Tiptree Inc. NasdaqCM:TIPT

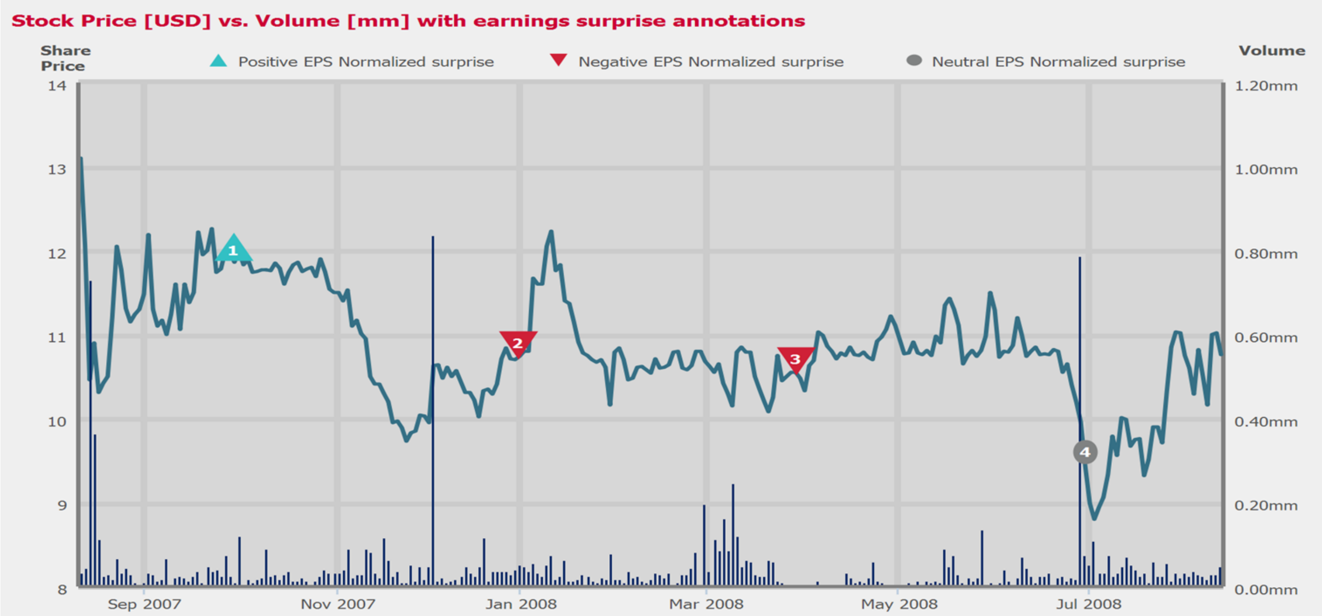
FQ3 2008 Earnings Call Transcripts

Friday, November 14, 2008 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2008-			-FQ4 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.01)	0.00	NM	0.00	0.03	(0.07)
Revenue	-	-	37.92	-	-	-
Revenue (mm)	4.80	6.62	-	6.00	20.20	26.80

Currency: USD
Consensus as of Oct-24-2008 3:44 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2007	0.10	0.12	20.00 %
FQ4 2007	0.12	0.11	(8.33 %)
FQ1 2008	0.09	0.01	(88.89 %)
FQ2 2008	0.02	0.02	0.00 %

Table of Contents

Call Participants

EXECUTIVES

Frank Plenskofski

Leslie Loyet

Scott Kellman

ANALYSTS

Douglas Harter
Credit Suisse

Jason DeLu
Piper Jaffray

Jerry Doctrow
Stifel Nicolaus

Presentation

Operator

Good morning ladies and gentlemen, thank you for standing by. Welcome to the Care Investment Trust Inc. third quarter 2008 earnings conference call. During today's presentation all parties will be in a listen-only mode. Following the presentation the conference will be open for question. (Operator Instructions) This conference is being recorded today Friday November, 14 of 2008.

At this time, I'd like to turn the conference over to Leslie Loyet with Financial Relations Board; please go ahead, ma'am.

Leslie Loyet

Thank you, I'd like to thank everyone for joining us today. Earlier in the day, we sent out a press release outlining the results for third quarter of 2008. 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 risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, please see the 'Risk Factors' section in the company's Form 10-K for the period ended December 31, 2007 filed with the Securities and Exchange Commission.

Our 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, November 14, 2008 and on the company's website at www.carereit.com by selecting the press release regarding the company's third quarter earnings.

With that said, I would like to now introduce, Scott Kellman, President and Chief Executive Officer of Care Investment Trust. Scott, please go ahead.

Scott Kellman

Thank you Leslie and thanks to everyone who joined us this morning to talk about Care's third quarter results. On the phone with us are Frank Plenskofski, our new Chief Financial Officer and Mike McDugall, our Chief Investment Officer. Today, what I would like to do is to review our investment activity for the quarter, walk through our financial results and tough upon the strong performance of the portfolio during the third quarter.

We will follow-up by addressing our pipeline and our line of sight to the required liquidity to execute on these opportunities. Let's talk about the investment activity.

During the third quarter, Care purchased two assisted living facilities for $10.3 million from affiliates to the Bickford Group. We funded this acquisition from cash on hand and $7.6 million of mortgage debt. These facilities were folded into the master lease agreement they governs the 12 facility, $101 million transaction which we closed at the end of the second quarter.

This was the first quarter that we experienced the full benefit of the original Bickford transaction, and it added $0.04 to this quarter adjusted funds from operations. We are extremely pleased to have expanded our relationship with Bickford in the third quarter and we look forward to further opportunities to partner together in 2009.

Moving to the financial results for the quarter; Care generated $6.6 million of total revenues during the third quarter, approximately comprised of $3.6 million of interest income from our mortgage portfolio, rental revenue of $2.9 million and other income of approximately $100,000. Other income resulted primarily from interest earned on invested cash during the quarter.

Operating expenses during the quarter were slightly below $3.3 million. These included approximately $900,000 in management fees and a little more that $2.4 million in marketing, general and administrative expenses. This included stock-based compensation expense of a little over $900,000, which primarily resulted from marking to market stock-based compensation issued in prior periods to non-employees of Care. Remember the Care has no employees and are employees of our external manager CIT Healthcare.

Loss from investment and partially owned entities equaled $1.2 million for the quarter. Components included a $1.5 million loss related to our investments in Cambridge properties, resulted from a non-cash depreciation charge of $2.4 million. This result also includes equity income of approximately $300,000 from Care’s investment in the Senior Management Concepts properties.

A $1.1 million depreciation charge relating to the 12-facility Bickford portfolio also ran through this quarter’s expenses. The $622,000 unrealized loss on derivative instruments, largely resulted from a revaluation of the operating partnership units relating to Cambridge. This revaluation was driven by the increase in Care’s stock price during the quarter.

Interest expense totaled $1.7 million, this included $300,000 paid on the $37.8 million outstanding under our warehouse line of credit, $1.3 million relating to the mortgage debt incurred to finance the Bickford properties and approximately $100,000 from amortization of deferred financing costs. Care’s effective interest rate on borrowings for the quarter was approximately 3.6%.

Care also incurred a $2.2 million loss as a result of reclassifying a $24.7 million mortgage as held for sale. This loss reflects the effect of marking this asset to approximately 91% of par, which represents the value Care anticipates realizing upon sale of the offset in the fourth quarter. Consequently net loss for the quarter equaled $0.17 per share while FFO equaled $0.00 per share.

This results primarily from the add-back of depreciation to drive FFO. Adjusted funds from operations or AFFO equaled $0.04 per share. The AFFO metric as backed to FFO, the non-cash stock compensation adjustment and the non-cash expense resulting from revaluation of the partnership units issued in the Cambridge transaction.

AFFO also adjust for the non-cash effects of straight lining of least revenue. AFFO this quarter was negatively impacted by $0.11 per share, by the one-time earnings effect of making the decision to sell the mortgage asset we referenced earlier. Absent this impact, AFFO for the quarter would have totaled $0.15 per share.

Portfolio metrics for the quarter were excellent. One hundred percent of payments due for the quarter were collected and portfolio cash flows produced strong debt services coverage ratios. Debt service coverage on the mortgage portfolio as of September 30, 2008 averaged more than 1.75 times after deducting an imputed 5% management fee, and $300 per bed 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 propriety continues to be strong as well. Occupancy in Cambridge’s medical office buildings continues to track slightly above our underwriting assumptions, which is very positive in these difficult times. A particular note, given the recent turmoil on the assisted living sector is the continued strength of our investments in this area.

Occupancy in our facilities managed by Senior Management Concepts, continuous to average over 90%, while our Bickford portfolio continues to perform inline with our underwriting assumptions and enjoyed its second highest month of occupancy for the year in September.

Our origination team continues to source attractive opportunities in the market, but quite frankly we are becoming increasingly selective in what we review for potential investment. We are currently, actively engaged in underwriting three transactions, but we are very enthusiastic about these opportunities. Given the current debt markets, there is no assurance that any of the deals will close in the near future.

Care currently hold $18.8 million in cash, we are required to retain $5 million for general liquidity purposes under our recently amended Column Financial line. This leaves us with $13.8 million currently available for investment in general corporate purposes.

This weak Care and our Manager CIT Healthcare, reached agreement under the mortgage purchase agreement, which we have talked about on prior calls, with CIT Healthcare to purchase a $24.7 million mortgage asset from Care. The sale of that asset will provide approximately $22.4 million of proceeds to Care. Upon completion of the sale, Care will have approximately $36 million of free cash, with which to execute on the opportunities described earlier.

Now last quarter, we discuss two borrowers of approximately $53 million in our mortgage portfolio that we're pursuing re-financings under the FHA program. These borrowers have continued to work through the FHA process, and they hope to repay Care within the next 60-days. Once again, while we would very much welcomes these early repayments. There is no assurance that they will occur in that timeframe or at all. Operator, that wraps our prepared remarks. Could you please open the line for questions?

Question and Answer

Operator

(Operator Instructions) Your first question comes from Jerry Doctrow - Stifel Nicolaus.

Jerry Doctrow
Stifel Nicolaus

I guess a couple of things. One, just prospects for continuing to sell loans to CIT, just based on their financial situation was going on in the markets?

Scott Kellman

We've done one, and the Board will determine on a going forward basis Jerry, whether we do more, but the drivers of that decision will be market circumstances and I think in evaluation of Care's liquidity position, which of course will be significantly impacted by whether these FHA programs, actually go through and whether these two borrowers in our current mortgage portfolio are able to repatriate that cash and pass off.

So, I think that the possibility and the availability of the funds are there and the question really becomes, do we need it and give in the market opportunities that we're seeing, when is the best time to execute on the put and capture that additional cash.

Jerry Doctrow
Stifel Nicolaus

Then just maybe a little bit more thinking on sort of strategy. It sounds like, you like some of the other healthcare REITs obviously just given the general uncertainty of the market, are kind of pulling back on investments.

Do you have sort of some broader comments maybe on the strategy or how you think about things? Are you looking for sort of different kind of minimum yield? Are you looking to buy assets or different mortgages? Given what you're seeing out there, assuming you've got the $36 million which is obviously, I assume coming and then maybe the $53 million on top of that. Do you just sit on it or what kinds of things do you look to do? What kind of yields?

Scott Kellman

Jerry, we're not going to sit on it right now because quite frankly, the areas that we're focused on in the immediate future or primarily assisted living and skilled nursing. Both areas have expanding cap rates right now that provide some compiling returns and you're starting to see the opportunity to make investments with established coverage ratios undergoing and so you can actually deploy capital today in select circumstances and achieve a great deal of safety in addition to higher spreads than you've achieved in over the last twelve months.

So, we don't intent to sit on it, by the same token, we don't intent to order properties or put ourselves at risk. Let me give you a couple of examples; recent investment in the assisted living area such as our add-on with the Bickford group was in the 8.4% area and that cap rate is actually trending higher. We folded that into our last transaction with them and established the pricing consistent with the last one, because quite frankly, these two new assets increased our coverage's and added a margin of safety to the portfolio, but if we did more we would for a higher rate that that.

Skilled nursing, with heavy Medicare focus for potential acquisitions we're currently reviewing is probably a 100 to 150 basis points higher and we're talking levels approaching 9.5% to 10% and these for facilities that have going in coverage of 1.35 times and up from there.

There are few deals we're actively working on now, which is one driver of our decision to sell them mortgage asset we talked about on the call and take that hit in the third quarter, so that we can actually grow our asset base and move forward in the fourth quarter.

Now, there are mortgages out there to be had at extremely attractive yields and quite frankly, we just past on one that was very attractive and add more than a 20% IRR in it, but it came with 80% financing and it was a mortgage deal and we want to continue our progress in transiting to an equity REIT and we believe that while that maybe available attractive for the next two are three years, if you're looking longer-term, we'd rather capture equity opportunities, that won forever at attractive yields.

So, we made the decision not to buy on that transaction and to move forward with our focus on equity properties, but there are select opportunities out there and I think more attractive returns at better safety parameters than we've seen recently.

Jerry Doctrow
Stifel Nicolaus

Just one last thing; I think we have probably the detail to go through it, probably loan by loan, but just how are you thinking about that, now the drop in LIBOR and how much variation that's going to create in income go forward? Because, I know a lot of your stuff is LIBOR based; some of it's got floors and that sort of stuff. So, are you sort of planning for fluctuation assuming we stay at LIBOR rates at where they are now through the fourth quarter?

Scott Kellman

Jerry the majority of our mortgages, well 100% of our mortgages are floating rate. So, we are subject to LIBOR fluctuations. That being said, the majority of them have floors in the 710 to 725 range. So, actually the spread, given the fact that our current line is LIBOR plus 100 is quite attractive.

That being said, the mortgages as I view them are a source of continuing liquidity. In a market where we can't go back to the equity markets and we can't raise additional capital; what we can do is continually encourage our mortgage borrowers to refinance, with FHA or with Fannie Mae or Freddie Mac and that's what we've been doing, and we've seen some great repatriation of capital over the last year by people going to these programs, including the $53 million that two borrowers are currently pursuing through those programs.

So I actually like our mortgage portfolio from the standpoint of, these mortgages primarily mature over the next 18 months to 24 months. So I have a source of cash and a capital constrain market and at the same time given their floors, I think we're getting comparatively attractive returns on them and so I see them sort of as kitty available cash that I can access or encourage as I see investment opportunities out there. I actually think it puts us in a relatively good position.

That being said, what you articulated is absolutely correct and for those where we don't have floors, we will see a decline in our returns. So, we could have some short-term fluctuations in our FFO and our AFFO.

Jerry Doctrow
Stifel Nicolaus

Okay and then just one last thing from me if I could. Obviously some of the major shareholders have been pushing for sale of the company. Any comments on sort of, where some of those issues stand or whether there's anything sort of a bigger picture strategic that you're feeling the need to do it or look at?

Scott Kellman

Not immediately at this time from the shareholders. In fact, two of those shareholders have started selling our stock, which I think has kept at the levels that you've been seeing. I think that we've seen some liquidation from those shareholders ranging from 10 to 11.50, and their selling pressure, whenever we start to tick up over 11 as these shareholders disposes of some stock.

I think it's a good thing for the company because it increases our flow and the availability of other people to build positions, but we haven't had very recent conversions with them. I don't believe that their attitudes about the desire to see us liquidate, so they can redeploying in to other investment opportunities have changed, but we continue to take advise from them and stay in contact with them, but I haven't had any recent conversation.

Operator

(Operator Instructions) Your next question comes from [Jason DeLu] - Piper Jaffray

Jason DeLu
Piper Jaffray

Just a couple of questions here; you've got the three transactions you guys are underwriting right now. Can you give us a sense of the size of those transaction and I believe your Bickford deal was a GSE loan and can you just talk about the environment, trying to get the GSE financing and what kind of leverage? Do you think you could get the type of leverage you got at Bickford that you're looking at with these other deals that you're taking a look at right now?

Scott Kellman

Let me address that first and then the other questions. The sensibly federal programs with Fannie and Freddie are still open for business and in fact we've met with representatives of Fannie and Freddie at recent conferences and their perspective is that these programs provide them a much needed and depreciated diversification from home lending and they've done quite well with these programs.

So, what we've been told is that, the window remains open and that there will be activity in those programs on a go forward basis. We saw that with the Bickford add on; the $7.6 million that we did was also through Fannie Mae. So, I think that those windows were remain open and I think it's an easy established flow a funds for the federal government to support economic activity. I doubt that that will be changed on a go forward basis.

FHA, which is HUD program continues to be active and the HUD intermediaries continue to process loans through that program and most recently they've established, what they call the HUD lien program which allows you to move through the process in three months or less, which is radically faster than historically. So, it actually seems that the government is putting more effort into these programs as opposed to pulling back.

In terms of the three transactions that we're looking at, two of them exceed known figures and are in the transitional Care or high equity skilled nursing arena and one of the transactions is in the assisted living arena and is slightly less than that level.

Jason DeLu
Piper Jaffray

And then the terms of like the underwriting in the GSCs, you think the leverage would be similar to what we've seen in the past?

Scott Kellman

They have not altered their guidance lines and we have not received any indication that the leverage would be less.

Jason DeLu
Piper Jaffray

Okay and then in the G&A expense this quarter, were there any one-time items in that and I believe you said, correct me if I'm wrong some of the Bickford expenses ran through that this quarter?

Scott Kellman

I mean there were some Bickford expenses relating to closing the transaction. Most of those were capitalized I believe. So, I don't believe that they ran through in any material fashion, but the big issue that we have that caused us some fluctuation in that expense line is the fact that our employees are not employees of care and so we actually have to adjust our employee stock compensation expense based upon fluctuations in our stock price and our stock price was significantly higher at the end of the third quarter than it was at the end of the second quarter.

So there were a number of accounting adjustments running through stock comp, which was about $900,000 increase. It's not like we issued ourselves $900,000 of additional stock comp in these difficult times, which changed radically. As well as the expense relating to the Cambridge units, which were valued higher because our stock price was higher, so we had a higher liability.

So our financials do have a little bit of noise in them relating to these fluctuations, which really don't have a cash effect, but can have significant impacts on our earnings and come through our financial metrics.

Jason DeLu
Piper Jaffray

Okay and then last quarter you guys spoke about an annual run rate for your AFFO, and just given with the moves in LIBOR and where LIBOR currently sits and the opportunities that you guys are seeing; can you speak to that this quarter?

Scott Kellman

I appreciate the question, but at this point in time given the uncertainties of the pay-offs, the fact that quite frankly getting the put on the conversion of the mortgage removes income which we believe was wise because it positions us to take advantage of some of these equity opportunities. Should these equity opportunities not materialize, we would have made an economically disadvantageous position.

Now, we wouldn't do something if we didn't think that the equities weighed highly on the advisability of doing it, so the acts fixed for itself, but it's very difficult for me to make projections and the last thing I want to do especially in this market is articulate a run rate based upon events that haven't occurred yet.

So, I'm hesitant to do that. I will say that last time when we spoke about the run rate, it was with the assumptions of the portfolio that we had and the level of LIBOR at the time that we spoke. LIBOR since then has fallen, gone up and fallen again and so the LIBOR variability does greatly impact the advisability of our company at this time with the make-up of our portfolio giving guidance and I think I would rather not at this time.

Jason DeLu
Piper Jaffray

Okay, and now you've got these three transactions you're looking at; you also have the share repurchase program. How are you going to view capital uses for share repurchases, if let's say some of these opportunities don't materialize. How are you looking at of utilizing capital?

Scott Kellman

The share repurchase program was instituted by the Board to provide it flexibility. It's a decision that's made by the Board or subset of the Board. We have not yet executed on the share repurchase program that we're allowed to purchase up to 2 million shares depending upon issues such as marketing condition, legal considerations and other factors.

I guess I would say, that we will look at the totality of the circumstances and market conditions including our liquidity and where our stock is trading and make a decision based upon the models that we run internally to determine what the best use of our capital is.

All things being equal, I would rather -- and this just me speaking; I would rather make accretive investments than buyback shares. However, there are times when the shares become a compelling investment opportunity for us and we wouldn't hesitate to hit the shares at that time.

Jason DeLu
Piper Jaffray

And then just one last one, the book value at the end of the quarter, do you guys have that?

Scott Kellman

Yes, we do. Frank, do you have that?

Frank Plenskofski

Yes Scott, the book value at the end of the quarter is roughly about 1380.

Operator

Your next question comes from Douglas Harter - Credit Suisse.

Douglas Harter
Credit Suisse

I was wondering if you could just talk about obviously, you have the two potential payoffs in the work, but the availability of liquidity for the rest of the lone portfolio to be able to refinance and payoff?

Scott Kellman

The rest of the portfolio is very strong and whenever you have debt service coverage's that average 1.75 Doug, you have the availability to extract additional capital of those assets, if you are able to refinance. Now, the primary refinancing vehicle in today's market is HUD and historically people had different opinions about HUD, do they want to go though the regulatory and circumstances.

With the HUD lien program the FHA lien program that's been instituted, the process has been greatly eased to access this type of funds and we're in conversations with several of our borrowers on various transactions about whether they want to attempt to access their program on a go forward basis. So working constantly, in conversations with our portfolio borrowers; discussing their liquidity options and their availability to seek additional capital.

That being said, most of the portfolio runs off over the next two years anyway and so we expect repatriation of funds during that period of time one way or the other. I think that there are real possibilities there and quite frankly in the background is always be the possibility of executing on the put with CIT Healthcare, should we need liquidity for specific investment opportunity.

Douglas Harter
Credit Suisse

And can you also talk about; do you have other availability on your current borrowing facilities?

Scott Kellman

The current borrowing facilities are not fully drawn. That being said, we have not gone to them recently, given the current market conditions. Though given the fact that like any CDO warehouse line, the lender has 100% discretion as to whether they'd fund. We have not pursued that recently, of course we have not had a need to pursue it up to this time. So, haven't gone to Column Financial and asked for additional liquidity.

Operator

Thank you and at this time, we have no further questions. I'd like to turn it back to Mr. Kellman, for any closing remarks.

Scott Kellman

I just want to say thank you for joining us. It's a very difficult environment out there; the gyrations in the markets are wild and time scary. We at Care a very gratified that we have a solid portfolio that pays us every month on time and that we have opportunities on a go forward basis to grow this company given our current liquidity position.

Once again, we thank you for joining us and have a good day.

Operator
Thank you, sir. Ladies and gentlemen, that does conclude our conference for today. If you'd like to listen to a replay of today's conference, please dial 303 590 3000 or 1800 405 2236 using the access code 11122142 follow by the pound key. ACT would like to thank you for your participation. You may now disconnect.