S&P Capital IQ

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Tiptree Inc. NasdaqCM:TIPT

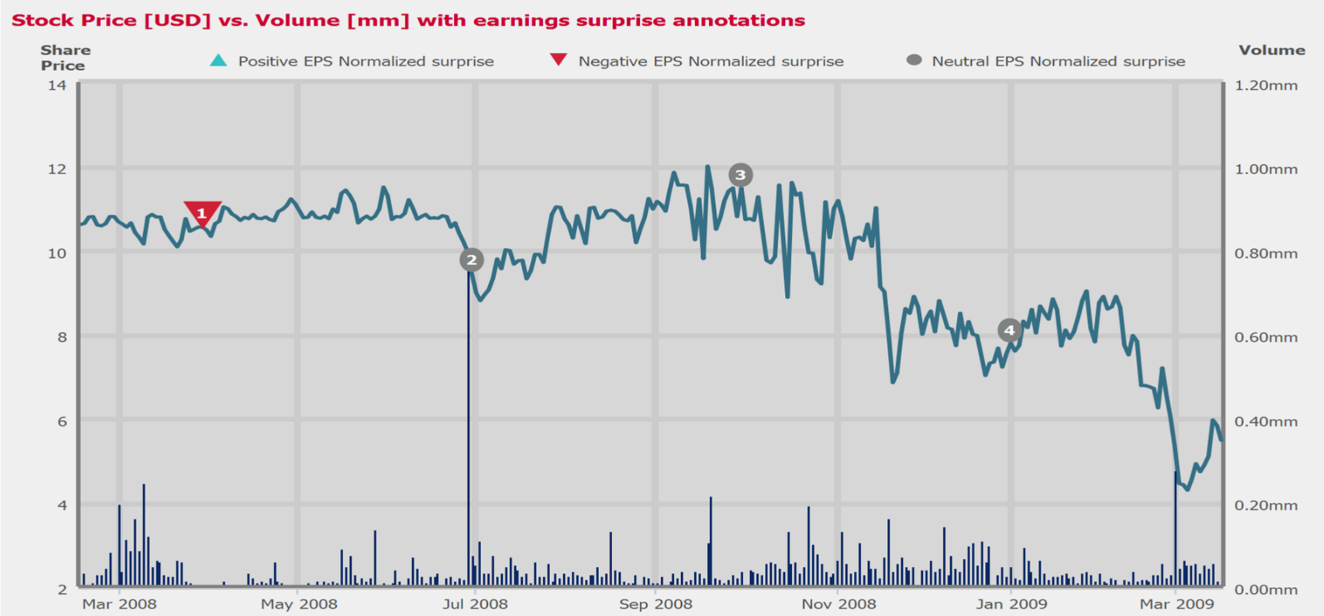
FQ1 2009 Earnings Call Transcripts

Monday, May 11, 2009 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2009-			-FQ2 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.12)	0.08	NM	0.03	(0.02)	-
Revenue (mm)	6.60	6.14	(6.97 %)	6.30	22.00	33.90

Currency: USD
Consensus as of Apr-06-2009 6:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2008	0.09	0.01	(88.89 %)
FQ2 2008	0.02	0.02	0.00 %
FQ3 2008	(0.01)	0.00	NM
FQ4 2008	(0.02)	(0.90)	NM

Call Participants

EXECUTIVES

F. Scott Kellman
Former Chief Executive Officer and President

Leslie Loyet

ANALYSTS

Douglas Michael Harter
Crédit Suisse AG, Research Division

Jason Deleeuw
Piper Jaffray

Jerry L. Doctrow
Stifel, Nicolaus & Company, Incorporated, Research Division

Unknown Speaker

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Care Investment Trust First Quarter 2009 Conference Call. [Operator Instructions] I would now like to turn the conference over to Leslie Loyet. Please go ahead, ma'am.

Leslie Loyet

Thank you. I'd like to thank everyone for joining us today. This morning we sent out a press release outlining the results for first quarter 2009. If anyone has not received the release, please visit Care's website at www.carereit.com to retrieve a copy.

Management will provide an overview of the quarter and then we'll open the call up to your questions. Before I turn the call over to management, I need to inform you that certain statements made in the press release and on this conference call that are not historical may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For a discussion of the risk and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see the Risk Factors section in the company's Form 10-K for the period ended December 31, 2008 filed with the SEC. All forward-looking statements speak only as of the date on which they are made and the company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date of such events.

Also during today's conference call the company may discuss funds from operations or FFO or adjusted funds from operations or AFFO. Both of which are non-GAAP financial measures as defined by the SEC Regulation G. A reconciliation of each non-GAAP financial measure and the comparable GAAP financial measure or net income can be found in the press release issued this morning, May 11, 2009 and on the company's website, again at carereit.com by selecting the press release regarding the company's first-quarter earnings. At this time, I'd now like to introduce Scott Kellman, President and Chief Executive Officer of Care Investment Trust. Scott, please go ahead.

F. Scott Kellman
Former Chief Executive Officer and President

Thank you, Leslie, and thank you to everyone who joined us this morning to talk about Care's first quarter results. Joining us on the call today are Paul Hughes, our Chief Financial Officer; Mike McDugall, our Chief Investment Officer; Tore Riso, our Chief Compliance Officer; and Soomon Sarma [ph], Vice President in Healthcare Finance.

Today we will discuss our financial results for the quarter, review our portfolio's continued strong performance, walk through Care's current liquidity position and wrap up by talking about how we are situated to address the current market environment. Care generated a little more than $6.1 million of total revenues during the first quarter. These were approximately comprised of rental revenue of $3.2 million, $2.9 million of interest income from our mortgage portfolio and other income of approximately $100,000. Other income included interest earned on cash balances and miscellaneous fees. Operating expenses during the quarter approached $1.9 million, approximately 2.3 million related to marketing, general and administrative expense.

Other operating expenses included approximately $645,000 in management fees and a little more than $835,000 in depreciation expense related to a wholly-owned real estate. The components of operating expense identified so far aggregate to a total of approximately $3.8 million. This amount was offset by a positive adjustment of $1.9 million to the carrying value on our books of our mortgage investments that we previously marked to the lower of cost or market.

The discount to face value that we booked in the fourth quarter of 2008 when we first adjusted the carrying value of these assets decreases as the individual loans approached their respective maturity dates. This resulted in a recovery of $1.9 million during the quarter. Loss from investments in partially owned entities was a little less than $950,000 for the quarter. This included a $1.2 million loss related to our investment in the Cambridge properties that resulted from a non-cash depreciation charge of $2.4 million. This result also included equity income of about $300,000 from Care's investment in the Senior Management Concepts properties.

Care also booked a $1.3 million gain on derivative instruments largely resulting from a revaluation of our obligation to issue operating partnership units relating to Cambridge. This re-evaluation was primarily driven by the decrease in Care's stock during the quarter.

Interest expense including amortization and write off of deferred financing costs associated with the pay-off in closure of our line of credit with Collin Financial totaled 2.1 million. This was comprised of $1.4 million of interest related to the mortgage debt supporting the Bickford acquisition, a $500,000 non-cash write off in connection with the termination of our warehouse line and $200,000 in interest charges on amounts outstanding under the line prior to its pay-off.

Care's effective interest rate on borrowings for the quarter was approximately 1.44% under our line of credit and 6.88% for debt related to the Bickford properties. Consequently, net income for the quarter equaled $2.5 million or $0.12 per share, while FFO equaled $5.7 million or $0.29 per share. The difference between these metrics results primarily from the add back of depreciation and amortization to derive FFO.

Adjusted funds from operations or AFFO equaled $2.4 million or $0.12 per share. The AFFO metric reflects additional adjustments for non-cash income and expense items including stock-based compensation, the non-cash effects of straight lining of lease revenue, the unrealized gain or loss resulting from re-evaluation of the partnership units issued in the Cambridge transaction, the non-cash write off of deferred financing cost related to the pay down and termination of our warehouse line and significantly this quarter, the $1.9 million gain associated with updating for the quarter the marking of our mortgage portfolio to the lower of cost or market.

Portfolio metrics were excellent for the quarter. 100% of payments due for the quarter were collected and portfolio cash flows produced strong debt service coverage ratios. Debt service coverage on the mortgage portfolio as of March 31, 2009 averaged more than 1.7 times after deducting an imputed 5% management fee and $300 per bid for capital expenditures from the cash flows of the assets available to service our loans. There has no loans on non-accrual.

Performance of our owned properties continues to demonstrate strength as well. Occupancy in Cambridge's medical office buildings continues to track slightly above our underwritten assumptions, which is very positive in these difficult times. Our investments in Assisted Living continue to demonstrate considerable strength as well with both our Bickford and senior management portfolios showing slight upticks in occupancy.

In March 31, 2009, Care held $17.4 million in cash and cash equivalents. Subsequent to the end of the first quarter, we received approximately $29 million from the sale of a mortgage investment. During the quarter, we repaid all outstanding balances under our line of credit with Collin Financial and terminated all obligations under the credit facility.

As a result, our mortgage portfolio is now entirely unencumbered and we currently hold cash and cash equivalents of approximately $46 million and have no debt maturities prior to 2015. Care currently sets with substantial free cash on our balance sheet and no debt maturities for six years. We hold a strong portfolio of performing assets and enjoy significant balance sheet flexibility.
Operator, that wraps of our prepared remarks. Could you open the line for questions, please?

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line off Jerry Doctrow with Stifel Nicolaus.

Jerry L. Doctrow
Stifel, Nicolaus & Company, Incorporated, Research Division

I was wondering if we could just get a little more color on kind of the MOB and senior housing assets. I think you touched on some of it maybe as you went through your marks and then, the second thing obviously, I think I'm wondering and everybody else is wondering, with all this capital, what are you going to do with it? Do you have a sort of business strategy go forward or do you consider liquidation? What is your broader game plan that you can share with us at all?

F. Scott Kellman
Former Chief Executive Officer and President

The MOBs, when we originally underwrote the MOBs with Cambridge, they remained in a state where there was some additional occupancy gains to come in the next couple of years, so we had to estimate those gains and to protect ourselves against those gains being slower than what we anticipated, we actually issued approximately $10 million in operating partnership units which are proxies for our stock or we had an obligation. We agreed to issue them upon a certain point in time and we actually ended up with an estimation of what the ramp up in those assets would be and how quickly it would occur. Cambridge's performance economically has exceeded what we have anticipated or what we anticipated at the time that we underwrote the transaction. In fact, we have canceled fewer operating partnership units to secure our preferred yield than we had originally anticipated and we anticipate that they will be free of the escrow and the possibility of canceling operating partnership units earlier than we had originally projected with our underwriting. So those facilities are doing quite well. In addition, the Assisted Living facilities are also doing well. The Senior Management Concepts properties have always done well, 12 units at one of the larger properties were taken out of commission so as to reposition them and to improve their physical appearance in the light of a competitor opening up nearby. But that renovation project which took 12 units off-line and thus decreased occupancy for a short period of time should be done in the next couple of months. And we anticipate strong demand for those because that facility was 100% occupied prior to us not filling up the units as people like it so we could make this transition and improve the physical plan at the facility. And Bickford has had a couple of its best months in its history in terms of occupancy, so both of those are doing quite nicely.

Moving to the broader issue of the strategic orientation of Care's Board, the Board, Jerry, continues to evaluate all the options at its disposal to optimize shareholder returns. I think that the priority of the Board was to ensure that in these tumultuous times there was no risk. And as a result, we repatriated quite a bit of capital from the sale or simply the repayment through some of our borrowers accessing government programs such as HUD, some of the mortgages that we had on our balance sheet. I think that now is the time that the Board will look to what happens next. And I do not believe that a firm decision has been made as to what direction, what the best opportunity is but I think that the Board is continuing to evaluate that on a go-forward basis. But beyond that, I can't really identify, I can't really articulate a defined strategy. There are many options open to the Board and they're the obvious ones that you've mentioned. The question becomes in this market given our current size and the state of the market, the opportunities out there, what is the best direction for us to go and now we have the balance sheet flexibility to evaluate that in a more considered fashion and I think that that's what the board's going to do.

Jerry L. Doctrow
Stifel, Nicolaus & Company, Incorporated, Research Division

Any sense about what the timeframe would be for a decision because you're kind of in a bit of a limbo state here where people sort of transited [ph] out where the company set it.

F. Scott Kellman
Former Chief Executive Officer and President

I know that's right but I think that things change from day to day so I think that at times, even if you explore one avenue and you believe that you're going in a direction, you don't want to articulate it too much because if that doesn't work, then you want to have flexibility to go on other directions. I think at this point in time, that's all that I can provide you in terms of guidance, Jerry, I'm sorry.

Operator

Our next question comes from the line of Tim Swett [ph] with FMG Capital [ph].

Unknown Speaker

Trying to understand what you might do with all the cash and maybe you could just say, what are some of the things that the Board will be considering specifically? And maybe you could say something about what circumstances would you not pay the dividend or increase the dividend, buy back shares, anything of that sort.

F. Scott Kellman
Former Chief Executive Officer and President

I guess I would leave that to the Board as opposed to me speculating on what their collective wisdom would come to a decision in terms of a passport that some of the possibilities are Jerry mentioned, liquidation, there's obviously a possibility and I'm not articulating that this is something that the Board is considering or but the, as sale's always a possibility, focusing on opportunistic acquisitions in the market is always a possibility, dividending the cash out to the shareholders is always a possibility, buying back stock is always a possibility. And so if you look at all those and you try to assess which is the most reasonable and advantageous for the very shareholders that we have at this time, I think the Board is very dedicated to doing that on an ongoing basis and is trying to assess those issues and choose the most opportunistic path.

Operator

[Operator Instructions] And our next question comes from the line of Jason Deleeuw with Piper Jaffray.

Jason Deleeuw
Piper Jaffray

I was just wondering on the advisor fees that you were incurred this quarter, do you expect to incur those again in this quarter and the upcoming quarters as long as the Board is doing this review?

F. Scott Kellman
Former Chief Executive Officer and President

We incurred this expense this quarter in connection with our ongoing consideration of all the options to maximize shareholder value. We'll have a final but much, much smaller portion of this expense show up and be paid this quarter but I don't anticipate that we'll have ongoing fees of the same nature in future quarters.

Jason Deleeuw
Piper Jaffray

On the dividend, what is the plan here to paying out the dividend for this quarter and future quarters or is that still contingent on the outcome of the review?

F. Scott Kellman
Former Chief Executive Officer and President

We paid the dividend just last month, so in spacing our dividends and considering the payment of dividends, the Board will convene in June and evaluate the dividend policy at that point in time. And I think that that's the time frame that would allow us to actually pay a dividend in a sequential and relatively evenly spaced manner if the Board decide to do so at that time. But I wouldn't read anything into the fact that we're not currently declaring a dividend. It's just the timing issue as of now.

Operator

Our next question comes from the line of Eric Krome [ph] with Krome Investments [ph].

Unknown Speaker

I just wanted to confirm the mortgage notes payable, is that property specific? No recourse to the Trust?

F. Scott Kellman
Former Chief Executive Officer and President

The mortgages are actually investments that we've made. Are you talking about the mortgage payable on the Bickford?

Unknown Speaker

On the Bickford, correct.

F. Scott Kellman
Former Chief Executive Officer and President

The Bickford is property specific. It's up and we made that which runs to the property.

Operator

Our next question comes from the line of Douglas Harter with Credit Suisse.

Douglas Michael Harter
Crédit Suisse AG, Research Division

I was wondering if you could talk about your outlook through the ability to see additional loan repayments? And this is the one you talked about already for the second quarter?

F. Scott Kellman
Former Chief Executive Officer and President

We have a number of borrowers who have talked about exploring government or other refinancing options but I have to say that right now, we have no visibility as to additional repayments. I think the government programs remain attractive to all borrowers in the senior housing space but we don't currently have any borrowers who have come to us and told us that they are going to repay in the near future.

Douglas Michael Harter
Crédit Suisse AG, Research Division

And what's the maturity profile look like, so when did loan start maturing?

F. Scott Kellman
Former Chief Executive Officer and President

Some this year, one, but it could be extended. There's an extension option. They start extending, they start maturing more frequently next year and they all run off over the next three years even if people choose to extend.

Operator

Thank you, and at this time there are no further questions. I'd like to turn the call back over to Mr. Kellman for any closing remarks.

F. Scott Kellman
Former Chief Executive Officer and President

I'd just like to say thank you for joining us. There are some signs that the market is getting better out there and hopefully that'll be a good thing for all of us and thank you so much. And have a good day.

Operator

Thank you, ladies and gentlemen. This concludes the Care Investment Trust First Quarter 2009 Conference Call. If you'd like to listen to a replay of today's conference, please dial (303)590-3030 or 1-800-406-7325 followed by a passcode of 4064279. ACT will like to thank you for your participation and you may now disconnect.