



COMPANY UPDATE

Key Metrics

LTC - NYSE -	11/8/17	\$47.31
Price Target		N/A
52-Week Range	\$43.17 -	\$52.85
Shares Outstanding (mm)		39.8
Market Cap. (\$mm)		\$1,882.9
1-Mo. Average Daily Volume		150,711
Institutional Ownership		78.0%
Debt/Total Capital Sep-17		25.6%
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		4.82%
Est. Fixed Charge Coverage		5.3X

Normalized FFO

	2016	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$0.76	--	\$0.78 A	\$0.80	\$0.80
2Q	\$0.77	--	\$0.79 A	\$0.81	\$0.81
3Q	\$0.76	--	\$0.76 A	\$0.82	\$0.82
4Q	\$0.78	\$0.76	\$0.76	\$0.83	\$0.83
Year	\$3.06	\$3.07	\$3.09	\$3.27	\$3.27
P/E	15.5x		15.3x		14.5x

\* - Do not add up due to rounding

Revenue (\$mm)

	2016	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$38.6	--	\$42.6 A	\$44.7	\$44.7
2Q	\$40.0	--	\$42.5 A	\$45.8	\$45.8
3Q	\$40.8	--	\$41.2 A	\$46.8	\$46.8
4Q	\$42.1	\$42.2	\$42.2	\$47.9	\$47.9
Year	\$161.5	\$168.4	\$168.5 *	\$185.2	\$185.2

**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 -- Neutral-2

**Q3 Earnings Overview**

**Investment Highlights**

- LTC reported normalized Q3 FFO of \$0.76 a share, two cents above our estimate and the consensus. This was flat with the year ago number, as a slight rise in revenue and higher interest expense was largely offset by a reduction in G&A expense. Investment activity was lower than in recent quarters. We will be looking for further guidance on what to look for on that front for the remainder of the year.
- LTC has a strong balance sheet and remains in an excellent position to continue to make acquisitions, although that has become more difficult with prices moving up and increased competition for properties, in our view.
- LTC shares have performed largely in line with the industry group so far in 2017, in our opinion a good outcome in light of a tenant issue that caused the company to reduce guidance earlier in the year. Reported results will remain under pressure year-over-year until there is a resolution with the tenant on which LTC is currently giving rent relief. This issue could continue to keep pressure on the company's share price depending on the outcome and the impact on reported numbers. With this in mind, as well as the company's reasonably high valuation metrics, our rating on LTC continues to be Neutral.

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

**Third Quarter Review**

Total revenue was \$41.2 million versus \$40.8 million, a 1.0% increase. Rental income of \$33.2 million was off 1.5% (please see income statement on page 3). A large gain in interest and other income offset the rent abatement for a tenant.

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	\$743,015	46.92%	\$50,985	49.50%	5,772	\$128,727
Skilled Nursing Facilities	97	\$803,853	50.76%	\$51,293	49.80%	12,314	\$65,280
Other	1	\$10,216	0.65%	\$716	0.70%	118	\$86,576
Under Development	0	\$26,597	1.68%	\$0	0.00%	N/A	
<b>Total</b>	<b>201</b>	<b>\$1,583,681</b>	<b>100.00%</b>	<b>\$102,994</b>	<b>100.00%</b>	<b>18,204</b>	

Source: Company reports, as of Sep. 30<sup>th</sup>, 2017.

Operating (G&A) and other expenses was off 7.2% at \$4.1 million. Interest expense rose along with its debt, which rose to \$638.0 million from \$609.4 million at the start of the year. Interest expense rose to \$7.6 million from \$6.8 million year-over-year. Depreciation expense increased 4.0% to \$9.5 million versus \$9.2 million. Third quarter net income available to common shareholders was \$20.5 million versus \$22.3 million, an 8.0% decline. EPS were \$0.52 versus \$0.57 on 1.0% more common shares outstanding.

Normalized funds from operations (FFO), which exclude real estate gains and other non-recurring items, were \$30.1 million compared to \$29.7 million in last year's third quarter, a 1.2% increase. Normalized FFO per diluted share were \$0.76 versus \$0.76 (adjusted).

LTC has \$50 million in debt maturing in 2017 and 2018 in addition to the credit line which is due in 2018 with a one year extension on top of that and had \$55 million drawn at quarter end with more than \$500 million in capacity remaining. We expect no liquidity issues for LTC, as it is over-capitalized compared to its peers 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 25.6%, one of the lowest in the healthcare REIT sector.

**Other 3rd Quarter Activity**

**Investment Activity** – During Q3 LTC made no meaningful investments other than ongoing contractual investments, with such investments amounting to \$23 million year to date. Subsequent to quarter end the company purchased a newly constructed 73 unit assisted living and memory facility in Missouri for \$16.6 million. The property was added to an existing master lease at an initial cash yield of 7.0%.

**Financing Activity** – During the quarter LTC undertook no meaningful financing activity with the general lack of investment.

**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)	3Q 2017	3Q 2016	% Change
Rental Income	\$33,233	\$33,753	-1.5%
Interest Income from Mortgage Loans	6,677	6,958	-4.0%
Interest and Other Income	1,336	131	
<b>Total Revenue</b>	<b>41,246</b>	<b>40,842</b>	<b>1.0%</b>
Acquisition Costs	34	2	0.0%
Provision for doubtful accounts	(96)	43	
Operating and other	4,144	4,464	-7.2%
<b>EBITDA</b>	<b>37,164</b>	<b>36,333</b>	<b>2.3%</b>
Interest Expense	7,644	6,836	11.8%
Depreciation Expense	9,519	9,155	4.0%
<b>Income (Loss) Before Discontinued Operations and Other Items</b>	<b>20,001</b>	<b>20,342</b>	<b>-1.7%</b>
Discontinued Operations (including gain on sale of assets)	0	1,780	
Income from JVs	615	289	
Income to participating securities	(80)	(90)	
Preferred Stock Dividends	0	0	
<b>Net Income (Loss)</b>	<b>\$20,536</b>	<b>\$22,321</b>	<b>-8.0%</b>
Net EPS (diluted)	\$0.52	\$0.57	-8.8%
Avg. Shares Outstanding (diluted)	39,748	39,335	1.0%

<b>Funds From Operations</b>	3Q 2017	3Q 2016	
Net Income	\$20,536	\$22,321	-8.0%
Depreciation Expense	9,519	9,155	4.0%
Other (adding/subtracting one-time items)	0	(1,780)	
<b>Normalized Funds From Operations</b>	<b>\$30,055</b>	<b>\$29,696</b>	<b>1.2%</b>
<b>Normalized FFO Per Share</b>	<b>\$0.76</b>	<b>\$0.76</b>	<b>0.0%</b>

Source: Company reports.

**Consolidated Balance Sheet**

(in thousands)	September 30, 2017	December 31, 2016
<b>Real Estate Assets</b>		
Land	\$121,897	\$116,096
Buildings and Improvements (net of Depreciation)	\$932,319	\$909,606
Properties held for sale	\$6,381	\$0
Mortgage Loans Receivable	221,861	229,801
<b>Total Net Real Estate Investments</b>	<b>1,282,458</b>	<b>1,255,503</b>
Cash and Cash Equivalents	3,842	7,991
Debt issue costs	1,080	1,847
Interest Receivable	13,650	9,683
Straight line rent	61,070	55,276
Prepaid and other	22,829	22,948
Notes Receivable	16,402	16,427
Investment in JV	29,862	25,221
<b>Total Assets</b>	<b>\$1,431,193</b>	<b>\$1,394,896</b>
Bank Borrowings	\$55,000	\$107,100
Earn Out Liability	8,790	12,229
Bond payable and capital leases	582,950	502,291
Accrued expenses and other liabilities	23,710	28,553
Liabilities for properties held for sale	0	0
Dividend payable	0	0
Accrued Interest	4,108	4,675
<b>Total Liabilities</b>	<b>\$674,558</b>	<b>\$654,848</b>
Minority Interest	\$0	\$0
Preferred stock	-	-
Common Stock	396	392
Capital in Excess of Par Value	855,746	839,005
Cumulative net income	1,080,949	1,013,443
Other	0	0
Cumulative Distributions	(1,180,456)	(1,112,792)
<b>Total Shareholders' Equity</b>	<b>756,635</b>	<b>740,048</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,431,193</b>	<b>\$1,394,896</b>

<b>Balance Sheet Ratio Analysis</b>	September 30, 2017	December 31, 2016
Net R/E Investments / Total Debt	49.7%	48.5%
Debt to Equity	85.5%	84.0%
Debt as % of Total Assets	45.2%	44.6%
Shareholders' Equity as % of Total Assets	52.9%	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 and earnings model after the call. The reported results were better than our expectations, as the positive impact of the recently added investments were largely offset by the rent reductions offered to a tenant, and higher interest expense being offset by lower G&A expense, thus a largely flat result versus the year earlier period. At this point, we are not making any changes to our expectations or thesis for LTC prior to hearing management's discussion of the quarter on the conference call. The company saw a general lack of investment during Q3, although one already completed in Q4 may offset some of the negatives we noted earlier. The press release did not lay out any change to guidance for the year, although with the positive Q3 surprise and the property purchased in Q4, we feel more comfortable about the company achieving our expectations. We expect to bump our prior \$3.07 a share 2017 FFO estimate for at least the two cent Q3 beat, although we will wait until after talking to management before making a final call on that front.

LTC's management has been conservative in its past acquisition activity, and we feel confident that its recent purchases and development activity will be solidly additive. We anticipate that most of the issues covered on the call will relate to dealing with tenant issues, and that in the near term these issues will take precedence over investment activity and so we anticipate that such activity will remain measured in the near term and below recent levels. We will, however, need to get some more guidance on this front on the company's 11AM conference call before making any forecast on any investment activity for the remainder of the year, as well as for 2018 and our FFO outlook for the year. After the call we will make a decision on whether to adjust our full year estimate to account for these issues. Overall a solid quarter with good cost control and management staying in front of tenant issues, a positive surprise in a spot where we believed a negative one was possible.

**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. Problems with tenants can impact the rental payments coming to the company and the revenue generating capacity of the company. 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.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
<b>Rating</b>				
<b>Buy</b>	39	32%	8%	92%
<b>Hold/Neutral</b>	74	60%	9%	91%
<b>Sell</b>	8	7%	0%	100%
<b>Restriction</b>	2	2%	100%	0%

*As of 5 October 2017*

### Other Disclosures

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