



COMPANY UPDATE/ESTIMATE CHANGE

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

	Prior	Current	Prior	Current
	2016	2017E	2017E	2018E
1Q	\$0.76	--	\$0.78 A	\$0.80
2Q	\$0.77	--	\$0.79 A	\$0.80
3Q	\$0.76	--	\$0.76 A	\$0.82
4Q	\$0.78	\$0.76	\$0.76	\$0.83
Year	\$3.06	\$3.07	\$3.09	\$3.27
P/E	15.5x		15.3x	14.6x

* - Do not add up due to rounding

Revenue (\$mm)

	Prior	Current	Prior	Current
	2016	2017E	2017E	2018E
1Q	\$38.6	--	\$42.6 A	\$44.7
2Q	\$40.0	--	\$42.5 A	\$45.8
3Q	\$40.8	--	\$41.2 A	\$46.8
4Q	\$42.1	\$42.2	\$41.8	\$47.9
Year	\$161.5	\$168.4	\$168.1 *	\$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 Conference Call Discussion

Investment Highlights

- LTC management fine-tuned its per share FFO guidance for 2017 to \$3.07-\$3.09 a share, with the recent investment activity, some improvement at its major problem tenant and expected investment activity driving the upside. We are pushing our estimate up two cents to \$3.09 a share, basically to account for the two cent Q3 beat versus our estimate. We are fine-tuning our 2018 estimate to \$3.25 a share, which compares to the \$3.12 consensus.
- LTC's balance sheet remains strong, with attractively priced debt and equity issued at appropriate times, leaving it in an excellent position to take advantage of acquisitions as they come along, which has been exhibited with the recent investment activity.
- We continue to really like LTC's advantages over its larger peers due to the fundamental ability of small targeted higher yield transactions and developments to really impact the bottom line of the company. Some of the transactions the company is targeting based on the Q3 conference call are highly illustrative of just such transactions. Having said that, we believe our Neutral rating on the company is appropriate in light of some uncertainty around the company's current tenant base and with LTC trading at a premium to the peer group. We remain positive on the company's management team and portfolio but note that the valuation is near the high end of its recent historic trading range on a price to FFO basis.

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

Conference Call Discussion

Management spent a lot of time discussing its work in curing the default situation with Anthem Memory Care (Anthem), which accounts for 6.2% of gross income. Anthem is making progress and LTC management remains focused on assisting the company to come back into compliance and improving operations. Anthem has reduced its management overhead, while improving its property level staffing and increasing occupancy. All of Anthem's problem properties have seen improvement with an average increase in occupancy in the mid-teens. LTC expects two of Anthem's development properties to open over the next quarter or so. Anthem management is concentrating solely on improving its current portfolio, rather than making new investments, and LTC believes that based on the solid progress they have seen they are likely to stay with Anthem, although they have a back-up plan with alternative tenants available if this situation does not work out.

They also offered some guidance on their Sunrise Senior Living portfolio, which amounts to less than 4% of assets. Sunrise does not plan on renewing its lease next year when it expires (next April), but management has a number of potential tenants interested in the properties, which are underperforming and currently operating with a coverage rate of less than one. We are assuming a decline in rent on these properties, part of the rationale for our drop in next year's estimate. Management is also considering a potential sale of these properties, which would lead to a substantial gain, but would also likely result in some near term dilution. We are not assuming this will occur, although we would need to adjust our numbers if such a transaction were to occur.

Management also outlined its recent investment activity, with over \$70 million year to date in total investment, down significantly from the year ago period. We have seen a lack of near term investment, based on a general lack of attractive acquisition targets. However, management noted that the environment has become more attractive recently, resulting in the acquisition pipeline becoming more robust, as noted by the one deal already closed for Q4. Management outlined a \$100 million pipeline with five potential transactions, as well as a larger unique transaction that is not currently included in that pipeline number. The targets continue to be off-market, rather than widely marketed and include direct acquisitions, joint ventures, developments and loans. Management anticipates that it will close two of these transactions over the next couple of months, including a joint-venture transaction.

Operating statistics on the company's portfolio remain solid, with trailing occupancy on its assisted living (ALF) portfolio sitting at 85.8% and 77.9% for its skilled nursing (SNF) portfolio. Coverage ratios are also solid, with ratios of 1.43 times before management fees for its ALF portfolio, and 1.93 times for its SNF portfolio. We note that there has been some deterioration in its coverage ratios lately, although management noted that there were two specific skilled nursing tenants driving the deterioration and that management has been working closely with them and anticipates seeing them turn around in the near future.

On the capital structure front, LTC has \$545 million remaining on its revolver. We note that LTC terminated its at the market stock sale program under which it had issued incremental equity, so we do not anticipate the company to issue much equity going forward in light of its current strong balance sheet structure.

Management bumped its 2017 FFO guidance to \$3.07-\$3.09, a function of the improvement at Anthem and the addition of the property earlier this quarter. We are adjusting our estimate for the two cent Q3 beat but retaining our Q4 estimate resulting in an estimate of \$3.09 a share, at the top of the company's guidance.

Fourth Quarter and 2018 Outlook

At this point, we are looking for 4Q FFO of \$0.76 a share, with the recently acquired property and the improvement at Anthem discussed by management on the call offset by some lost income on the interest income line, resulting in our estimate for Q4 being unchanged. We are also assuming that the inexpensive credit line will be used for capital to fund future purchases and that the company will restructure/address its problem leases at a slightly lower lease rate by early next year. We are assuming another \$30 million in investments in Q4, but having little impact on actual Q4 results as they close in the latter half of the quarter.

For the full year, that means FFO of \$3.09 per share in 2017, at the top end of guidance. We are fine-tuning our 2018 estimate at \$3.25 a share, with us lowering expectations for rental income around the Sunrise situation and due to the loss of interest income discussed earlier.

Valuation

Using our \$3.09 a share estimate for 2017, LTC shares are trading at 15.4 times. This is a premium to the peer group, which is currently trading at about 14.0 times (please see the table below). LTC offers a dividend yield a little below the peer group at 4.8% versus 5.5%. 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 and LTC management is very conservative, which lowers risk on the company. While there are positives, the current share price remains at 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 57.8% of its property revenue comes from the lower valued skilled nursing sector.

Health Care REITs	Symbol	Closing Price	Current	2018E			2-Year Average		Price / FFO	
		11/8/2017	Dividend	Yield	Payout Ratio	2017E	2018E	Growth Rate	2017E	2018E
HCP, Inc.	HCP	\$26.99	\$1.48	5.5%	74.4%	\$1.96	\$1.99	-14.8%	13.8x	13.6x
Welltower, Inc.	HCN	\$68.65	\$3.48	5.1%	78.4%	\$4.26	\$4.44	-1.4%	16.1x	15.5x
National Health Investors	NHI	\$76.68	\$3.80	5.0%	70.4%	\$5.27	\$5.40	5.3%	14.6x	14.2x
Omega Healthcare Investors	OHI	\$28.20	\$2.60	9.2%	74.9%	\$3.30	\$3.47	0.9%	8.5x	8.1x
Ventas, Inc.	VTR	\$64.65	\$3.10	4.8%	71.1%	\$4.17	\$4.36	2.7%	15.5x	14.8x
Health Care Sector Average		\$53.03	\$2.89	5.5%	73.6%	\$3.79	\$3.93	-0.2%	14.0x	13.5x
LTC Properties, Inc.	LTC	\$47.31	\$2.28	4.8%	69.7%	\$3.07	\$3.27	3.4%	15.4x	14.5x

Note: OHI is rated Long-term 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

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. One of 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

	2015		2016		2017E			2018E			Year	
	Year	Year	Q1	Q2	Q3	Q4	Q1A	Q2A	Q3A	Q4		Year
Revenues:												
Rental Income	\$113,080	\$118,961	\$31,880	\$33,072	\$33,753	\$34,822	\$35,035	\$35,265	\$33,233	\$34,444	\$137,977	\$151,489
Interest Income from Mortgage loans	\$22,119	\$16,553	\$6,578	\$6,811	\$6,958	\$6,974	\$6,748	\$6,625	\$6,677	\$6,715	\$6,765	\$6,817
Interest Income from REMICS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Interest & other	\$559	\$1,004	\$146	\$113	\$131	\$345	\$839	\$578	\$1,336	\$650	\$3,403	\$0
	\$136,203	\$136,203	\$38,604	\$39,996	\$40,842	\$42,141	\$42,622	\$42,468	\$41,246	\$41,809	\$168,145	\$181,463
Expenses												
Interest Expense	\$17,497	\$17,497	\$6,000	\$6,750	\$6,836	\$6,856	\$7,471	\$7,151	\$7,644	\$7,640	\$29,906	\$33,600
Depreciation & Amort.	25,529	25,529	8,561	8,907	9,155	9,309	9,359	9,308	9,519	9,520	37,706	40,216
Impairment Charge	-	-	-	-	-	-	-	1,875	-	-	1,875	-
Acquisition costs	589	589	90	-	2	-	22	-	-	-	96	-
Provision for Doubtful Accounts	(46)	(46)	84	616	43	978	1,105	-	(96)	-	-	-
Operating and other expenses	15,144	15,144	4,283	4,239	4,464	4,631	4,702	4,386	4,144	4,285	17,517	18,506
Total Expenses	\$50,521	\$50,521	\$19,018	\$19,896	\$20,500	\$21,774	\$21,554	\$22,720	\$21,245	\$21,445	\$66,964	\$72,822
Income from Operations	\$85,682	\$85,682	\$19,586	\$20,100	\$20,342	\$20,367	\$21,068	\$19,748	\$20,001	\$20,364	\$91,181	\$108,641
Income from JVs	\$0	\$0	\$272	\$278	\$289	\$299	\$446	\$575	\$615	\$600	\$2,235	\$2,460
Minority interests	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income allocated to participating	(\$476)	(\$476)	(\$101)	(\$105)	(\$90)	(\$89)	(\$97)	(\$104)	(\$80)	(\$90)	(\$371)	(\$330)
Income from Discontinued	\$586	\$586	\$0	\$0	\$1,780	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(Loss)/Gain on sale of assets	\$0	\$0	\$0	\$1,802	\$0	\$0	\$0	\$5,054	\$0	\$0	\$5,054	\$0
Income Bef. Preferred div	\$72,597	\$72,597	\$19,757	\$22,075	\$22,321	\$20,577	\$21,416	\$25,273	\$20,536	\$20,874	\$88,099	\$91,272
Preferred stock redemption charge	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Preferred dividends	\$3,273	\$3,273	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income for common	\$69,324	\$69,324	\$19,757	\$22,075	\$22,321	\$20,577	\$21,416	\$25,273	\$20,536	\$20,874	\$88,099	\$91,272
Per share bet. Extra	\$2.01	\$2.01	\$0.53	\$0.58	\$0.57	\$0.53	\$0.54	\$0.64	\$0.52	\$0.52	\$2.22	\$2.25
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
Net (loss) income per share	\$2.01	\$2.01	\$0.53	\$0.58	\$0.57	\$0.53	\$0.54	\$0.64	\$0.52	\$0.52	\$2.22	\$2.25
Quarterly dividend rate	\$2.04	\$2.04	\$0.54	\$0.54	\$0.54	\$0.54	\$0.57	\$0.57	\$0.57	\$0.57	\$2.28	\$2.40
Shs Outstanding (diluted)	34,678,500	34,678,500	37,459,000	38,164,000	39,335,000	39,260,000	39,366,000	39,794,000	39,748,000	39,978,000	39,721,500	40,503,000
Source: Company reports and Hilliard Lyons estimates												
Avg. Common share price	\$44.00	\$44.00	\$44.00	\$44.00	\$48.00	\$44.50	\$45.00	\$46.50	\$50.00	\$47.00	\$50.00	\$50.00

Table 5. Funds From Operations Calculation

Net income for common shareholders	\$69,650
Add Back:	
Depreciation	\$25,529
Other	\$3,140
Deduct:	
Gain/loss on sales of real estate	\$0
FFO Available for common	\$98,319
Diluted FFO available for common	\$94,024
Basic FFO per share	\$2.75
Diluted FFO per share	\$2.56
Shares, basic	34,612,750
Shares, diluted	36,798,500
Diluted FFO excluding one time items	

Table 6. Funds Available for Distribution Calculation

FFO Available for common	\$95,179
Less:	
Recurring real estate CAPX	(\$3,600)
Straight-line adjustment (ACR)	(\$6,722)
Non-real estate depreciation	\$0
Funds available for distribution	\$84,857
Per share	\$2.45

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.

Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 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. Reproduction is forbidden unless authorized. All rights reserved.