model in Q4 2024. And so we feel like we have some room and try to give ourselves multiple paths to be able to hit the guidance that we provided.

Q: That's helpful. And then just, last one here, I guess for that 50% of the investment pipeline that includes SHOP assets, I mean, how are we thinking about going in cap rates on those deals? And just as you're building out your senior housing portfolio, how are you balancing, I guess, operator and geographic diversification versus trying to kind of build some scale with the asset you also have? Thanks.

Clint Malin

Sure. We will definitely focus on operator concentration. That's a key element for us, as we look at having ALG exercise the purchase option to reduce that concentration. So something is very much on the forefront and primarily in our investment pipeline, we're looking at deals that are one or two assets. There's a couple of small portfolios, where our focus really is on one or two assets, being cognizant of that diversification with operators. And we've actually been actively pre-marketing RIDEA over the course of last five, six months, getting traction and a number of deals in our pipeline are off market, which we're very encouraged by.

I would say, on the SHOP front, we're looking at probably 7% going in yields plus or minus within the forward-looking yield going up to 7.5% to 8%, as you look at cost reductions, rate growth and occupancy improvement in SHOP. And we're looking at balancing that, as Pam mentioned in her prepared remarks with leases, loans and structured finance products that have higher initial yields to offset those initial SHOP yields, as we're growing the portfolio.

Q: That's helpful. Thank you.

Operator

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

Q: Hi, thanks and good morning. So this $176 million is roughly using your enterprise value about 7% of the company. I think I have that math right.

Pam Kessler

Yes.

Q: I'm just curious if you can sort of share a pipeline of your conversion activity. So, we talked about the $300 million pipeline external growth, but what's the pipeline of internal conversions that you see going forward? And what's the pace to get to something like 25% or 30% of the company in the next couple of years?

Pam Kessler

Hi, Rich. Currently, we don't have plans to convert anything that's in our triple net portfolio at this point, though we always hold that option open. And then, it's really going to be the organic growth that Clint talked about, acquiring doing investments through RIDEA platform and also blending that with more traditional triple net and loans. And as occupancy improves in our portfolio, those operators that have triple net leases probably become less inclined to who want to transition to the SHOP platform. But, you know, if they have created value in their portfolios and they would like to be rewarded for that, we would entertain doing something similar to what we did with New Perspective.

Q: Okay, great. Thanks for that color, Pam. The other thing is, you're converting to SHOP a memory care portfolio with Anthem, higher acuity assets and so on. Do you think you'll kind of be looking downstream a little bit in terms of lower acuity for future SHOP transactions in your external growth strategy, or do you like the memory care sort of thesis in a SHOP wrapper?

Pam Kessler

I mean, we like memory care. Obviously, we were one of the first entrants into the standalone memory care and we developed these properties with Anthem. But we're as being a very aware of concentration, and the fluctuations that memory care experiences and the shorter average length of stay, we're not looking at that, property type, to grow in. I'm not excluding that, but it's not a focus of ours. We're really looking at larger properties that are more of a continuum of care IL/AL with some memory care, but not to stand alone.

Q: Okay. Last question for me is, Omega had a little minor issue with Genesis this quarter, perhaps not much of a deal according to them, but Genesis makes your Top 10. Any issues that you're having with them at this point that you can share, or if it's the answer is no, then that's fine as well?

Clint Malin

We have received the May rent, Rich, and we have no request from Genesis for any assistance. Our portfolio has strong coverage and located in core markets that Genesis operates in.

Q: Okay, fair enough. Thanks very much.

Operator

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

Q: Yes, thanks. Clint, I know I appreciate some of the comments on your projections for the Anthem portfolio and the general SHOP portfolio. Can you maybe spend some time and talk about how those assets have performed over the past few years? I know that, they've been struggling, and I was a little surprised where the SHOP NOI is coming out at versus where the triple net lease rate is for Anthem. So did Anthem have a pullback in their operations or how should we think about that portfolio and maybe the longer-term outlook of it?

Clint Malin

Mike, as Gibson mentioned in the Q&A portion earlier that they did have a dip in occupancy in Q4 relating to some clinical discharges. I mean, that's something that, as it's an earning season, we've seen other REITs have similar dips in occupancy. So that was an unexpected, but we're going into the key selling season that started in May, and we think there will be upside for improvement in occupancy. There's not a lot of new supply being delivered. So we think that's beneficial to occupancy growth. So we're looking at the key selling season to be upside opportunity for Anthem.

Q: So I guess, how can you maybe provide some comments on how Anthem is before in the past few years? I mean, have they been recovering as you originally would have expected and then they just had a blip in the fourth quarter that kind of took them lower? How meaningful is that blip and how they have performed in the last few years?

Clint Malin

There has been some dips on a quarter-by-quarter basis, but they have recovered previously. So we expect similar here.

Q: Okay. And then, I guess on the SHOP NOI, if that included both the Anthem and the New Perspective tenants, I mean, can you break out how much of that projected NOI is New Perspective and how much of that is Anthem?

Pam Kessler

Yes, sure. Mike, it's at the midpoint. Anthem is $1.2 million of the increase and New Perspective is $1.6 million. So a total of $2.8 million over, if you were looking at the combined lease rates. So it is a substantial pickup from converting to RIDEA.

Q: Okay. And then is the plan to grow with New Perspective? Are they going to be one of your core operators where you're going to add assets within that SHOP structure over the next, I guess, several quarters or maybe execute this current investment pipeline with them?

Clint Malin

Absolutely. I mean, they're an ideal company for us to work with. I mean, they have the ability to develop, they have strong culture, a long tenured family business. They are SOX compliant, they are familiar with RIDEA. So we see them as an excellent opportunity and a great partner to grow with. And that was part of the catalyst for us looking at this opportunity to put them into the initial round of our SHOP portfolio.

Pam Kessler

Yes. They demonstrated through our triple net lease with them an incredible ability to increase value.

Q: Okay, great. Thank you very much.

Operator

Thank you. Our next question is coming from Omotayo Okusanya from Deutsche Bank. Your line is live. Omotayo, I think you might be on mute.

Q: Hello? Can you hear me?

Clint Malin

Yes.

Q: Okay. Perfect. So good morning, everyone. Nice to see all this progress on the SHOP front. Just curious again, you bought a couple of assets. You've hired Dave. Anything else from institutionalizing the platform that still needs to happen at this point? There's definitely need to hire data scientists or just kind of curious of kind of making sure everything is kind of really you've dotted your I's and crossed your T's, what else still needs to happen?

Pam Kessler

Hi, Omatayo. It's Pam. Yes, we will continue to build out the platform as we add investments into it. Yes, we need we still will need, analysts, FP&A. I mean, as the platform grows, you obviously have to scale up. But we're confident with what we have right now supports the conversion platform.

Q: Yes. That's helpful. And then ALG, it didn't look like in this quarter you gave any rent deferral. Is that correct? And if that's the case, can you just kind of help us understand, what's happening with the overall financial performance of ALG?

Pam Kessler

Yes. That is correct. We did not give a deferral this quarter, and their occupancy has increased 150 basis points from year end, with increased lead generation and conversion rates. And in North Carolina, there has been a perspective change in reimbursement. A bill has passed the House and the Senate there that would allow, or it increases the eligibility threshold for Medicaid. And if you recall, this portfolio has Medicaid in it, and what happened during the pandemic and inflation was the eligibility requirements for Medicaid were not increased in North Carolina.

And with increases in people's social security and other forms of income, many residents in North Carolina were essentially no longer eligible or not eligible for Medicaid, which depressed the census in this portfolio. But with the new eligibility, I keep wanting to say reimbursement. It's not changing reimbursement rate. It's a change in the eligibility. With the new eligibility requirements and the increased pool of potential residents, there are we expect their occupancy to continue to increase.

Q: Got you. That's helpful. One more if you don't mind. So, again, Anthem now goes to SHOP. You have kind of re-done the end core lease. Any other leases out there that, also that still have quarterly market based resets that we should be aware of at this point?

Pam Kessler

Just the 14 that Clint talked about, or I'm sorry, that Gibson talked about in his prepared remarks. And the Encore lease, just to remind you, it's not been redone. It's just, it has set market based resets on, is it quarterly or it's quarterly. So they're quarterly. So you're going to see this on a quarterly basis. We have some that are on six month basis and some that are on quarterly basis in that portfolio. And you should see over the next year, we're hoping those continue to increase as occupancy and performance improves in that portfolio.

And that was in that basket of properties that were with other operators that during COVID, we transitioned to these new operators. And that is, there's that's the part of our portfolio outside of RIDEA that has upside.

We didn't defer rents and report receivable like some of our peers. So we don't have any receivable sitting on our balance sheet. So all the increases that come from improved performance in that portfolio will hit the financial statements. It will be shown through income versus hitting a receipt.

Clint Malin

And we're very much encouraged by the trending of increasing guidance in that portfolio.

Pam Kessler

Yes. That get you to bottom-line Omotayo.

Q: Awesome. Good luck.

Operator

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

Wendy Simpson

As you can see, we're committed to growth and are successfully executing our strategy. We appreciate you all for joining us on today's call and look forward to talking to you again next quarter.

Operator

Thank you, ladies and gentlemen. This does conclude today's call. You may disconnect your lines at this time, and we thank you for your participation.