HILLIARD LYONS

Healthcare Real Estate Investment Trusts
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COMPANY UPDATE/ESTIMATE CHANGE

LTC Properties, Inc.

LTC -- NYSE – Neutral-2

Q2 Conference Call Discussion

Key Metrics

LTC - NYSE -	8/9/17	$50.22
Price Target		N/A
52-Week Range		$43.17 - $54.20
Shares Outstanding (mm)		39.8
Market Cap. ($mm)		$1,998.8
1-Mo. Average Daily Volume		150,711
Institutional Ownership		78.0%
Debt/Total Capital	Jun-17	24.4%
Est 3-year FFO Growth Rate		4.0%
Est 3-year Dividend Growth Rate		4.0%
Book Value		$17.17
Dividend		$ 2.28
Dividend Yield		4.54%
Est. Fixed Charge Coverage		5.3X

Normalized FFO

	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$0.76	--	$0.78	A	$0.82	$0.80
2Q	$0.77	--	$0.79	A	$0.82	$0.81
3Q	$0.76	$0.79	$0.74		$0.84	$0.82
4Q	$0.78	$0.81	$0.76		$0.85	$0.83
Year	$3.06	$3.16	$3.07		$3.34	$3.27
P/E	16.4x		16.4x			15.4x

* - Do not add up due to rounding

Revenue ($mm)

	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$38.6	--	$42.6	A	$45.9	$44.7
2Q	$40.0	--	$42.5	A	$46.9	$45.8
3Q	$40.8	$43.7	$41.1		$48.1	$46.8
4Q	$42.1	$44.7	$42.2		$49.1	$47.9
Year	$161.5	$174.3	$168.4	*	$189.9	$185.2

Company Description: *LTC Properties, Inc., headquartered in Westlake Village, California, is a real estate investment trust (REIT) that invests primarily in long-term healthcare facilities through mortgage loans and direct real estate property ownership.*

Investment Highlights

- LTC management reduced its per share FFO guidance for 2017 due to the loss of rent from a large tenant that has experienced issues in leasing up some newly developed properties. Guidance for the year is now $3.03-$3.05 for 2017, down from the previous $3.08-$3.10. We note that without this lease issue management actually would have raised guidance by four cents due to acquisitions and strength over the remainder of the portfolio. Management indicated that the problem was temporary in their opinion, and that there would be a resolution of the issue before year end. We are dropping our FFO estimate to $3.07 a share, taking into account this rent issue, recent acquisition/investment activities, and what we are anticipating going forward.
- LTC continued to make its traditional targeted higher yield transactions during Q2, adding several purchases with returns above those its larger peers are making. We continue to see LTC targeting a lot of smaller, high yield investments, as well as development activity going forward, consistent with what we saw in Q2. We will, however, be paying close attention to the resolution of the problem assets discussed above, as we see potential for downside here should management be forced to find new tenants. There also could be additional write-offs or interruptions in lease rent.
- While management expects to resolve these issues positively, we believe that sitting on the sidelines and waiting for a resolution to the problems is more appropriate at this time. As such, our Neutral rating remains appropriate at this point. While we remain positive on the company's management team and portfolio, uncertainty is likely to place a lid on the stock in the near term. We will revisit our rating as we get closer to a resolution, particularly if this uncertainty pushes the share price down.

Note Important Disclosures on Pages 6-7.
Note Analyst Certification on Page 6.

Conference Call Discussion

As might be expected, much of the call was spent on the issues around its problem tenant, Anthem Memory Care. During Q3 Anthem was issued a default notice when it did not pay its July rent. LTC management believes that Anthem is suffering some growing pains and is experiencing difficulties leasing up its development properties, which have performed below expectations. The three properties most recently leased up were at the end of August 29%, 47% and 87%-leased. Anthem is having a variety of difficulties, including labor, management turnover, etc. LTC is working with Anthem on a plan to get these properties to a point where they generate significant cash flow to pay the contractual rents, and these steps have already been successful in increasing occupancy at these properties. Anthem is currently paying $1 million a month in rent, versus the contractual rate of $2.6 million. At this point, management is assuming that this situation will be resolved by year end. LTC management believes that the properties are worth significantly more than the company's investment ($20 million was a figure management suggested), and that resolution of the situation could take a number of routes, including sale of some or all of the properties, leasing them to other operators or having Anthem remain as the tenant through turning around its operations. We note that this portfolio, beyond the three properties noted above also includes two development properties. We are assuming only $1 million in rent from this tenant the remainder of the year and a reduced amount in 2018.

Management also discussed its recent acquisition activity, noting that the two properties it closed during Q2 were off market acquisitions, and not widely marketed ones. Management offered a somewhat dour view of the acquisition environment currently on the call. They noted that in general the deals it has seen have not met its requirements, and basically threw cold water on any thoughts about adding skilled nursing acquisitions, noting that any potential deal would have to be "incredible" for them to consider it. Management is worried about the environment here, with the various issues around the Affordable Care Act and government policy on healthcare in general driving this aversion to the property class currently. As such, we are taking down both our expectations for acquisitions and cap rate assumptions. Management currently only has two potential investments in its pipeline, one being with an existing tenant and the other with a new operator.

In general management expressed trepidation about the current acquisition environment, with prices being too high. They are likely to look at non-traditional investments in the near term, things like mezzanine debt, preferred, etc. The company will also be depending more on development opportunities, with $61 million in commitments expected to close over the next couple of years. We are pulling back our assumptions on acquisitions, which now sits at $30 million that will close by yearend. We note that management also guided towards smaller deals, noting that large deals do not make sense at all in the current environment due to competition driving prices too high. As always, LTC management's conservative nature makes us comfortable over the long term, as it typically will not overpay for properties, although it will result in lower growth in the near term. Following the asset sales in Q2, we believe that a few more assets could be sold if prices remain high, although there is nothing specific at this point.

Operating statistics remain solid, with trailing occupancy on its assisted living (ALF) portfolio sitting at 84.8%, and 78.3% for its skilled nursing (SNF) portfolio. Coverage ratios also remain strong, with ratios of 1.46 times before management fees for its ALF portfolio, and 2.03 times for its SNF portfolio.

In discussing its debt position, management noted it had no significant debt due over the next five years and remains extremely liquid with significant availability remaining on its credit line (about $550 million). Interest expense is expected to be about $7.8 million a quarter. The company's fixed charge coverage ratio also remains very strong at 5.3 times.

Management dropped its 2017 FFO guidance range to $3.03-$3.05 a share on the loss of rent from Anthem, as discussed above. Without that issue, management would have actually raised guidance four cents, which would have put it solidly on our above guidance number. We have adjusted our numbers to take into account the lower rent numbers, and assuming some additional investment and remain a little above the top end at $3.07, nine cents below our previous number, to account for a small amount of acquisitions over the remainder of 2017.

Third Quarter and 2017 Outlook

At this point, our 3Q FFO estimate has come down to $0.74 a share, five cents below our previous number. Our full year 2017 FFO estimate is now $3.07 a share, with the assumption of about $30 million in additional acquisition activity beyond that already announced for the remainder of the year, and a slight amount of accretion from development investments as they come on line. We are assuming a lower level of acquisition activity in 2018 following management's comments on the acquisition environment on the conference call, with more of the investment continuing on the development side. Our assumption is for $150 million in total investments in 2018, but with the uncertain situation around Anthem we believe this is more appropriate at this point and includes $22 million for development activity and investments with current tenants. We are assuming that the Anthem situation will be cured by year end, but rent will be reduced no matter the resolution. We are also fine-tuning our assumptions on interest rates a little higher and our 2018 estimate is now $3.27 a share.

Valuation

Using our $3.07 a share estimate for 2017, LTC shares are trading at 16.4 times. This is a premium to the peer group, which is currently trading at about 14.2 times (please see the table below). LTC offers a dividend yield a little below the peer group at 4.5% versus 5.2%. The company does offer an advantage on the growth front compared to its peers due to its smaller size, with an expected FFO growth rate above the peer group due to its ability to add small properties and development projects yet make them meaningfully accretive. LTC's balance sheet also remains a strength in comparison to its peers, most of which have higher debt levels. Thus while LTC trades at a slight premium to the peer group, we see value due to the higher growth rate and the strong near term outlook versus the peer group. On the negative side, we note that about half of the company's portfolio is skilled nursing properties, which tends to get a lower value due to its exposure to government payment. Further, the stock is unlikely to move higher any time soon with the Anthem situation hanging over the company. Thus, we remain Neutral on the shares at this point. We will be paying close attention to a potential for the stock to pull back with the tenant issue and offer a buying opportunity.

Health Care REITs		Closing Price	Current		2018E			2-Year Average	Price / FFO	
	Symbol	8/9/2017	Dividend	Yield	Payout Ratio	2017E	2018E	Growth Rate	2017E	2018E
HCP, Inc.	HCP	$29.38	$1.48	5.0%	72.2%	$1.96	$2.05	-13.5%	15.0x	14.3x
Welltower, Inc.	HCN	$71.24	$3.48	4.9%	77.2%	$4.29	$4.51	-0.7%	16.6x	15.8x
National Health Investors	NHI	$76.06	$3.80	5.0%	69.3%	$5.28	$5.48	6.1%	14.4x	13.9x
Omega Healthcare Investors	OHI	$30.59	$2.56	8.4%	70.9%	$3.47	$3.61	2.9%	8.8x	8.5x
Ventas, Inc.	VTR	$65.62	$2.92	4.4%	65.8%	$4.24	$4.44	3.7%	15.5x	14.8x
Health Care Sector Average		**$54.58**	**$2.85**	**5.2%**	**70.9%**	**$3.85**	**$4.02**	**0.9%**	**14.2x**	**13.6x**
LTC Properties, Inc.	LTC	$50.22	$2.28	4.5%	69.7%	$3.07	$3.27	3.4%	16.4x	15.4x

Note: OHI is rated Buy, NHI, VTR and HCP Neutral and HCN Underperform by Hilliard Lyons. Source: NAREIT, Baseline and Hilliard Lyons' estimates.

Suitability

LTC has a suitability rating of 2 on our 1-4 scale. We find the company to have a very strong balance sheet in relation to its peers, and the triple net structure of most of its leases limit its property risk. Its real estate ownership is also a positive factor, as is the company's geographic and operator diversification. On the other hand, the company is a relatively small REIT, and its exposure to the skilled nursing sector, with the bulk of its operator revenue paid by Medicare and Medicaid add risk due to potential political issues.

Risks

LTC shares may not reach our targets for a number of reasons. REITs in general need access to debt capital to grow, if such debt capital is unavailable, the company may have difficulty in growing. One of the company's tenants' major payer is the U.S. government and changes in reimbursement schedules can hurt

LTC's tenants and in turn impair their ability to pay rent. Because of their thirst for debt, changes in interest rates can also impact REITs. LTC is among the smaller healthcare REITs which may limit its ability to make larger acquisitions. While management has proven to be conservative in their acquisition activity, it is always possible that the company could make a poor acquisition in the future.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2016 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2016 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

Table 1. Consolidated Income Statement
Dollars in thousand except per share #s

	2014	2015	2016					2017E					2018E				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1A	Q2A	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Revenues:																	
Rental Income	$101,849	$113,080	$31,880	$33,072	$33,753	$34,822	$133,527	$35,035	$35,265	$33,737	$34,891	$138,928	$37,321	$38,403	$39,415	$40,427	$155,566
Interest Income from Mortgage loans	$16,553	$22,119	$6,578	$6,811	$6,958	$6,974	$27,321	$6,748	$6,625	$6,663	$6,693	$26,729	$6,723	$6,723	$6,753	$6,784	$26,984
Interest Income from REMICS	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Interest & other	$559	$1,004	$146	$113	$131	$345	$735	$839	$578	$650	$650	$2,717	$650	$650	$650	$650	$2,600
	$118,961	$136,203	$38,604	$39,996	$40,842	$42,141	$161,583	$42,622	$42,468	$41,050	$42,234	$168,374	$44,694	$45,776	$46,819	$47,861	$185,150
Expenses																	
Interest Expense	$13,128	$17,497	$6,000	$6,750	$6,836	$6,856	$26,442	$7,471	$7,151	$7,771	$7,945	$30,338	$8,212	$8,503	$8,774	$9,105	$34,594
Depreciation & Amort.	25,529	29,431	8,561	8,907	9,155	9,309	35,932	9,359	9,308	9,683	9,966	38,315	10,195	10,421	10,594	10,766	41,976
Impairment Charge	-	2,250	-	-	-	-	-	-	1,875	-	-	1,875	-	-	-	-	-
Acquisition costs	-	589	90	-	2	-	92	22	-	-	-	22	-	-	-	-	-
Provision for Doubtful Accounts	(46)	616	84	-	43	978	1,105	-	-	-	-	-	-	-	-	-	-
Operating and other expenses	11,910	15,144	4,283	4,239	4,464	4,631	17,617	4,702	4,386	4,232	4,329	17,649	4,603	4,692	4,752	4,834	18,882
Total Expenses	$50,521	$65,527	$19,018	$19,896	$20,500	$21,774	$81,188	$21,554	$22,720	$21,686	$22,239	$88,199	$23,010	$23,616	$24,120	$24,705	$95,452
Income from Operations	$68,440	$70,676	$19,586	$20,100	$20,342	$20,367	$80,395	$21,068	$19,748	$19,364	$19,994	$80,175	$21,684	$22,160	$22,698	$23,156	$89,698
Income from JVs	$0	$1,703	$272	$278	$289	$299	$1,138	$445	$575	$570	$570	$2,160	$570	$570	$570	$570	$2,280
Minority interests	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Income allocated to participating	($476)	($368)	($101)	($105)	($90)	($89)	($385)	($97)	($104)	($100)	($100)	($401)	($100)	($100)	($100)	($100)	($400)
Income from Discontinued	$4,959	$586	$0	$0	$1,780	$0	$1,780	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(Loss)/Gain on sale of assets	$0	$0	$0	$1,802	$0	$0	$1,802	$0	$5,054	$0	$0	$5,054	$0	$0	$0	$0	$0
Income Bef. Preferred div	$72,923	$72,597	$19,757	$22,075	$22,321	$20,577	$84,730	$21,416	$25,273	$19,834	$20,464	$86,988	$22,154	$22,630	$23,168	$23,626	$91,578
Preferred stock redemption charge																	
Preferred dividends	$3,273	$2,454	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Income for common	$69,650	$70,143	$19,757	$22,075	$22,321	$20,577	$84,730	$21,416	$25,273	$19,834	$20,464	$86,988	$22,154	$22,630	$23,168	$23,626	$91,578
Per share bef. Extra	$2.01	$1.96	$0.53	$0.58	$0.57	$0.53	$2.20	$0.54	$0.64	$0.50	$0.51	$2.18	$0.55	$0.56	$0.57	$0.57	$2.24
Extraordinary item	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Net (loss) income per share	$2.01	$1.96	$0.53	$0.58	$0.57	$0.53	$2.20	$0.54	$0.64	$0.50	$0.51	$2.18	$0.55	$0.56	$0.57	$0.57	$2.24
Quarterly dividend rate	$2.04	$2.07	$0.54	$0.54	$0.54	$0.54	$2.16	$0.57	$0.57	$0.57	$0.57	$2.28	$0.60	$0.60	$0.60	$0.60	$2.40
Shs Outstanding (diluted)	34,678,500	35,818,750	37,459,000	38,164,000	39,335,000	39,260,000	38,554,500	39,366,000	39,794,000	39,994,000	40,224,000	39,844,500	40,474,000	40,684,000	40,994,000	41,404,000	40,889,000

Source: Company reports and Hilliard Lyons estimates

Table 5. Funds From Operations Calculation

	2014 Year	2015 Year	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year	2017E Q1A	2017E Q2A	2017E Q3	2017E Q4	2017E Year	2018E Q1	2018E Q2	2018E Q3	2018E Q4	2018E Year
Net income for common shareholders	$69,650	$70,143	$19,757	$22,075	$22,321	$20,577	$84,730	$21,416	$25,273	$19,834	$20,464	$86,988	$22,154	$22,630	$23,168	$23,626	$91,578
Add Back:																	
Depreciation	$25,529	$29,431	$8,561	$8,907	$9,155	$9,309	$35,932	$9,359	$9,308	$9,683	$9,966	$38,315	$10,195	$10,421	$10,594	$10,766	$41,976
Other	$0	$3,140	$0	$105	$0	$0	$105	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Deduct:																	
Gain/loss on sales of real estate	$0	$0	$0	($1,802)	($1,780)	$766	($2,816)	$0	($3,174)	$0	$0	($3,174)	$0	$0	$0	$0	$0
FFO Available for common	$95,179	$102,714	$28,318	$29,285	$29,696	$30,652	$117,951	$30,775	$31,407	$29,517	$30,430	$122,129	$32,348	$33,051	$33,763	$34,392	$133,554
Diluted FFO available for common	$94,024	$105,016	$28,318	$29,285	$29,696	$30,652	$117,951	$30,775	$31,407	$29,517	$30,430	$122,129	$32,348	$33,051	$33,763	$34,392	$133,554
Basic FFO per share	$2.75	$2.87	$0.76	$0.77	$0.76	$0.79	$3.08	$0.79	$0.79	$0.74	$0.76	$3.08	$0.80	$0.82	$0.83	$0.84	$3.29
Diluted FFO per share	$2.56	$2.80	$0.76	$0.77	$0.76	$0.78	$3.06	$0.78	$0.79	$0.74	$0.76	$3.07	$0.80	$0.81	$0.82	$0.83	$3.27
Shares, basic	34,612,750	35,827,500	37,218,000	37,923,000	39,094,000	39,019,000	38,313,500	39,125,000	39,553,000	39,753,000	39,983,000	39,603,500	40,233,000	40,443,000	40,753,000	41,163,000	40,648,000
Shares, diluted	36,798,500	37,568,500	37,459,000	38,164,000	39,335,000	39,260,000	38,554,500	39,366,000	39,794,000	39,994,000	40,224,000	39,844,500	40,474,000	40,684,000	40,994,000	41,404,000	40,889,000
Diluted FFO excluding one time items																	

Table 6. Funds Available for Distribution Calculation

	2014 Year	2015 Year	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year	2017E Q1A	2017E Q2A	2017E Q3	2017E Q4	2017E Year	2018E Q1	2018E Q2	2018E Q3	2018E Q4	2018E Year
FFO Available for common	$95,179	$102,714	$28,318	$29,285	$29,696	$30,652	$117,951	$30,775	$31,407	$29,517	$30,430	$122,129	$32,348	$33,051	$33,763	$34,392	$133,554
Less:																	
Recurring real estate CAPX	($3,600)	($3,600)	($900)	($900)	($900)	($900)	($3,600)	($900)	($900)	($900)	($900)	($3,600)	($900)	($900)	($900)	($900)	($3,600)
Straight-line adjustment (ACR)	($6,722)	($7,463)	($2,104)	($2,183)	($2,228)	($2,298)	($8,813)	($2,312)	($2,327)	($2,227)	($2,303)	($9,169)	($2,463)	($2,535)	($2,601)	($2,668)	($10,267)
Non-real estate depreciation	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Funds available for distribution	$84,857	$91,651	$25,314	$26,202	$26,568	$27,454	$105,538	$27,563	$28,180	$26,391	$27,227	$109,360	$28,985	$29,616	$30,261	$30,824	$119,686
Per share	$2.45	$2.56	$0.68	$0.69	$0.68	$0.70	$2.75	$0.70	$0.71	$0.66	$0.68	$2.76	$0.72	$0.73	$0.74	$0.75	$2.94

Source: Company reports and Hilliard Lyons estimates

Additional information is available upon request.

Analyst Certification

I, John M. Roberts, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

The author of this report or members of his household have a long position in the common stock of LTC Properties, but may not engage in buying or selling contrary to the recommendation.

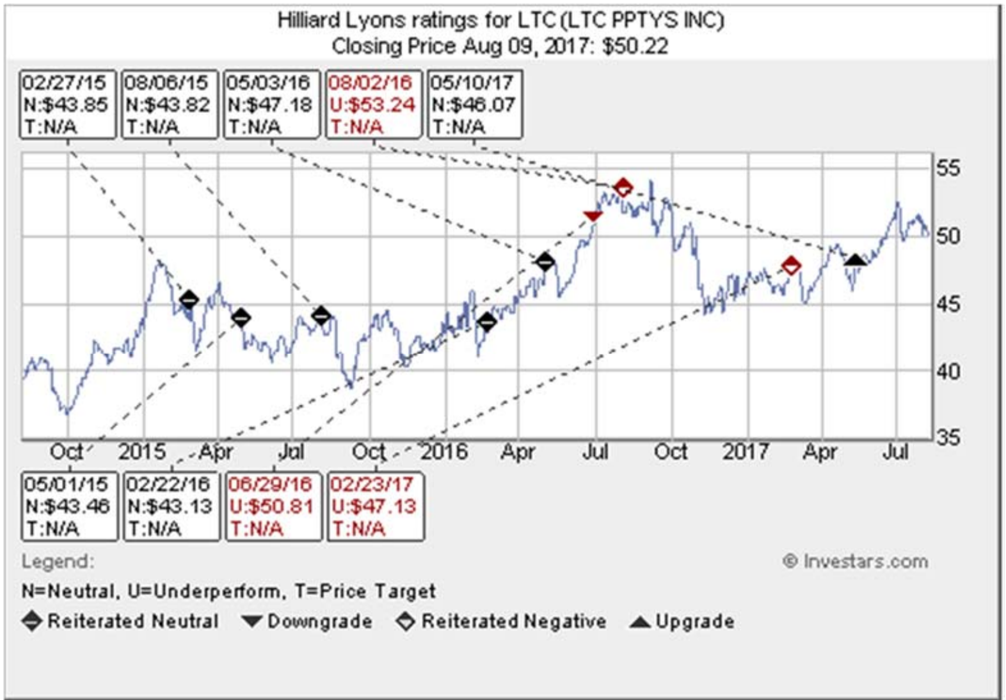
Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings
1 **-** A large cap, core holding with a solid history
2 **-** A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 **-** An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 **-** Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	**# of Stocks Covered**	**% of Stocks Covered**	**Banking**	**No Banking**
Buy	38	30%	11%	89%
Hold/Neutral	77	61%	8%	92%
Sell	11	9%	0%	100%

As of 9 August 2017



Other Disclosures

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