HILLIARD LYONS

Healthcare Real Estate Investment Trusts
John Roberts
J.J.B. Hilliard, W.L. Lyons, LLC
502.588.1165 / jmroberts@hilliard.com
Institutional Sales Desk: George Moorin
502.585.8909/GMoorin@hilliard.com
February 23, 2017

COMPANY UPDATE

LTC Properties, Inc.

LTC -- NYSE – Underperform-2

Q4 Earnings Overview

Key Metrics

LTC - NYSE -	2/22/17	$47.13
Price Target		N/A
52-Week Range		$42.28 - $54.20
Shares Outstanding (mm)		37.9
Market Cap. ($mm)		$1,786.2
1-Mo. Average Daily Volume		150,711
Institutional Ownership		78.0%
Debt/Total Capital	Dec-16	24.9%
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		4.84%
Est. Fixed Charge Coverage		5.0X

Normalized FFO

	2015	Prior 2016	Current 2016	Prior 2017E	Current 2017E
1Q	$0.65	--	$0.76	$0.78	$0.78
2Q	$0.67	--	$0.77	$0.78	$0.78
3Q	$0.73	--	$0.76	$0.81	$0.81
4Q	$0.74	--	$0.78	$0.83	$0.83
Year	$2.80		$3.06	$3.20 *	$3.20
P/E	16.8x		15.4x *		14.7x *

* - Do not add up due to rounding

Revenue ($mm)

	2015	Prior 2016	Current 2016	Prior 2017E	Current 2017E
1Q	$31.5	--	$38.6	$42.4	$42.4
2Q	$32.4	--	$40.0	$43.3	$43.3
3Q	$34.9	--	$40.8	$44.5	$44.5
4Q	$37.4	--	$42.1	$46.0	$46.0
Year	$136.2		$161.5 *	$176.2	$176.2

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 reported normalized Q4 FFO of $0.78 a share, equal to our estimate and a penny above the consensus. Recent acquisitions have spurred the growth in FFO, and allowed the company to reach our above consensus estimate.
- LTC has among the strongest balance sheets in the group, and remains in an excellent position to continue to make acquisitions of the types of properties they are targeting, in our view.
- The company did not announce guidance for 2017 in the press release, but we anticipate that it will offer some guidance on the conference call. At this point, we are not changing our $3.20 a share FFO estimate for 2017.
- LTC has been relatively active and consistent in making tuck-in acquisitions, targeting one-off, under the radar type transactions. We note that LTC's skilled nursing exposure might result in some the same issues that have been noted by other healthcare REITs whose tenants have been hurt by increased labor costs, resulting in lower rent coverage ratios as the profitability of the operators has declined. This could create some pressure on the stock price, although we see the REITs as generally only likely to be tangentially impacted by this as the operators are much stronger than they have been in the past and likely to be more able to absorb these costs without major damage. Having said that, we still see a share price risk here. We will wait until the company's 11AM conference call before updating our estimates, price target and rating.

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

Fourth Quarter Review

Total revenue was $42.1 million versus $37.4 million, a 12.7% increase. Rental income of $34.8 million was up 13.2% (please see income statement on page 3). Interest income rose during the quarter, as new mortgage loans added to the number. Income from mortgage loans was $7.0 million up from $6.3 million, while interest and other income was $0.3 million in both quarters.

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	111	$711,645	46.40%	$64,380	48.61%	5,985	$118,905
Skilled Nursing Facilities	97	$753,326	49.12%	$61,429	46.38%	11,644	$64,696
Range of Care	7	$43,140	2.81%	$5,774	4.36%	908	$47,511
Other	1	$11,424	0.74%	$865	0.65%	118	$96,814
Under Development	0	$14,142	0.92%	$0	0.00%	N/A	
Total	216	$1,533,677	100.00%	$132,448	100.00%	18,655	

Source: Company reports, as of Dec. 31st.

Operating (G&A) and other expenses rose 15.7% to $4.6 million. Interest expense rose 22.8% to $6.9 million from $5.6 million due to a slight increase in debt and terming out some debt at higher rates. Depreciation expense increased 12.0% to $9.3 million versus $8.3 million. Fourth quarter net income available to common shareholders was $20.6 million versus $17.8 million, a 15.3% increase. EPS were $0.53 versus $0.48 on 5.1% more common shares outstanding.

Normalized funds from operations (FFO), which exclude real estate gains and other non-recurring items, were $30.7 million compared to $27.8 million in last year's fourth quarter, a 10.2% increase. Normalized FFO per diluted share were $0.78 versus $0.74.

LTC has little debt maturing in 2017. The credit line is not due until 2018 plus a one year extension. The company currently has $107 million outstanding on the line. We expect no liquidity issues for LTC, as it is well capitalized compared to its peers and should be in an excellent position to grow its portfolio by purchasing properties from smaller, private property holders. The company has no preferred stock outstanding. At quarter-end, LTC's debt to total market capitalization was 24.9%, one of the lowest in the healthcare REIT sector.

Other 4th Quarter Activity

Investment Activity – During Q4 LTC bought a parcel of land for $1.6 million and entered into a construction agreement under which it made a $14.5 million commitment to construct a memory care community. In addition, it purchased two mezzanine loans amounting to nearly $16 million with an expected yield averaging close to 15%. The company also completed construction and opened a independent living community in Kansas. Subsequent to quarter end the company entered into an agreement to sell a property for a minimal amount, with no meaningful financial impact expected.

Capital Markets Activity – During the quarter, LTC undertook no meaningful capital raising, although subject to quarter end the company amended its credit agreement to increase its size, sold $100 million in 15-year unsecured notes at a fixed 4.5% rate to institutional investors, and sold 312,881 shares of common for $14.6 million under its equity distribution agreement.

Quarterly Income Statement

(in thousands)	4Q 2016	4Q 2015	% Change
Rental Income	$34,822	$30,755	13.2%
Interest Income from Mortgage Loans	6,974	6,342	10.0%
Interest and Other Income	345	296	16.6%
Total Revenue	42,141	37,393	12.7%
Legal Expenses	0	0	0.0%
Provisions for doubtful Accts./impairments	978	2,406	
Operating and other	4,631	4,004	15.7%
EBITDA	36,532	30,983	17.9%
Interest Expense	6,856	5,581	22.8%
Depreciation Expense	9,309	8,310	12.0%
Income (Loss) Before Discontinued Operations and Other Items	20,367	17,092	19.2%
Discontinued Operations (including gain on sale of assets)	0	586	
Minority Interest	299	276	
Income to participating securities	(89)	(114)	
Preferred Stock Dividends	0	0	
Net Income (Loss)	$20,577	$17,840	15.3%
Net EPS (diluted)	$0.53	$0.48	10.4%
Avg. Shares Outstanding (diluted)	39,260	37,358	5.1%

Funds From Operations	4Q 2016	4Q 2015	
Net Income	$20,577	$17,840	15.3%
Depreciation Expense	9,309	8,310	12.0%
Other (adding/substracting one-time items)	766	1,664	
Normalized Funds From Operations	**$30,652**	**$27,814**	10.2%
Normalized FFO Per Share	**$0.78**	**$0.74**	5.4%

Source: Company reports.

Consolidated Balance Sheet

(in thousands)	December 31, 2016	December 31, 2015
Real Estate Assets		
Land	$116,096	$106,841
Buildings and Improvements (net of Depreciation)	$909,606	$840,580
Properties held for sale	$0	$0
Mortgage Loans Receivable	229,801	217,529
Total Net Real Estate Investments	1,255,503	1,164,950
Cash and Cash Equivalents	7,991	12,942
Debt issue costs	1,847	2,865
Interest Receivable	9,683	4,536
Straight line rent	55,276	42,685
Prepaid and other	22,948	21,443
Notes Receivable	16,427	1,961
Investment in JV	25,221	24,042
Total Assets	**$1,394,896**	**$1,275,424**
Bank Borrowings	$107,100	$120,500
Earn Out Liability	12,229	12,722
Bond payable and capital leases	502,291	451,372
Accrued expenses and other liabilities	28,553	27,654
Liabilities for properties held for sale	0	0
Dividend payable	0	0
Accrued Interest	4,675	3,974
Total Liabilities	**$654,848**	**$616,222**
Minority Interest	$0	$0
Preferred stock	-	-
Common Stock	392	375
Capital in Excess of Par Value	839,005	758,676
Cumulative net income	1,013,443	928,328
Other	0	47
Cumulative Distributions	(1,112,792)	(1,028,224)
Total Shareholders' Equity	**740,048**	**659,202**
Total Liabilities and Shareholders' Equity	**$1,394,896**	**$1,275,424**

Balance Sheet Ratio Analysis	December 31, 2016	December 31, 2015
Net R/E Investments / Total Debt	48.5%	49.1%
Debt to Equity	84.0%	88.7%
Debt as % of Total Assets	44.6%	45.8%
Shareholders' Equity as % of Total Assets	53.1%	51.7%

Source: Company reports.

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. At this point, nothing in the company's results or press release changes our expectations or thesis for LTC prior to hearing management's discussion of the quarter on the conference call. Management is continuing its strategy of targeting higher yield, smaller investments that are unlikely to see a lot of interest from the behemoths in the industry. The reported numbers were in line with our expectations and we have no reason to change our numbers or thesis prior to the call off of these earnings. The revenue numbers were solid, and while the Q4 and Q1 acquisition announced so far have been a little below our expectations, the yields have been higher than expected, largely offsetting the impact of the lower numbers. With the company's strong balance sheet, we do not see any additional equity offerings, other than continuing amounts under the DRP and ATM programs. We still believe the company can push its debt to total capital ratio up to the 30% level with little impact, as it would still be one of the lowest levered companies in the group.

LTC's acquisitions have been very solid in our view, and have added to both the company's bottom line as well as its long term prospects. The acquisitions and developments added in Q3, Q4 2016 and now in Q1 2017 should provide for long-term growth. We see the strength of the company's balance sheet as a huge opportunity in the current environment as it may allow LTC management to be a little more aggressive on the investment front. We will be waiting for the conference call before making a call on any change on our assumptions for 2017 acquisitions as well our FFO outlook. We will be waiting to hear the company's 2017 guidance as well, but at this point we are holding to our existing 2017 number. We continue to be very positively predisposed to LTC, but still feel the shares are a little highly priced, in spite of the decline over the past several months. We are also worried about the labor issue being pointed to by other REITs and how this may impact the perception of the healthcare REITs particularly those with heavy skilled nursing exposure, such as those held by LTC. We will be fleshing out that issue with management on the conference call later today.

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.

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

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 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.

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, generally 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	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities.