HILLIARD LYONS

Healthcare Real Estate Investment Trusts
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COMPANY UPDATE/ESTIMATE/RATING CHANGE

LTC Properties, Inc.

LTC -- NYSE – Neutral-2

Q1 Conference Call Discussion

Investment Highlights

- LTC management retained its FFO per share guidance with the lower level of Q1 investment not allowing the company to push the numbers up as they have in the past, although they did indicate that any potential future change is likely to be higher. We are bumping our estimate for FFO for the year to $3.16 a share, which remains above guidance and equals the consensus. We have assumed that the company would add incremental investments as the year progresses, which is built into our estimate, although we could push it higher if investment activity is ramped up.
- Operationally, the company's property portfolio continues to do well, with the operating metrics being reported by the company's tenants generally at or above peer group averages.
- We continue to really like LTC's advantages over its large peers due to small, targeted high yield transactions really impacting the bottom line of the company, as well as continuing higher yield development projects. Our downgrade to Underperform was a function of a premium valuation versus its peers. With the share price underperforming the peer group and with the valuations of others having moved up due to lower earnings expectations, LTC's valuation is now about equal to the peer group, especially with our push higher on LTC's earnings. As such, we now believe a Neutral rating is more appropriate, especially looking out a year to 2018 numbers. We continue to believe that LTC should likely get a premium valuation with its lower leverage, and although it now sits at about the peer group average, with our worries about a rise in longer term rates next year, we do not yet see a reason for a positive rating, other than for a potential trade, something we typically would not recommend. As such, we are raising our rating on the company's shares to Neutral. We remain positive on the company's management team and portfolio and continue to wait for an appropriate entry point.

Key Metrics

LTC - NYSE -	5/9/17	$46.07
Price Target		N/A
52-Week Range		$43.17 - $54.20
Shares Outstanding (mm)		39.4
Market Cap. ($mm)		$1,815.2
1-Mo. Average Daily Volume		150,711
Institutional Ownership		78.0%
Debt/Total Capital	Mar-17	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		4.95%
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
2Q	$0.77	$0.76	$0.78		--	$0.82
3Q	$0.76	$0.78	$0.79		--	$0.84
4Q	$0.78	$0.81	$0.81		--	$0.85
Year	$3.06	$3.13	$3.16		$3.29	$3.34
P/E	15.1x		14.6x			13.8x

* - 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
2Q	$40.0	$43.1	$43.2		--	$46.9
3Q	$40.8	$44.2	$43.7		--	$48.1
4Q	$42.1	$45.5	$44.7		--	$49.1
Year	$161.5	$175.2	$174.3	*	$193.0	$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.*

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

Conference Call Discussion

On the property portfolio front, the company noted that for its entire portfolio approximately 52% is private pay. Operating statistics have been solid, and improving with trailing occupancy on its ALF (assisted living facility) portfolio sitting at 85.2%, and 79.0% for its SNF (skilled nursing facility) portfolio. Like most of the companies in the group, coverage ratios have seen a little deterioration due to labor costs and other issues, although they remain solid, with ratios of 1.46 times before management fees for its ALF portfolio, and 2.04 times for its SNF portfolio.

On the acquisition front, LTC noted the lack of investment in the first quarter was really a function of an environment that in general was not conducive to making acquisitions due to pricing. They noted, however, that they did spend $9 million on development activity, while seeing an offsetting $11 million in loan payoffs. In looking at its investment pipeline, management noted that it was currently about $125 million, most of which should be closed over the remainder of the year, which we are assuming in our estimate, the major reason we remain above company guidance. Management indicated that 70% of this activity is private pay, and it is all off market with three of the five projects in the pipeline being with existing partners and another two with new partners under joint-ventures. The three projects with existing partners are all newly constructed single properties in the assisted living/memory care areas and will be added to existing master leases when complete. In talking about target ranges for its investment, management is targeting a range of returns of 7-8% for assisted living and 9% and above for skilled nursing, looking for new properties and partners with scale in the markets in which the properties are located. Having said that management indicated the same thing we are hearing from other REITs, that pricing is high. Management indicated that with this in mind that some recycling of capital through selling targeted assets is likely.

On the financial front, management noted that despite the recent investment activity they have remained below their maximum leverage ratio in the 30% range. In fact, management noted that even if it used the credit line to finance all of the current investment in the pipeline it would only just meet that 30% threshold. As such, management remains comfortable with its current financial position.

Second Quarter and 2017 Outlook

At this point, we are looking for 2Q FFO of $0.78 a share, with the expectation of some of the pipeline investments disclosed by management being closed in the latter half of the current quarter. We are also assuming the reminder of the pipeline closes in Q3 and Q4, as well as assuming some other development activity with higher yields are completed this year. We continue to anticipate that the credit line will be used to finance transactions consummated initially, along with shares off the ATM. We are retaining our expectation for incremental investments for the year at $120 million including development spending. As a result, we are pushing up our full-year FFO per share estimate a bit to $3.16, slightly above guidance and now in line with the consensus. Our 2018 FFO per share estimate is up a bit to $3.34e, with an expectation for slightly higher yielding investments amounting to about $150 million, although we may bump that a bit higher as well after we see more visibility on the pending investments. This equals the current consensus number.

Valuation

Using our $3.16 a share estimate for 2017, LTC shares are trading at 14.6 times year ahead FFO. This is a little above the peer group, which is currently trading at about 13.8 times (please see the table on page 3). LTC offers a dividend yield a little below the peer group at 4.9% versus 5.3%. 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. Further, we note that LTC is no longer the most expensive in the group, now trading below the large competitors, and excluding the abnormally low multiple on Buy-rated Omega Healthcare, it would actually trade at a discount to the group, and even more so looking out a year to 2018. Having said that, the current share price is not yet at a point we believe is compelling enough to have a positive rating in light of the bond rate risk, but we are changing our rating on LTC shares to Neutral with the slight decline in multiple due to looking out a year and the shares now trading in line to a discount with the peer group.

Health Care REITs		Closing Price	Current		2018E			2-Year Average	Price / FFO	
	Symbol	5/9/2017	Dividend	Yield	Payout Ratio	2017E	2018E	Growth Rate	2017E	2018E
HCP, Inc.	HCP	$29.89	$1.48	5.0%	72.2%	$1.96	$2.05	-13.5%	15.3x	14.6x
Welltower, Inc.	HCN	$69.03	$3.48	5.0%	76.5%	$4.34	$4.55	-0.2%	15.9x	15.2x
National Health Investors	NHI	$72.42	$3.80	5.2%	70.4%	$5.20	$5.40	5.3%	13.9x	13.4x
Omega Healthcare Investors	OHI	$32.04	$2.52	7.9%	69.4%	$3.49	$3.63	3.2%	9.2x	8.8x
Ventas, Inc.	VTR	$62.63	$2.92	4.7%	65.8%	$4.24	$4.44	3.7%	14.8x	14.1x
Health Care Sector Average		**$53.20**	**$2.84**	**5.3%**	**70.8%**	**$3.85**	**$4.01**	**0.9%**	**13.8x**	**13.3x**
LTC Properties, Inc.	LTC	$46.07	$2.28	4.9%	68.3%	$3.16	$3.34	4.5%	14.6x	13.8x

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

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

	2014 Year	2015 Year	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year	2017E Q1A	2017E Q2	2017E Q3	2017E Q4	2017E Year	2018E Q1	2018E Q2	2018E Q3	2018E Q4	2018E Year
Revenues:																	
Rental Income	$101,849	$113,080	$31,880	$33,072	$33,753	$34,822	$133,527	$35,035	$35,193	$35,606	$36,561	$142,395	$37,712	$38,809	$39,807	$40,762	$157,091
Interest Income from Mortgage loans	$16,553	$22,119	$6,578	$6,811	$6,958	$6,974	$27,321	$6,748	$7,196	$7,251	$7,328	$28,524	$7,292	$7,315	$7,370	$7,448	$29,425
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	$850	$850	$850	$3,389	$850	$825	$875	$850	$3,400
	$118,961	$136,203	$38,604	$39,996	$40,842	$42,141	$161,583	$42,622	$43,239	$43,707	$44,739	$174,307	$45,854	$46,949	$48,052	$49,060	$189,916
Expenses																	
Interest Expense	$13,128	$17,497	$6,000	$6,750	$6,836	$6,856	$26,442	$7,471	$7,843	$8,119	$8,258	$31,692	$8,166	$8,743	$8,969	$9,249	$35,127
Depreciation & Amort.	25,529	29,431	8,561	8,907	9,155	9,309	35,932	9,359	9,283	9,618	9,901	38,161	10,130	10,357	10,531	10,703	41,722
Impairment Charge	-	2,250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	4,843	4,589	4,608	18,742	4,989	5,211	5,021	5,029	20,250
Total Expenses	$50,521	$65,527	$19,018	$19,896	$20,500	$21,774	$81,188	$21,554	$21,969	$22,326	$22,768	$88,617	$23,285	$24,311	$24,522	$24,981	$97,100
Income from Operations	$68,440	$70,676	$19,586	$20,100	$20,342	$20,367	$80,395	$21,068	$21,270	$21,381	$21,972	$85,690	$22,569	$22,638	$23,530	$24,079	$92,816
Income from JVs	$0	$1,703	$272	$278	$289	$299	$1,138	$445	$450	$450	$450	$1,795	$450	$450	$450	$450	$1,800
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)	($90)	($90)	($90)	($367)	($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	$0	$0	$0	$0	$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	$21,630	$21,741	$22,332	$87,118	$22,919	$22,988	$23,880	$24,429	$94,216
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	$21,630	$21,741	$22,332	$87,118	$22,919	$22,988	$23,880	$24,429	$94,216
Per share bef. Extra	$2.01	$1.96	$0.53	$0.58	$0.57	$0.53	$2.20	$0.54	$0.55	$0.55	$0.56	$2.20	$0.57	$0.57	$0.59	$0.59	$2.32
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	$0.55	$0.55	$0.56	$2.20	$0.57	$0.57	$0.59	$0.59	$2.32
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	39,566,000	39,766,000	39,996,000	39,673,500	40,246,000	40,456,000	40,766,000	41,176,000	40,661,000

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 Q2	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	$21,630	$21,741	$22,332	$87,118	$22,919	$22,988	$23,880	$24,429	$94,216
Add Back:																	
Depreciation	$25,529	$29,431	$8,561	$8,907	$9,155	$9,309	$35,932	$9,359	$9,283	$9,618	$9,901	$38,161	$10,130	$10,357	$10,531	$10,703	$41,722
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	$0	$0	$0	$0	$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	$30,913	$31,358	$32,233	$125,279	$33,049	$33,345	$34,411	$35,133	$135,938
Diluted FFO available for common	$94,024	$105,016	$28,318	$29,285	$29,696	$30,652	$117,951	$30,775	$30,913	$31,358	$32,233	$125,279	$33,049	$33,345	$34,411	$35,133	$135,938
Basic FFO per share	$2.75	$2.87	$0.76	$0.77	$0.76	$0.79	$3.08	$0.79	$0.79	$0.79	$0.81	$3.18	$0.83	$0.83	$0.85	$0.86	$3.36
Diluted FFO per share	$2.56	$2.80	$0.76	$0.77	$0.76	$0.78	$3.06	$0.78	$0.78	$0.79	$0.81	$3.16	$0.82	$0.82	$0.84	$0.85	$3.34
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	39,325,000	39,525,000	39,755,000	39,432,500	40,005,000	40,215,000	40,525,000	40,935,000	40,420,000
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	39,566,000	39,766,000	39,996,000	39,673,500	40,246,000	40,456,000	40,766,000	41,176,000	40,661,000
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 Q2	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	$30,913	$31,358	$32,233	$125,279	$33,049	$33,345	$34,411	$35,133	$135,938
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)	($2,323)	($2,350)	($2,413)	($9,398)	($2,489)	($2,561)	($2,627)	($2,690)	($10,368)
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	$27,690	$28,108	$28,920	$112,281	$29,660	$29,883	$30,884	$31,542	$121,970
Per share	$2.45	$2.56	$0.68	$0.69	$0.68	$0.70	$2.75	$0.70	$0.70	$0.71	$0.73	$2.85	$0.74	$0.74	$0.76	$0.77	$3.02

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	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 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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