



### COMPANY UPDATE/ESTIMATE CHANGE

#### Key Metrics

LTC - NYSE -	5/8/17	\$46.94
Price Target		N/A
52-Week Range	\$43.17 -	\$54.20
Shares Outstanding (mm)		39.2
Market Cap. (\$mm)		\$1,840.0
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		4.86%
Est. Fixed Charge Coverage		5.0X

#### Normalized FFO

	2016	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$0.76	--	\$0.78	A --	--
2Q	\$0.77	\$0.76	\$0.76	--	--
3Q	\$0.76	\$0.78	\$0.78	--	--
4Q	\$0.78	\$0.81	\$0.81	--	--
Year	\$3.06	\$3.13	\$3.14		\$3.29
P/E	15.4x		15.0x		14.3x

\* - Do not add up due to rounding

#### Revenue (\$mm)

	2016	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$38.6	--	\$42.6	A --	--
2Q	\$40.0	\$43.1	\$43.1	--	--
3Q	\$40.8	\$44.2	\$44.2	--	--
4Q	\$42.1	\$45.5	\$45.5	--	--
Year	\$161.5	\$175.2	\$175.0	*	\$193.0

**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

### Q1 Earnings Overview

#### Investment Highlights

- LTC reported normalized Q1 FFO of \$0.78 a share, a penny above our estimate and equal to the consensus and compared to \$0.76 in the year earlier period. Recent acquisitions pushed the revenue numbers up although higher interest expense and increased shares outstanding had a slightly negative impact.
- 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.
- LTC shares exceeded our number, while meeting the consensus estimate and continuing to invest in long-term growth. The shares have backed off a bit with the group over the past month, and the decline in earnings at some of the company's peers no longer places them at the high end of valuation in the group. Having said that we continue to worry about an eventual increase in long bond rates as the Fed ratchets up the Fed funds rate. However, in the near term we continue to anticipate that we will see a flattening of the yield curve and potentially a further decline in long bond rates, which is more influential in impacting REIT prices. As a result, in the near term REIT shares could see their prices supported. However despite this, the shares remain above a level we find compelling for current purchase. We are waiting for that appropriate entry point, but the current share price is not there for a company with solid management and improving portfolio fundamentals. We will wait until the company's 11AM conference call before updating our estimates, price target and rating.

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

**First Quarter Review**

Total revenue was \$42.6 million versus \$38.6 million, a 10.4% increase. Rental income of \$35.0 million was up 9.9% (please see income statement on page 3), we believe a function of normal rent escalators and recent investments. Interest income from mortgages rose 2.6% to \$6.7 million from \$6.6 million. Interest and other income was \$0.8 million compared to \$0.1 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	105	\$703,668	45.95%	\$17,721	50.58%	5,777	\$121,805
Skilled Nursing Facilities	97	\$799,298	52.19%	\$17,098	48.80%	12,347	\$64,736
Other	1	\$11,422	0.75%	\$216	0.62%	118	\$96,797
Under Development	0	\$17,071	1.11%	\$0	0.00%	N/A	
<b>Total</b>	<b>203</b>	<b>\$1,531,459</b>	<b>100.00%</b>	<b>\$35,035</b>	<b>100.00%</b>	<b>18,242</b>	

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

Operating (G&A) and other expenses rose 7.7% to \$4.7 million due to costs around recent acquisition and development activity. Interest expense was up with debt increases and lengthening of maturities increasing to \$7.5 million from \$6.0 million year-over-year. Depreciation expense increased 9.3% to \$9.4 million versus \$8.6 million. First quarter net income available to common shareholders was \$21.4 million versus \$19.8 million, an 8.4% increase. Diluted EPS were \$0.54 in Q1 '17 versus \$0.53 in the year earlier period on 5.1% more common shares outstanding (diluted).

Normalized funds from operations (FFO), which exclude real estate gains, were \$30.8 million compared to \$28.3 million in last year's first quarter, an 8.7% increase. FFO per diluted share were \$0.78 versus \$0.76.

LTC has little debt maturing in 2017, other than amortizing amounts on its senior notes. The credit line is not due until 2018 plus a one year extension. The company currently has nothing outstanding on the line. 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%, at the low end of the healthcare REIT sector.

**Other 1<sup>st</sup> Quarter Activity**

**Investment Activity** – LTC announced no meaningful new investment activity during the quarter, other than funding ongoing projects.

**Capital Markets Activity** – During the quarter, LTC amended its shelf agreement, increasing it to \$337.5 million. The company also issued 15-year senior notes at a 4.5% fixed rate. The money raised was used to pay off the balance on the credit line. The company also sold just over 300,000 shares on its “at the market” equity issuance plan, yielding \$14.6 million in net proceeds.

**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.

(in thousands)	1Q 2017	1Q 2016	% Change
Rental Income	\$35,035	\$31,880	9.9%
Interest Income from mortgage Loans	6,748	6,578	2.6%
Interest and Other Income	839	146	474.7%
Total Revenue	42,622	38,604	10.4%
Legal Expenses	0	0	
Acquisition costs	22	90	
Operating and other	4,702	4,367	7.7%
EBITDA	37,898	34,147	11.0%
Interest Expense	7,471	6,000	24.5%
Depreciation Expense	9,359	8,561	9.3%
Income (Loss) Before Discontinued Operations and Other Items	21,068	19,586	7.6%
Discontinued Operations (including gain on sale of assets)	0	0	
Minority Interest	0	0	
Income to participating securities	348	171	
Preferred Stock Dividends	0	0	
Net Income (Loss)	\$21,416	\$19,757	8.4%
Net EPS (diluted)	\$0.54	\$0.53	1.9%
Avg. Shares Outstanding (diluted)	39,366	37,459	5.1%

<b>Funds From Operations</b>	1Q 2017	1Q 2016	
Net Income	\$21,416	\$19,757	8.4%
Depreciation Expense	9,359	8,561	9.3%
Other (adding/subtracting one-time items)	0	0	
<b>Normalized Funds From Operations</b>	<b>\$30,775</b>	<b>\$28,318</b>	8.7%
<b>Normalized FFO Per Share</b>	<b>\$0.78</b>	<b>\$0.76</b>	2.6%

Source: Company reports.

**Consolidated Balance Sheet**

(in thousands)	March 31, 2017	December 31, 2016
<b>Real Estate Assets</b>		
Land	\$115,793	\$116,096
Buildings and Improvements (net of Depreciation)	\$903,763	\$909,606
Properties held for sale	\$1,170	\$0
Mortgage Loans Receivable	223,292	229,801
<b>Total Net Real Estate Investments</b>	<b>1,244,018</b>	<b>1,255,503</b>
Cash and Cash Equivalents	8,732	7,991
Debt issue costs	1,584	1,847
Interest Receivable	10,868	9,683
Straight line rent	58,115	55,276
Prepaid and other	25,690	22,948
Notes Receivable	16,402	16,427
Investment in JV	26,181	25,221
<b>Total Assets</b>	<b>\$1,391,590</b>	<b>\$1,394,896</b>
Bank Borrowings	\$0	\$107,100
Earn Out Liability	12,015	12,229
Bond payable and capital leases	597,873	502,291
Accrued expenses and other liabilities	24,303	28,553
Liabilities for properties held for sale	0	0
Dividend payable	0	0
Accrued Interest	4,259	4,675
<b>Total Liabilities</b>	<b>\$638,450</b>	<b>\$654,848</b>
Minority Interest	\$0	\$0
Preferred stock	-	-
Common Stock	396	392
Capital in Excess of Par Value	853,132	839,005
Cumulative net income	1,034,956	1,013,443
Other	0	0
Cumulative Distributions	(1,135,344)	(1,112,792)
<b>Total Shareholders' Equity</b>	<b>753,140</b>	<b>740,048</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,391,590</b>	<b>\$1,394,896</b>

<b>Balance Sheet Ratio Analysis</b>	March 31, 2017	December 31, 2016
Net R/E Investments / Total Debt	48.1%	48.5%
Debt to Equity	81.0%	84.0%
Debt as % of Total Assets	43.8%	44.6%
Shareholders' Equity as % of Total Assets	54.1%	53.1%

Source: Company reports.

**Initial Thoughts**

LTC is having a conference call later today at 11AM. We will have a full report, including valuation, any potential rating change and an updated earnings model after the call. Q1 numbers slightly exceeded our expectations, although only meeting the consensus analyst estimate. Interestingly, the company produced these better than expected results in spite of no meaningful investment during the quarter. Also, the company did not announce any additional investment activity subsequent to quarter-end. Whether we need to adjust our estimates, based on that lower than we projected investment activity we will decide after listening to the conference call. With the lack of investment the numbers LTC produced were very impressive and puts the company on a path to exceed our expectations for full year FFO. Should second half investment pick-up we will likely need to push up our estimate. In fact, that may even occur without a pick-up in investment activity. However, we will get a better feel on whether to adjust our estimates for forward investment activity after the conference call. We expect that G&A expense may move up a little from Q1, with that number coming in a bit below our expectations, although we will wait to discuss this with management before making a final call on that front. Interest expense has moved up with the recent investment and lengthening debt maturities. The equity capital issued under the ATM has also caused some dilution, although it kept debt levels down. After the 11 AM conference call we will provide an updated report.

**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, 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.

<b>Hilliard Lyons Recommended Issues</b>		<b>Investment Banking Provided in Past 12 Mo.</b>		
<b>Rating</b>	<b># of Stocks Covered</b>	<b>% of Stocks Covered</b>	<b>Banking</b>	<b>No Banking</b>
<b>Buy</b>	36	30%	14%	86%
<b>Hold/Neutral</b>	71	58%	6%	94%
<b>Sell</b>	15	12%	7%	93%

As of 5 April 2017



**Other Disclosures**

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