Healthcare Real Estate Investment Trusts
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COMPANY UPDATE/ESTIMATE CHANGE

Key Metrics

LTC - NYSE -	2/22/17	$47.13
Price Target		N/A
52-Week Range	$42.28 -	$54.20
Shares Outstanding (mm)		39.2
Market Cap. ($mm)		$1,847.5
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		2016		Prior 2017E		Current 2017E	
1Q	$0.65	--	$0.76		$0.78		$0.77	
2Q	$0.67	--	$0.77		$0.78		$0.76	
3Q	$0.73	--	$0.76		$0.81		$0.78	
4Q	$0.74	--	$0.78		$0.83		$0.81	
Year	$2.80		$3.06		$3.20	*	$3.13	
P/E	16.8x		15.4x	*			15.1x	*

* - Do not add up due to rounding

Revenue ($mm)

	2015		2016		Prior 2017E	Current 2017E
1Q	$31.5	--	$38.6		$42.4	$42.4
2Q	$32.4	--	$40.0		$43.3	$43.1
3Q	$34.9	--	$40.8		$44.5	$44.2
4Q	$37.4	--	$42.1		$46.0	$45.5
Year	$136.2		$161.5	*	$176.2	$175.2

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.*

LTC Properties, Inc.

LTC -- NYSE – Underperform-2

Q4 Conference Call Discussion

Investment Highlights

- LTC management initiated FFO guidance for 2017 at $3.08 to $3.10 a share, not much above the 2016 number. However, we note that the refinance of the debt off the credit line into long-term fixed rate debt discussed in our previous report increases expenses by eight cents. In that regards, the guidance is actually stronger than we would have anticipated given that it includes no new investment. We have adjusted our estimate to $3.13 a share, which is actually a penny higher than our previous estimate, when adjusted for the impact of the eight cent negative interest expense. We are assuming just under $150 million in additional investment for the year. We are also initiating a 2018 FFO estimate of $3.29 a share, two cents under the consensus.
- Management discussed the acquisitions already made in Q1, and a pipeline that is currently about $50 million, lower than we might have expected, thus our drop in forward investment expectations in comparison to 2016.
- We continue to like LTC's advantages over its larger peers due to the fundamental ability of small targeted higher yield transactions to really impact the bottom line. The two mezzanine investments LTC closed in Q1 offer an example of such investments, as does its development activity. While development results in a little more risk and higher expense, it builds relationships that can be leveraged into new investments, as do the mezzanine investments. Despite all of these positives, our rating remains Underperform as the stock remains above our preferred valuation range in spite of management's continued strong performance. The lower year over year growth as a result of the higher debt costs are also likely to create some headwinds. We will be paying close attention to LTC's price for an opportunity to reconsider our rating, all things being equal as we remain positive on the company's management team and portfolio.

Note Important Disclosures on Pages 5-6.
Note Analyst Certification on Page 5.

Additional Conference Call Discussion

On the property portfolio front, the company noted that for its entire portfolio approximately 52.4% is private pay. Operating statistics have been solid, with trailing occupancy on its assisted living (ALF) portfolio sitting at 85.5%, 78.5% for its skilled nursing (SNF) portfolio and 78.7% for its range of care properties. Coverage ratios are also relatively strong, with ratios of 1.50 times before management fees for its ALF portfolio, 2.05 times for its SNF portfolio and 1.67 times for the remainder. While these numbers have come down from the previous year, we are pleased at the relatively high numbers in light of the labor difficulties discussed by other REITs during the quarter. In general, the company currently has no issues with its tenants, as coverage ratios are solid and management is not entertaining any restructuring negotiations with its tenants.

On the acquisition/investment front, management noted that its current pipeline is much smaller than typical, and we have dropped our expectations for 2017 investment activity, although we have also added a bit to our expected return on that investment in light of the high yields on the mezzanine debt acquired already in Q1. Management continued to express reticence making operating investments, an appropriate strategy in our opinion due to the higher risk profile on such investments. Most investment will be in development and mortgage loans where appropriate, thus the higher yield. Our net assumption for acquisitions and investments in 2017 now stands at around $100 million. Management noted that the current environment on SNF purchase is in the 9.0% area, although they would be willing to offer lower rates for existing master lease tenants. They also noted that the returns for ALF are more in the 7-7.5% range, as competition there is higher. In general, pricing is more difficult in the current environment. Management indicated that some operators are shying away from the triple net lease structure (where the tenant pays taxes, capital spending, general upkeep, etc.) and that they are willing to work with potential tenants on other types of lease structures.

As noted earlier, management initiated 2017 FFO guidance of $3.08-$3.10 a share. We are fine-tuning our estimate down by the eight cents of the additional debt costs, but up a penny for higher yields on a lower investment number to reach our new $3.13 a share estimate, which is above the company's guidance and dependent upon acquisition activity. The consensus sits at $3.18 a share, although we expect it to come down with the debt refinancing. We are initiating our 2018 estimate at $3.29, which assumes continued development activity coming on line that year, a modest amount of acquisitions and continued development activity coming on line. We are below the consensus of $3.31 a share.

First Quarter and 2017 Outlook

At this point, we are looking for 1Q FFO of $0.77 a share, with the assumption that the company closes no meaningful acquisitions beyond what has already been announced during the quarter and it sees some incremental return from development activity, offset by the higher interest expense. We note that we expect any new investment to be highly accretive, as following the debt refinancing, the company has virtually no balance on its credit line, and we expect the next $100 million or so in investment to be made using the line, which is the company's cheapest source of capital. The company has more than $600 million in capital availability including the line and various other sources. We are assuming no equity raise throughout 2017 other than modest amount under its "at the market" stock distribution program. Our full year estimate is FFO of $3.13 a share. Our initial 2018 estimate is $3.29 a share.

Valuation

Using our $3.13 a share estimate for 2017, LTC shares are trading at 15.1 times year ahead FFO. This is a premium to the peer group. The company also offers a dividend yield lower than the peer group at 4.8%. We note that its low leverage does provide it with more dry powder to generate additional purchases and less financial risk, however. The company also offers 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. While there are positives, the current share price has moved to a point we believe is on the extended side compared to the overall peer group in light of the company's property mix. We note that while LTC has a solid mix of property types, nearly 55% of its property revenue comes from the lower valued skilled nursing sector. Looking at the largest pure play skilled nursing company, Omega Healthcare, it trades at 9.1X 2017 FFO.

Health Care REITs		Closing Price	Current		2017E			2-Year Average	Price / FFO	
	Symbol	2/22/2017	Dividend	Yield	Payout Ratio	2016	2017E	Growth Rate	2016	2017E
HCP, Inc.	HCP	$31.64	$1.48	4.7%	74.4%	$2.74	$1.99	-20.6%	11.5x	15.9x
Welltower, Inc.	HCN	$67.70	$3.48	5.1%	80.2%	$4.57	$4.34	-0.5%	14.8x	15.6x
National Health Investors	NHI	$74.78	$3.60	4.8%	69.2%	$4.87	$5.20	5.5%	15.4x	14.4x
Omega Healthcare Investors	OHI	$32.06	$2.48	7.7%	70.5%	$3.41	$3.52	6.9%	9.4x	9.1x
Ventas, Inc.	VTR	$62.72	$2.92	4.7%	68.5%	$4.13	$4.26	-2.4%	15.2x	14.7x
Health Care Sector Average		**$53.78**	**$2.79**	**5.2%**	**72.3%**	**$3.94**	**$3.86**	**-1.1%**	**13.6x**	**13.9x**
LTC Properties, Inc.	LTC	$47.13	$2.28	4.8%	72.8%	$3.06	$3.13	5.7%	15.4x	15.1x

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 adds 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. 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

	2013 Year	2014 Year	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2015 Year	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year	2017E Q1	2017E Q2	2017E Q3	2017E Q4	2017E Year
Revenues:																	
Rental Income	$98,954	$101,849	$26,678	$27,116	$28,531	$30,755	$113,080	$31,880	$33,072	$33,753	$34,822	$133,527	$34,949	$35,492	$36,505	$37,764	$144,710
Interest Income from Mortgage loans	$6,298	$16,553	$4,607	$5,053	$6,117	$6,342	$22,119	$6,578	$6,811	$6,958	$6,974	$27,321	$7,142	$7,196	$7,251	$7,328	$28,918
Interest Income from REMICS	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Interest & other	$510	$559	$195	$218	$295	$296	$1,004	$146	$113	$131	$345	$735	$350	$410	$410	$415	$1,585
	$105,762	$118,961	$31,480	$32,387	$34,943	$37,393	$136,203	$38,604	$39,996	$40,842	$42,141	$161,583	$42,441	$43,099	$44,166	$45,507	$175,213
Expenses																	
Interest Expense	$11,364	$13,128	$3,766	$3,854	$4,296	$5,581	$17,497	$6,000	$6,750	$6,836	$6,856	$26,442	$7,664	$8,201	$8,473	$8,628	$32,966
Depreciation & Amort.	24,636	25,529	6,779	6,977	7,365	8,310	29,431	8,561	8,907	9,155	9,309	35,932	9,364	9,695	10,028	10,307	39,395
Impairment Charge	-	-	-	-	-	2,250	2,250	-	-	-	-	-	-	-	-	-	-
Acquisition costs	-	-	-	-	539	50	589	90	-	2	-	92	-	-	-	-	-
Provision for Doubtful Accounts	2,139	(46)	-	429	31	156	616	84	-	43	978	1,105	-	-	-	-	-
Operating and other expenses	11,678	11,910	3,499	3,952	3,739	3,954	15,144	4,283	4,239	4,464	4,631	17,617	4,626	4,827	4,637	4,687	18,778
Total Expenses	$49,817	$50,521	$14,044	$15,212	$15,970	$20,301	$65,527	$19,018	$19,896	$20,500	$21,774	$81,188	$21,653	$22,723	$23,139	$23,622	$91,138
Income from Operations	$55,945	$68,440	$17,436	$17,175	$18,973	$17,092	$70,676	$19,586	$20,100	$20,342	$20,367	$80,395	$20,787	$20,375	$21,027	$21,885	$84,075
Income from JVs	$0	$0	$0	$753	$674	$276	$1,703	$272	$278	$289	$299	$1,138	$295	$305	$295	$310	$1,205
Minority interests	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Income allocated to participating	($383)	($476)	($7)	($126)	($121)	($114)	($368)	($101)	($105)	($90)	($89)	($385)	($90)	($90)	($90)	($90)	($360)
Income from Discontinued	$2,884	$4,959	$0	$0	$0	$586	$586	$0	$0	$1,780	$0	$1,780	$0	$0	$0	$0	$0
(Loss)/Gain on sale of assets	($1,014)	$0	$0	$0	$0	$0	$0	$0	$1,802	$0	$0	$1,802	$0	$0	$0	$0	$0
Income Bef. Preferred div	$57,432	$72,923	$17,429	$17,802	$19,526	$17,840	$72,597	$19,757	$22,075	$22,321	$20,577	$84,730	$20,992	$20,590	$21,232	$22,105	$84,920
Preferred stock redemption charge																	
Preferred dividends	$3,273	$3,273	$818	$818	$818	$0	$2,454	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Income for common	$54,159 $0	$69,650	$16,611	$16,984	$18,708	$17,840	$70,143	$19,757	$22,075	$22,321	$20,577	$84,730	$20,992	$20,590	$21,232	$22,105	$84,920
Per share bef. Extra	$1.63	$2.01	$0.47	$0.48	$0.53	$0.48	$1.96	$0.53	$0.58	$0.57	$0.53	$2.20	$0.53	$0.52	$0.53	$0.55	$2.14
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	$1.63	$2.01	$0.47	$0.48	$0.53	$0.48	$1.96	$0.53	$0.58	$0.57	$0.53	$2.20	$0.53	$0.52	$0.53	$0.55	$2.14
Quarterly dividend rate	$1.91	$2.04	$0.51	$0.51	$0.51	$0.54	$2.07	$0.54	$0.54	$0.54	$0.54	$2.16	$0.57	$0.57	$0.57	$0.57	$2.28
Shs Outstanding (diluted)	33,168,000	34,678,500	35,277,000	35,299,000	35,341,000	37,358,000	35,818,750	37,459,000	38,164,000	39,335,000	39,260,000	38,554,500	39,460,000	39,660,000	39,860,000	40,090,000	39,767,500

Source: Company reports and Hilliard Lyons estimates

Table 5. Funds From Operations Calculation

	2013 Year	2014 Year	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2015 Year	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year	2017E Q1	2017E Q2	2017E Q3	2017E Q4	2017E Year
Net income for common shareholders	$54,159	$69,650	$16,611	$16,984	$18,708	$17,840	$70,143	$19,757	$22,075	$22,321	$20,577	$84,730	$20,992	$20,590	$21,232	$22,105	$84,920
Add Back:																	
Depreciation	$24,636	$25,529	$6,779	$6,977	$7,365	$8,310	$29,431	$8,561	$8,907	$9,155	$9,309	$35,932	$9,364	$9,695	$10,028	$10,307	$39,395
Other	$927	$0	$0	$0	$1,476	$1,664	$3,140	$0	$105	$0	$0	$105	$0	$0	$0	$0	$0
Deduct:																	
Gain/loss on sales of real estate	$1,014	$0	$0	$400	$0	$0	$0	$0	($1,802)	($1,780)	$766	($2,816)	$0	$0	$0	$0	$0
FFO Available for common	$80,736	$95,179	$23,390	$24,361	$26,598	$27,814	$102,714	$28,318	$29,285	$29,696	$30,652	$117,951	$30,356	$30,286	$31,261	$32,412	$124,314
Diluted FFO available for common	$83,820	$94,024	$24,341	$25,312	$27,549	$27,814	$105,016	$28,318	$29,285	$29,696	$30,652	$117,951	$30,356	$30,286	$31,261	$32,412	$124,314
Basic FFO per share	$2.44	$2.75	$0.66	$0.69	$0.75	$0.74	$2.87	$0.76	$0.77	$0.76	$0.79	$3.08	$0.77	$0.77	$0.79	$0.81	$3.15
Diluted FFO per share	$2.37	$2.56	$0.65	$0.67	$0.73	$0.74	$2.80	$0.76	$0.77	$0.76	$0.78	$3.06	$0.77	$0.76	$0.78	$0.81	$3.13
Shares, basic	33,088,250	34,612,750	35,288,000	35,322,000	35,364,000	37,336,000	35,827,500	37,218,000	37,923,000	39,094,000	39,019,000	38,313,500	39,219,000	39,419,000	39,619,000	39,849,000	39,526,500
Shares, diluted	35,317,250	36,798,500	37,529,000	37,563,000	37,605,000	37,577,000	37,568,500	37,459,000	38,164,000	39,335,000	39,260,000	38,554,500	39,460,000	39,660,000	39,860,000	40,090,000	39,767,500
Diluted FFO excluding one time items																	

Table 6. Funds Available for Distribution Calculation

	2013 Year	2014 Year	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2015 Year	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year	2017E Q1	2017E Q2	2017E Q3	2017E Q4	2017E Year
FFO Available for common	$80,736	$95,179	$23,390	$24,361	$26,598	$27,814	$102,714	$28,318	$29,285	$29,696	$30,652	$117,951	$30,356	$30,286	$31,261	$32,412	$124,314
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)	($6,531)	($6,722)	($1,761)	($1,790)	($1,883)	($2,030)	($7,463)	($2,104)	($2,183)	($2,228)	($2,298)	($8,813)	($2,307)	($2,342)	($2,409)	($2,492)	($9,551)
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	$70,605	$84,857	$20,729	$21,671	$23,815	$24,884	$91,651	$25,314	$26,202	$26,568	$27,454	$105,538	$27,150	$27,043	$27,951	$29,020	$111,164
Per share	$2.13	$2.45	$0.59	$0.61	$0.67	$0.67	$2.56	$0.68	$0.69	$0.68	$0.70	$2.75	$0.69	$0.69	$0.71	$0.73	$2.81

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, 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.

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