Transcript of
LTC Properties, Inc.
LTC Properties, Inc. Third Quarter 2024 Earnings Call
October 29, 2024

Participants

Wendy Simpson - Chairman and CEO, LTC Properties, Inc.
Pam Kessler - Co-President, Chief Financial Officer and Secretary, LTC Properties, Inc.
Clint Malin - Co-President and Chief Investment Officer, LTC Properties, Inc.

Analysts

Austin Wurschmidt - KeyBanc Capital Markets Inc.
Richard Anderson - Wedbush Securities
Michael Carroll - RBC Capital Markets

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the LTC Properties, Inc. Third Quarter 2024 Earnings Conference Call. My name is Ali, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. And later we will conduct a question-and-answer session. [Operator Instructions].

Before management begins its presentation, please note that today's comments, including the question-and-answer session, may include forward-looking statements subject to risks and uncertainties that may cause actual results and events to differ materially. These risks and uncertainties are detailed in LTC Properties' filings with the Securities and Exchange Commission from time-to-time, including its most recent 10-K dated December 31, 2023.

LTC undertakes no obligation to revise or update these forward-looking statements to reflect events or circumstances after the date of this presentation. Please note, this event is being recorded.

I would now like to turn the conference over to Wendy Simpson. Ma'am, you may begin.

Wendy Simpson

Thank you, operator, and welcome everyone to LTC's 2024 third quarter conference call. On the call with me today are Pam Kessler, Co-President and Chief Financial Officer; and Clint Malin, Co-President and Chief Investment Officer. The third quarter and fourth quarter to date have been positive to LTC, and we are optimistic about the year and 2025.

Year-to-date, we have collected $4.1 million in previously unrecorded revenue from former operators related to portfolio transitions in prior years. And we have received more than $98 million related to loan receivable payoffs and paydowns. Additionally, we received net proceeds of nearly $63 million from equity sales under our ATM program.

As a result, we have substantially de-levered our balance sheet better positioning LTC to capitalize on new investment opportunities. When thinking about growth opportunities ahead and with the full support of our board, we are actively evaluating RIDEA. We are currently reviewing several strategic approaches as well as analyzing the infrastructure needed to successfully execute on the structure. Clint will provide more detail later.

Before I turn the call over, I want to recognize the heroic efforts taken by our operators who are located in areas impacted by the recent hurricanes. They and their employees met the challenge to ensure residents and patients continue to receive the high level care they need and expect. We've heard stories of great courage throughout the regions and LTC extends its sympathies and support to everyone who has been and still is affected.

Now I'll hand things over to Pam.

Pam Kessler

Thank you, Wendy. Please note that all numbers I discuss today are for the third quarter of 2024 compared with the same period in 2023, unless otherwise noted. You can find additional details about our financial results in our earnings press release, supplemental and Form 10-Q.

Net income available to common shareholders increased by $7.1 million, primarily due to one-time income from former operators related to portfolio transitions in prior years, a decline in interest expense resulting from our deleveraging activities and increases in rent and income from unconsolidated joint ventures.

Fully diluted FFO per share was $0.78 compared with $0.65 last year. Excluding non-recurring items, FFO per share was $0.68 versus $0.65. For a recap of third quarter activity, some of which was discussed on last quarter's call, we committed to fund a $26.1 million mortgage loan, which should begin early in 2025. Recorded a $3.6 million gain on sale related to an assisted living community in Texas and received $441,000 in contractual rent through the remainder of the lease term, which would have expired in January 2025.

Received a total of $39.7 million related to the payoff of a $29.3 million mortgage loan secured by a skilled nursing center in Louisiana, as well as the $10.4 million paydown on a working capital note. Recorded $4.1 million of income from former operators related to portfolio transitions in prior years, sold 1,543,100 shares under our ATM program for net proceeds of $54.7 million, exercised the accordion feature under our credit agreement to increase our revolving line of credit by $25 million, repaid $41.6 million under our unsecured revolving line of credit and $34.2 million in scheduled principal paydowns on our senior unsecured notes and paid $25.3 million in monthly common dividends of $0.19 per share.

Subsequent to the end of the quarter, we received $51.4 million from the payoff of a mortgage loan secured by a senior housing community in Georgia, sold a closed property in Colorado for $5.3 million, for which we anticipate recording a gain on sale of approximately $1.1 million in the fourth quarter, sold 226,370 shares under our ATM program for $7.9 million in net proceeds and repaid $93.8 million under our revolving line of credit.

Subsequent to September 30th, our total liquidity was approximately $286 million, up 51% from the prior quarter. Accordingly, we had $5.4 million of cash on hand, $279 million available on our line of credit and $1.5 million available under our ATM, which we are in the process of renewing and expanding. Our conservative balance sheet management allows us to take advantage of new investment opportunities as they arise.

As a result of successfully deleveraging our balance sheet, our pro forma debt to annualized adjusted EBITDA for real estate is down to 4.2x from 5.3x for the second quarter, and our pro forma annualized adjusted fixed charge coverage ratio is up to 4.8x from 3.7x for the second quarter. Our fourth quarter guidance for FFO, excluding one currently known non-recurring item is between $0.65 and $0.66 per share. The $0.02 decrease from the third quarter is the result of the mortgage loan payoffs thus we have yet to redeploy that capital.

The non-recurring items for the fourth quarter relates to provision for credit losses recovery of approximately $510,000 due to a mortgage loan receivable pay off in the fourth quarter. our full-year guidance for FFO excluding non-recurring items remains $2.63 to $2.65 per share. Non-recurring items for the full-year include the non-recurring items recognized to date as detailed in our earnings release as well as the provision for credit loss recovery I just mentioned.

Our guidance assumes no additional investment activity, asset sales, financing or equity issuances.

Now I'll turn the call over to Clint for our portfolio review.

<u>Clint Malin</u>

Thank you, Pam. Before I start a brief portfolio update, I'd like to say a few more words regarding the hurricanes given our ownership of several buildings in the areas effective. First, there was no material damage to our buildings. We are very fortunate that only one building in our portfolio remains unoccupied until the municipal water supply is restored. The real story is the sacrifices made by many caregivers who valiantly showed up for work even as their own homes were being damaged and destroyed.

Moving to our portfolio. I'll start with ALG. They paid their contractual rent obligation for October in a timely manner, and we expect the same for November. Net of the deferrals we provided on the 11 property assisted living portfolio, we own through a joint venture accounted for as a financing receivable. With our cooperation, ALG is actively engaged in pursuing financing to exercise their purchase options. As a reminder, all of our investments with ALG are now cross defaulted and cross collateralized, providing us with added security.

Regarding the loan we modified in 2023 with Prestige Healthcare, occupancy improved to 83% in September of this year up 76% in October 2023. Additionally, in the fourth quarter, we expect Prestige to receive approximately $6 million in retroactive Medicaid payments, which will be added to the security deposit we hold.

Beginning in January 2025, 50% of Prestige's excess cash flow will be added to our security deposit, which will be used to pay contractual interest above the current pay amount. Our projections continue to indicate we will receive all contractual interest due this year and in 2025.

Regarding our lease-up portfolio, which includes 17 properties across seven operators, we continue to expect 2024 revenue of approximately $3.6 million. We are actively reviewing 2025 budgets with our operators, and we will provide additional guidance on our next earnings call. You can find our recent portfolio coverage and occupancy metrics on Page 16 of our supplemental.

After the significant deleveraging Pam mentioned, we now have all of the elements in place to build a pipeline with accretive transactions. As Wendy mentioned, we are actively analyzing the addition of a RIDEA structure. We believe the quickest path to implementing this structure is through the cooperative conversion of selected current triple net leases covering seniors housing investments.

This represents an approximate initial range of gross investment between $150 million and $200 million, which could be converted by the second quarter of next year. We believe this structure will act as a catalyst for growth in 2025.

Now I'll turn things back to Wendy for her closing remarks.

Wendy Simpson

Thank you, Pam and Clint. I feel really good about the progress we've made and our growth outlook and believe we have the right team, the right strategy and the access to capital needed to ensure a bright future for LTC. Thank you for joining us today. We look forward to talking to you again in February with our fourth quarter results.

Operator, we're ready to take questions.

Operator

Thank you. At this time, we'll be conducting our question-and-answer session. [Operator Instructions]. Thank you. Our first question is coming from Austin Wurschmidt with KeyBanc Capital Markets. Your line is live.

Q: Great. Thanks and good morning everybody. So now that you've more than opened the door to RIDEA, I guess can you share some additional detail around what you think sort of the upfront platform investments are necessary to jump into that segment of the business? And would you think that the $150 million to $200 or so million of conversions would be immediately accretive when you take into consideration any additional investment from an overhead perspective?

Clint Malin

Austin, we're going through that analysis, as Wendy mentioned in her prepared remarks and tying into my comments, going into a conversion of triple net leases in our portfolio, I mean that's a way to manage in to RIDEA, because we're actively involved in the asset management of those properties currently. So that gives us a way to work into the platform. But we are analyzing and looking at what resources we need to add to be able to effectively manage that by doing new investments outside of just converting. So we'll provide more information on that -- on our next quarterly call.

And in regard to any accretion from this, we're going through budgets right now with operators and looking at both the capital side of it, what's needed as well as looking at implementation by operators and rate increases to see what the bottom line would look like. So while we look forward to providing more information about that on our next quarterly call.

Q: That will be helpful. And I guess beyond the conversion opportunities, can you just share what conversations you've had from an external growth perspective around RIDEA? And are you seeing opportunities at cap rates that you think you can be competitive in that business?

Clint Malin

Yes, we are seeing some opportunities, and that's been a catalyst for us in driving forward on this. And in conversations with operators, I think they find it appealing to be able to look at maybe starting relationship, the rightsized capital partner to be able to grow. And we do see opportunity where different operating companies are interested in growing on a RIDEA basis. We've had people talk to us about this over the past couple of years. And so it's been listening to operators over that time frame. And we do think there's a lot of opportunity for us in that space.

Q: I know it's still early days and last one for me, but how do you think holistically about kind of the size and scope of this piece of business within the context of your legacy triple net investment business?

Pam Kessler

Hi, Austin, it's Pam. I think given the deal landscape out there and the trajectory of RIDEA, I think it would be -- it could grow to be a very significant part of our business. It's difficult to make triple-net deals on the senior housing side pencil and especially if you're wanting to participate in the upside.

So it will probably grow to be a significant part of our business. I can't really put a percent or an amount -- dollar amount on it. But if you look at our peers and at private equity, which certainly is competition in our space. If you don't have this platform, you are excluding yourself from a lot of investment opportunity just right off the bat. And that's what we've experienced.

Q: That's helpful. Looking forward to hearing more. Thanks everybody.

Clint Malin

Thank you.

Operator

Thank you. Our next question is coming from Juan Sanabria with BMO. Your line is live.

Q: Hi, this is Robin Handel [ph] sitting in for Juan. Just wanted to follow-up on the RIDEA opportunities. Could you maybe elaborate on why tenants are interested in conversions to where they are today?

Pam Kessler

It would be any tenant that doesn't have a long-term triple net lease. So we've talked about the transition bucket that we have, and it's that subset, and Clint talked kind of the sizing of that in his prepared remarks of about $150 million to $200 million.

Clint Malin

And it could be any other leases in our portfolio that whether don't have set fixed rents or have a shorter duration of maturity.

Q: Okay. And on the $90 million loan repayments, including working capital in the third and fourth quarter to date, is there anything else expected for the remainder of '24? And how should we be thinking about repayments for '25?

Pam Kessler

No, there's -- those are the repayments that we were expecting all year, and we talked about it being in the third quarter or beginning of fourth quarter. For 2025, there's nothing of great significance, about $30 million scheduled to come due to us. And currently, we expect that to be paid off as it matures.

Clint Malin

And most of those are backdated towards the end of the year. The only other item on that would be if ALG is able to secure their financing to exercise some of the purchase options. That would be the other item that would add into maturities.

Q: Got it. And on the ATM, what's the use of proceeds here? And is this maybe related to RIDEA? Or is there anything we can expect on the acquisition front in the near-term?

Pam Kessler

Well, we talked about deleveraging all year, and we took care of that in the third quarter so that we could basically clear the deck and create liquidity for investment opportunities. Right now, where we sit with leverage at 28% debt to enterprise value and 4.2x, I think we don't have any more deleveraging to do.

Q: Thank you.

Operator

Thank you. Our next question is coming from Rich Anderson with Wedbush. Your line is live.

Q: Thanks. Good morning. So on the RIDEA rollout, you mentioned the $150 million to $200 million of conversion potential in starting next year. And again, I understand short duration maturities or no set rents is sort of the sweet spot to look to do those types of conversions. How much is that, let's say, $200 million -- how much does that represent of those types of existing lease structures in your portfolio? In other words, like is it $200 million sort of all of it? Or is it some of it?

I'm just wondering what the growth profile potentially might be from that conversion and then going forward internally and converting other assets or other triple-net arrangements within your existing portfolio?

Clint Malin

There will be some additional opportunities possibly. But I think beyond this, we'd probably look more of an external growth story as opposed to just more conversions internally. So this would be the initial rollout. There could be some to follow, but it really would be an external growth story, Rich.

Q: Okay. And in terms of that $150 million to $200 million, is that a single operator? Or is that a collection of operators?

Clint Malin

It would be multiple operators.

Q: Multiple operators. And then you would partner with them, one or some of them and go out on the field and try to deploy RIDEA and deploy external growth opportunities with that operator? Or would it be then separate from those as well in terms of finding opportunities where an operator that perhaps is not in your portfolio today that you would bring in as a RIDEA partner, is that...

Clint Malin

It would be incremental. They would be incremental. One thing we would think about is just concentration. We wouldn't want to have too much concentration with a single operator. So that would be sort of a Governor, if you will.

Pam Kessler

Yes, I would say a combination of both, most likely.

Q: Okay. Pam, did you say -- or maybe it was Client, ALG was current on October and November, but that is net of the deferrals that you offered. Is that right? So it's after the $3 million of deferrals for this year.

Clint Malin

That is correct. And they paid October and we expect them to pay November.

Q: And they have not started talking about you paying back any of the deferrals or anything like that yet. Is that true? Or is that starting to be part...

Clint Malin

They're working through the refinancing of the properties to exercise the purchase option. So that would be part of that equation, Rich. And we have a cross collateralization and across to all provisions. So that adds more security in the repayment specifically of the deferred rent we provided.

Q: Yes. Okay. Last for me. A lot of -- and we talked about this when we saw each other recently and purchase options usage and why it makes sense for you guys. And the one that's kind of out there a bit is Brookdale. I think it's 2029, where it becomes exercisable. But Brookdale is clearly stating that they want to own more of their units than rent them. Is there any chance where you could see that move push forward? Or do you not want to perhaps do that because you don't want to get into a lumpy situation of too many purchase options being executed potentially at the same time? Thanks.

Pam Kessler

Yes. We've carefully laddered those purchase option dates. And so I don't see a catalyst for us bringing that forward.

Q: Okay, thank you.

Operator

Thank you. Our next question is coming from Michael Carroll with RBC. Your line is live.

Q: Yes, thanks. I guess, Pam or Clint, I wanted to touch on the platform investments that you kind of referred to that you're looking at to bring on RIDEA. I know previously, I think we last talked, you were kind of highlighting that you might want to hire somebody first. I mean, is that the first investment we should think about? And are there other tech investments that you need to do to be able to better track the operating and financial results of these operators that could be potentially operating these, these communities under the structure?

Clint Malin

Well, I think on the conversions, given our familiarity with the assets, that gives us visibility already to be able to work through that as we actively are right now. So as we expand the platform and it's something that we're actively evaluating that we would look over time probably to add resources.

Q: And Clint, can you talk about what adding resources means? Is it just hiring somebody that is kind of an operator background? Or is it like building out a platform to track your operators operating and financial results?

Clint Malin

A little bit of everything. I mean, from the accounting side to the asset management side, yes.

Q: And should we think about G&A kind of ramping up higher next year as you kind of make these investments? Or is it too early to tell?

Clint Malin

It's too early to tell at this point. Again, we think that converting into these and cooperative -- in cooperative situations and given the visibility we already have into these assets, we're able to manage that without a lot more resources. And then we would look to scale as we turn more to an external growth story on RIDEA.

Q: Okay.

Wendy Simpson

Michael, this is Wendy. I've got to say a shout out to all of our "co-competitors" who have RIDEA. We've reached out to almost every one of them. They've been very helpful in telling us what we need, what type of systems you might have to add on. I mean we're not going into this blind. We're using our connections with the industry, and it's really helping us to focus in on what we need. And I don't think it's going to be a significant investment because we're going a little bit smaller as we start out. But I wouldn't expect to see millions of dollars being spent to build out the platform to begin with.

Q: Okay. Great. Appreciate that, Wendy. And then just last one for me, I guess, on these near-term conversions, I guess, is there any like deferred maintenance or renovation projects that we should think about where the operator is unable to make those investments, but now putting into the structure it makes sense for LTC to make those investments to kind of drive near-term growth above and beyond what they could have done in the triple net portfolio? Is there anything like that embedded in those opportunities?

Clint Malin

We wouldn't see any major capital dollars other than maybe a couple -- would be one asset specifically where there is revenue-enhancing dollars. But by and large, I wouldn't say there's not significant capital that would be needed.

Wendy Simpson

Transition portfolios we put capital in, when we transition the operators. So it's already -- most of it's already been added.

Q: Okay, great. Thank you.

Wendy Simpson

Thanks.

Operator

Thank you. Our next question is coming from Omotayo Okusanya with Deutsche Bank. Your line is live.

Q: Hey guys, this is Sam on for Tayo. I just have a question around Prestige. I was just wondering if you guys are seeing any improvements with that operator. And if you have a rough expectation around when they return to meeting their contractual rental obligations and tie with your cash?

Clint Malin

Well, we're very encouraged by the occupancy growth, which I mentioned in the prepared remarks. In September, they were 83% compared to that time frame a year ago. So they've made a lot of progress on that. And as we've talked, we first entered into this arrangement with Prestige back in the Fall of '23 through them putting their retroactive Medicaid funds into Escrow with us as well as LTC participating in excess cash flow starting in 2025.

We really have given Prestige almost a 2, 2.5-year runway to be able to build back occupancy and improve margins. So I think that growth in occupancy is very encouraging. We're happy to see that, and I think they are making a lot of progress.

Q: Right. That makes sense. And I guess the last one for me is -- I hope I didn't miss this, but what's the outlook around external growth given your improved leverage and liquidity?

Clint Malin

We're actively looking at opportunities now. So hopefully, our next call, we'll be able to provide more details regarding pipeline and investments.

Q: Got it. All right. That's it for me. Thanks guys.

Clint Malin

Great, thank you.

Operator

Thank you. As we have no further questions on the line, I would like to hand the call back over to Wendy Simpson for any closing remarks.

Wendy Simpson

Thank you, everyone, for joining us on the call today, and we're very excited about the RIDEA structure. And for those of you who have followed us a long time, you know how anti-RIDEA, I have been in the past. I'm a new convert, and you know what converts do, they go in big time. So I'm very excited about our opportunities. Thank you, and we'll talk to you after the fourth quarter.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference, and you may disconnect your lines at this time, and we thank you for your participation.