HILLIARD LYONS

Healthcare Real Estate Investment Trusts
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COMPANY UPDATE

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		5.0X

Normalized FFO

	2016	Prior 2017E	Current 2017E		Prior 2018E	Current 2018E
1Q	$0.76	--	$0.78	A	$0.82	$0.82
2Q	$0.77	--	$0.79	A	$0.82	$0.82
3Q	$0.76	$0.79	$0.79		$0.84	$0.84
4Q	$0.78	$0.81	$0.81		$0.85	$0.85
Year	$3.06	$3.16	$3.16		$3.34	$3.34
P/E	16.4x		15.9x			15.0x

* - 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	$45.9
2Q	$40.0	--	$42.5	A	$46.9	$46.9
3Q	$40.8	$43.7	$43.7		$48.1	$48.1
4Q	$42.1	$44.7	$44.7		$49.1	$49.1
Year	$161.5	$174.3	$173.5	*	$189.9	$189.9

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.*

LTC Properties, Inc.

LTC -- NYSE – Neutral-2

Q2 Earnings Overview

Investment Highlights

- LTC reported normalized Q2 FFO of $0.79 a share, a penny above our estimate and the consensus. The company reported $0.77 a share in the year ago period. Overall we are pleased with the results which were slightly better than our expectations. The company continued to make investments, with nearly $40 million in investments undertaken during the quarter. We note that the company also sold four assisted living communities, generating $14.3 million in proceeds and a $5.1 million gain on sale.
- We will wait until after the 11AM conference call to make a final decision on any changes in our estimates after discussing all of the recent transactions with management.
- LTC shares have performed largely in line with the industry group so far in 2017, keeping its valuation a little above the group as a whole. Reported results were good, and continue the growth we have seen from the company over the past several years. We remain partial to the company and its management and believe its minimal leverage should enable continued FFO growth. However, the valuation is not compelling enough for us to consider an upgrade to a positive rating at this time, in spite what is likely to be better results than many of its peers. As a result, our rating for LTC remains Neutral. We will lay out a more in-depth look at valuation and update our numbers in the report we are putting out after the conference call.

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

Second Quarter Review

Total revenue was $42.5 million versus $40.0 million, a 6.2% increase, a result of the recent acquisitions and investments consummated by the company. Rental income of $35.3 million was up 6.6% (please see income statement on page 3). Interest income from mortgage loans fell to $6.6 million up from $6.8 million.

Property Analysis Type	Number of Properties	Gross Investment (in thousands)	% of total	Rental/Int. Income (YTD-in thousands)	% of total	Number of Beds/Units	Investment Per Bed/Unit
Assisted Living Facilities	103	$742,518	47.09%	$35,115	42.36%	5,772	$128,641
Skilled Nursing Facilities	97	$802,361	50.88%	$47,575	57.38%	12,346	$64,990
Other	1	$10,216	0.65%	$216	0.26%	118	$86,576
Under Development	0	$21,878	1.39%	$0	0.00%	N/A	
Total	201	$1,576,973	100.00%	$82,906	100.00%	18,236	

Source: Company documents

Operating (G&A) and other expenses rose 3.5% to $4.4 million. Interest expense continued to increase with recent investments rising to $7.2 million from $6.8 million year-over-year. Depreciation expense increased 4.5% to $9.3 million versus $8.9 million. Q2 net income available to common shareholders was $25.3 million versus $22.1 million, a 14.5% increase, with this year including a $5.1 million gain on an asset sale and last year a $1.8 million gain. EPS were $0.64 versus $0.48 on 4.3% more average common shares outstanding.

Normalized funds from operations (FFO), which exclude real estate gains and other non-recurring items, were $31.4 million compared to $29.2 million in last year's second quarter, a 7.6% increase. Normalized FFO per diluted share were $0.79 versus $0.77.

LTC has $27 million in debt maturing in 2017, which we expect will either be refinanced with new debt or paid off with the credit line. The credit line is not due until 2018 plus a one year extension. The company currently has $45 million outstanding on the line which has $600 million in total capacity, so there is plenty of room available. We expect no liquidity issues for LTC, as it is well capitalized and should be in an excellent position to grow its portfolio by purchasing properties from smaller, private property holders. At quarter-end, LTC's debt to total market capitalization was an estimated 24%, one of the lowest in the healthcare REIT sector.

Other 2nd Quarter Activity

Investment Activity – During the second quarter LTC announced the purchase of a 107 unit assisted living facility and a senior housing community with 25 independent living and memory care units in California for $38.8 million. Upon closing LTC entered into a 15-year master lease agreement at an initial cash yield of 7.0% with a new operator. The company also sold four assisted living communities in Indiana and Ohio for $14.3 million. The company will lose $0.95 million in annual rent on this sale. Subsequent to quarter end the company purchased a newly constructed memory care unit for $15.7 million and added it to an existing master lease.

Capital Markets Activity – LTC's had no meaningful capital market activity during Q2 other than taking down capital off of its credit line to pay for the purchases and issuing a small number of common shares under its equity issuance program.

Dividend – LTC raised its dividend for Q4'16, raising it a penny a month, and it now amounts to $2.28 annually or $0.19 a month as LTC pays its dividend on a monthly basis. This increase seems to be in line with our expectations for FFO growth over the coming years.

Quarterly Income Statement

(in thousands)	2Q 2017	2Q 2016	% Change
Rental Income	$35,265	$33,072	6.6%
Interest Income from mortgage Loans	6,625	6,811	-2.7%
Interest and Other Income	578	113	411.5%
Total Revenue	42,468	39,996	6.2%
Impairment charge, net	1,875	0	
Acquisition costs	0	0	0.0%
Operating and other	4,386	4,239	3.5%
EBITDA	36,207	35,757	1.3%
Interest Expense	7,151	6,750	5.9%
Depreciation Expense	9,308	8,907	4.5%
Income (Loss) Before Discontinued Operations and Other Items	19,748	20,100	-1.8%
Discontinued Operations (including gain on sale of assets)	5,054	1,802	
Minority Interest	471	173	
Preferred Stock Dividends	0	0	
Net Income (Loss)	$25,273	$22,075	14.5%
Net EPS (diluted)	$0.64	$0.58	10.3%
Avg. Shares Outstanding (diluted)	39,794	38,164	4.3%

Funds From Operations	2Q 2017	2Q 2016	
Net Income	$25,273	$22,075	14.5%
Depreciation Expense	9,308	8,907	4.5%
Other (adding/substracting one-time items)	(3,174)	(1,802)	
Normalized Funds From Operations	**$31,407**	**$29,180**	7.6%
Normalized FFO Per Share (diluted)	**$0.79**	**$0.77**	2.6%

Source: Company reports.

Consolidated Balance Sheet

(in thousands)	June 30, 2017	December 31, 2016
Real Estate Assets		
Land	$122,851	$116,096
Buildings and Improvements (net of Depreciation)	$940,848	$909,606
Properties held for sale	$1,170	$0
Mortgage Loans Receivable	220,385	229,801
Total Net Real Estate Investments	1,285,254	1,255,503
Cash and Cash Equivalents	9,299	7,991
Debt issue costs	1,349	1,847
Interest Receivable	12,255	9,683
Straight line rent	59,287	55,276
Prepaid and other	27,010	22,948
Notes Receivable	16,402	16,427
Investment in JV	29,702	25,221
Total Assets	**$1,440,558**	**$1,394,896**
Bank Borrowings	$45,000	$107,100
Earn Out Liability	12,140	12,229
Bond payable and capital leases	597,898	502,291
Accrued expenses and other liabilities	23,810	28,553
Liabilities for properties held for sale	0	0
Dividend payable	0	0
Accrued Interest	4,543	4,675
Total Liabilities	**$683,391**	**$654,848**
Minority Interest	$0	$0
Preferred stock	-	-
Common Stock	396	392
Capital in Excess of Par Value	854,340	839,005
Cumulative net income	1,060,333	1,013,443
Other	0	0
Cumulative Distributions	(1,157,902)	(1,112,792)
Total Shareholders' Equity	**757,167**	**740,048**
Total Liabilities and Shareholders' Equity	**$1,440,558**	**$1,394,896**

Balance Sheet Ratio Analysis	June 30, 2017	December 31, 2016
Net R/E Investments / Total Debt	50.0%	48.5%
Debt to Equity	86.5%	84.0%
Debt as % of Total Assets	45.5%	44.6%
Shareholders' Equity as % of Total Assets	52.6%	53.1%

Source: Company reports.

Conference Call and Initial Thoughts

LTC is having a conference call later today at 11AM. We will have a full report, including valuation and earnings model after the call. Management did note in the press release that it was having problems with some of its operators, entering an agreement to transition two of its memory care communities to a different operator in its portfolio. It also issued a default notice on a master lease covering 11 memory care communities, two of which are under development. The company is currently negotiating a transition of two of the properties to a specific operator and working on a variety of paths with the remainder. The annual lease rent on these properties is $11.7 million and we anticipate that there might be some write-offs or a loss of revenue around this transition, although we expect management to be able to re-lease or sell these properties to new tenants, likely before year end. We will need to get more clarity from management on the conference call to get a better feel for the potential impact here, however. Overall, the reported numbers were very much in line with our expectations, with virtually all line items reasonably close to ours. The acquisitions announced during the quarter, as well as the one announced early in Q3 should add to earnings going forward. We continue to find the company's balance sheet to be very attractive at this point with capacity to take advantage of accretive transactions.

We remain partial to the company and management. Having said that, the shares trade at a valuation above historic norms and slightly above the peer group, especially when considering that nearly half of its assets are skilled nursing properties, which command a lower valuation. As such, we see our rating on the shares to be appropriate at this time given the company's property mix and valuations of the peer group and despite the increase we have seen in FFO. We will be paying close attention to how the company takes care of the tenant issues discussed above, although we anticipate little long-term impact given the demand for such properties and positive demographics.

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, adds risk due to potential political issues.

Risks

REITs in general need access to debt capital to grow; if such debt capital is unavailable, the company may have difficulty in growing. 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 REITs 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.

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

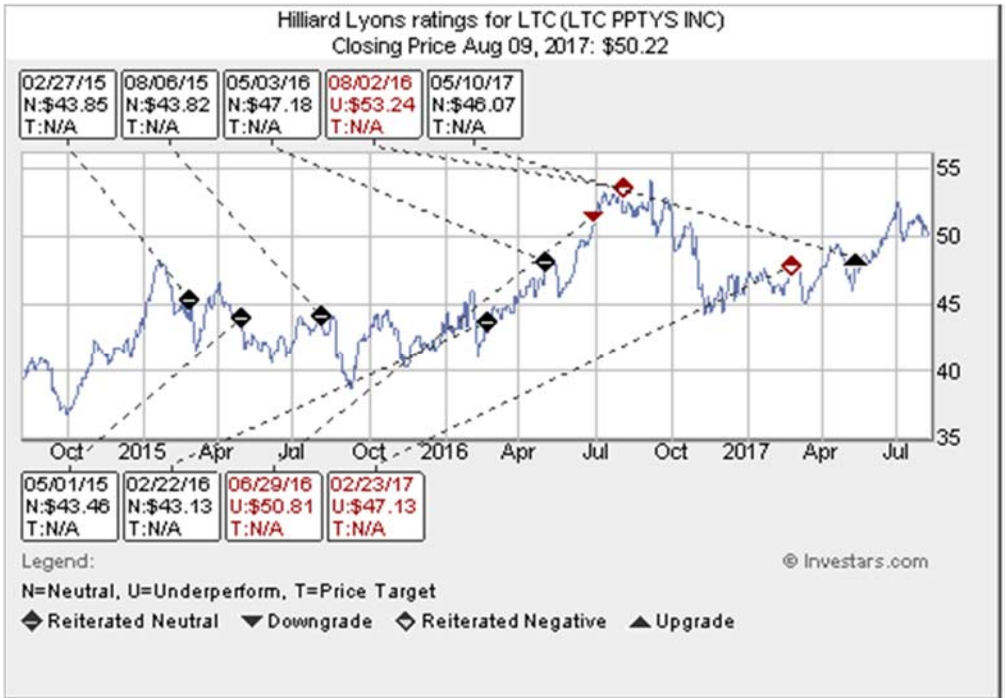
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe 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	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017



Other Disclosures

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