S&P Global
Market Intelligence

Tiptree Inc. NasdaqCM:TIPT

FQ4 2008 Earnings Call Transcripts

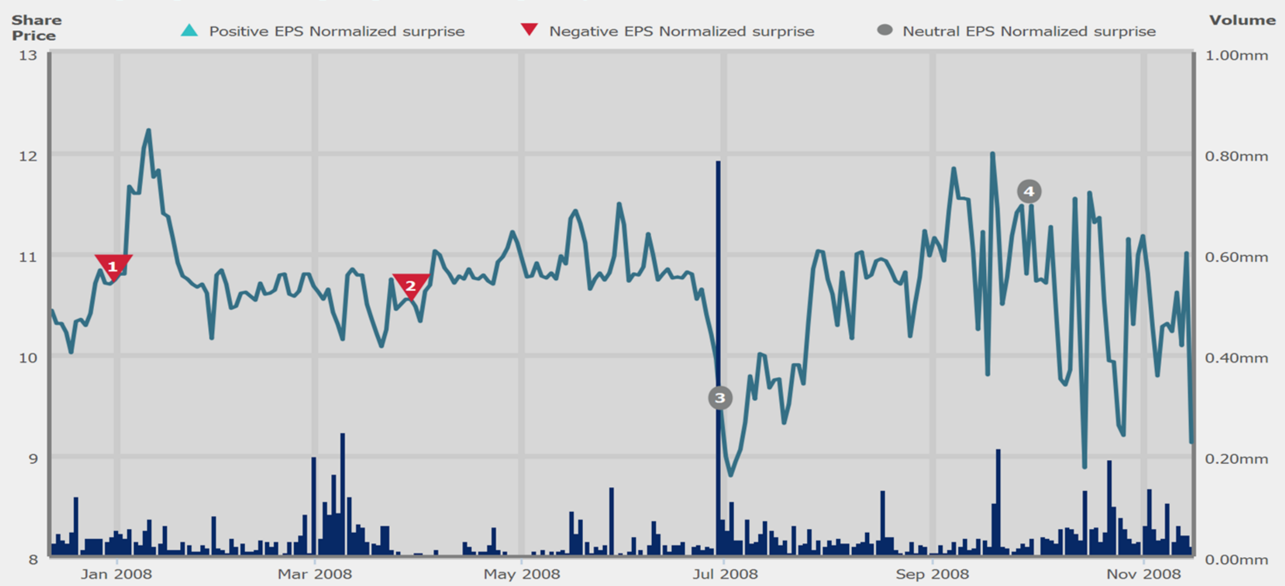
Monday, March 16, 2009 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2008-			-FQ1 2009-	-FY 2008-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	(0.02)	(0.90)	NM	(0.03)	(0.10)	(0.98)
Revenue	-	-	▲17.00	-	-	-
Revenue (mm)	6.00	7.02	-	8.20	18.20	22.10

Currency: USD
Consensus as of Nov-17-2008 11:09 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2007	0.12	0.11	▼1 (8.33 %)
FQ1 2008	0.09	0.01	▼2 (88.89 %)
FQ2 2008	0.02	0.02	3 0.00 %
FQ3 2008	(0.01)	0.00	NM

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Call Participants

EXECUTIVES

F. Scott Kellman

Marilyn Meek

Soomon Sarma

ANALYSTS

Douglas Harter
Credit Suisse

Jason Deleeuw
Piper Jaffray

Unidentified Analyst
Stifel, Nicolaus & Company, Inc.

Presentation

Operator

Ladies and gentlemen thank you for standing by. Welcome to the Care Investment Trust Inc. fourth quarter 2008 conference call. (Operator Instructions) This conference is being recorded today Monday, March 16 of 2009.

I would now like to turn the conference over to Marilyn Meek with Financial Relations Board. Please go ahead ma'am.

Marilyn Meek

Thank you. I'd like to thank everyone for joining us today. Earlier in the day we sent a press release outlining the results for the fourth quarter and year end 2008. If anyone has not received the release, please visit Care's website, www.carereit.com to retrieve a copy. Management will provide an overview of the quarter and year and then we'll open the call to your questions.

But 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, the risk factors in the company's Form 10-K for the period ended December 31, 2007 filed with the Securities and Exchange Commission.

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 net income can be found in the press release issued this morning and on the company's website at www.carereit.com by selecting the press release regarding the company's fourth quarter earnings.

At this time I'd like to now introduce Scott Kellman, President and Chief Executive Officer of Care Investment Trust. Scott, please go ahead.

F. Scott Kellman

Good morning everyone and thank you Marilyn. I appreciate it. And thanks to everyone who's joined us this morning to talk about Care's fourth quarter results. I'd like to begin by introducing Paul Hughes, who tomorrow joins Care as our new Chief Financial Officer. Paul's experience marries a strong public accounting background with hands-on financial operations experience and we feel very fortunate to have him join the Care management team.

I also want to thank Frank Plenskofski for his dedicated service over the past year. Frank, we wish you the best of luck in your new venture and hope that you won't be a stranger.

Also joining us today on the call are Mike McDugall, our Chief Investment Officer; Tore Riso, who serves as our Chief Compliance Officer; and [Soomon Sarma] who is Vice President at CIT Healthcare Finance.

Today we plan to discuss our financial results for the quarter, review our portfolio's continued strong performance, walk through Care's current liquidity position, and I'd like to wrap up by talking about how we are situated to address the current market environment.

Care generated $7.4 million in total revenues during the fourth quarter, approximately comprised of rental revenue of $3.2 million; $4 million of interest income from our mortgage portfolio; and other income of approximately $120 thousand. Other income resulted primarily from ancillary fees derived from our mortgage portfolio.

Operating expenses during the quarter approached $33.2 million. A $29.4 million valuation allowance that resulted from marking our loan portfolio to the lower of cost or market comprised the largest component of expense. Other operating expenses included approximately $670 thousand in management fees, and a little less than $2.7 million in marketing, general and administrative expenses. Approximately $500 thousand of stock-based compensation expense was included in this latter category.

Loss from investments in partially owned entities slightly exceeded $1 million for the quarter. Components of this included a $1.3 million loss related to our investment in the Cambridge properties that resulted from a non-cash depreciation charge of approximately $2.4 million. This result also included equity income of approximately $300 thousand from Care's investment in the Senior Management Concepts Properties.

Approximately $400 thousand of depreciation, primarily related to the 12 facility Bickford portfolio, also ran through this quarter's expenses. A $350 thousand gain on derivative instruments largely resulted from a revaluation of the operating partnership units relating to the Cambridge transaction. This revaluation was primarily driven by the decrease in Care's stock during the quarter.

Interest expense for the quarter totaled $1.9 million. This included $400 thousand paid on the debt outstanding under our warehouse line of credit during the quarter; $1.4 million related to the mortgage debt incurred to finance the Bickford properties; and about $100 thousand primarily from amortization of deferred financing costs.

Care's effective interest rate on borrowings for the quarter was approximately 3.28% under our line of credit and 6.88% per debt related to the Bickford properties. Consequently, when you total it together, net loss for the quarter equaled $0.0137 per share while FFO equaled a loss of $1.24 per share. Now the difference between these metrics results primarily from the add back of depreciation and amortization to derive funds from operations.

Adjusted funds from operations or AFFO equaled a loss of $0.08 per share. The AFFO metric reflects additional adjustments for non-cash income and expense items, which include things such as stock-based compensation; the non-cash effects of straight lining of lease revenue; the unrealized gain or loss resulting from revaluation of the partnership units issued in the Cambridge transaction; and most significantly this quarter the portion of the $29.3 million valuation allowance resulting from the mark of our mortgage portfolio to the lower of cost or market that had not been realized to date.

Because the loan that Care sold this quarter was included in the valuation allowance at year end, the approximate $4.5 million cash loss from the sale of this asset has been realized and therefore was not added back to AFFO for this quarter. Consequently, AFFO this quarter was thus negatively impacted by $0.11 per share by the one time earnings effect of selling this mortgage asset. Absent this impact, AFFO for the quarter would have totaled $0.15 per share.

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. That service coverage on the mortgage portfolio as of December 31, 2008 averaged more than 1.72 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. Care has no loans on non-accrual.

Performance of our own 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. Of particular note, given the recent turmoil in the assisted living sector, is the continued strength of our investments in this area. Occupancy in our facilities managed by Senior Management Concepts averaged over 89% on a trailing 12 month basis while our Bickford portfolio averaged 91% occupancy during 2008.

We held $31.8 million in cash and cash equivalents at the close of the fourth quarter. Subsequent to year end, we received proceeds of $22.5 million from the sale of the mortgage investment previously referenced. Earlier this month we repaid all outstanding balances under our line of credit with Collin

Financial and we 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 $19.6 million with no debt maturities until 2015.

Care currently sits with substantial free cash on our balance sheet and no debt maturities for over five years. We approach the uncertainties inherent in the current market with a strong portfolio of performing assets and a balance sheet flexibility to pursue whatever course offers the greatest opportunities to enhance shareholder value.
Operator, that wraps up our prepared remarks. Could you please open the line for questions?

Question and Answer

Operator

Thank you sir. (Operator Instructions) Your first question comes from Jason Deleeuw - Piper Jaffray.

Jason Deleeuw
Piper Jaffray

The loans held for sale, the valuation allowance, how are the loans performing? Are they still all current and do you plan on selling any more of these loans in the near term?

F. Scott Kellman

That's a great question. The loans are all remain current. And in fact, one of the interesting things is that we sold two loans and both of the loans that we sold were among our strongest performers, so when we talk about portfolio coverage's and you see that our portfolio coverage's are maintaining the same level that they were before, you note that the remaining portfolio has to be trending upward in terms of the strength of the portfolio to maintain that level of coverage. So in truth the portfolio seems to actually be getting stronger as opposed to weaker.

The mark is really not a mark that relates to the collectability of the income relating to these loans. The mark is necessitated by the determination that we are no longer certain that we will hold these assets to maturity. So at that point you have to go out and determine what these assets would bring in the market if you were to make the determination that you were to sell them tomorrow. And as we all know, there is no market. So while we - if we decided to sell them tomorrow, we would take a hit most likely in the marketplace and that's what we attempted to ascertain and estimate in terms of the mark. I have no belief that there is any impairment and we haven't taken any impairment in terms of the collectability of these assets.

In terms of whether we intend to sell any more, we've basically created a fortress balance sheet at this point to sustain the vagaries of the current market environment. And whether we sell any additional assets will be a determination by our board as to whether the redeployment of that cash would be beneficial or more beneficial to shareholder value in terms of possibly doing other things with the cash, or whether there was another investment that we could make that was absolutely compelling. But right now, the board has not made a determination that they would sell any more assets. But they haven't ruled it out as well.

Jason Deleeuw
Piper Jaffray

And then I believe last quarter you guys were expecting one of the mortgage loans to refinance one of the borrowers or refinance and possibly have an early payoff. What happened with that and do you expect any other loans or any loans to have an early payoff?

F. Scott Kellman

That particular loan got caught up in HUD's new rules relating to accounts receivable lines and how they want to enter into inter-creditor agreements with AR lines. That issue has been resolved. We anticipate that that payoff will occur in the future, but we don't have an absolute date at which we're certain that it will do so, but we anticipate that it will happen in the relatively near future.

Jason Deleeuw
Piper Jaffray

And just remind - that was like a $53 million?

F. Scott Kellman

No, $53 was the combination of two loans that were going to HUD. This was the larger of the two loans by a small amount. The other transaction that had also gone to HUD has reapplied to HUD but I have no visibility on the success or failure of that opportunity at all. So I would not count on that one at all.

Jason Deleeuw
Piper Jaffray

And you guys have ample liquidity here. You got rid of your line. And I guess, what are you - what's your appetite for growing the equity part of the portfolio in this environment right now?

F. Scott Kellman

We believe asset values can continue to be extremely volatile. Therefore, while we continue to have our originators in the market evaluating opportunities, we may not be making new investments in the short term until we see some stability in the market and we determine the strategic direction of the company.

So I would say right now that we're out there, we're still calling on people, we're looking for the extraordinary opportunity, but whether we pull the trigger or not will be part of a larger strategic discussion at the board level in terms of what direction we want to go and what the best route is to maximize shareholder value.

Jason Deleeuw
Piper Jaffray

And then just with the earnings power of the portfolio that we have right now, are you guys comfortable with the current dividend run rate that you have?

F. Scott Kellman

You know, we really are for a couple of reasons. One is we just eliminated some negative arbitrage on the line, which is relatively significant. And in addition, the only reason why our AFFO has trended down is these one time events of either selling a mortgage or turning around and marking the market and then realizing an actual loss on a transposition of a mortgage. But quite frankly, if anybody has a different opinion I'll take it, but with LIBOR - one month LIBOR at 42 basis points for much of last quarter, I have to think that this is the low point as long as we hold floating rate mortgages. And if anything, while we have some floors, on the majority of our mortgages, some of them do not have floors and if LIBOR ticks up at all it should enhance our returns significantly.

In addition, we do have annual increases in our own portfolios and they're rather significant, especially with the Bickford transaction, we have a 3% increase coming in June on that transaction. And it's levered basically 75%, three to one. So it's 12% internal growth. We should see sustained increases in our AFFO that should allow us to maintain if not increase our current dividend rate, depending upon what the board decides. I mean, in this type of market, some boards are deciding that retaining cash is more important than distributing it. But certainly our cash flow looks strong on a go forward basis.

Jason Deleeuw
Piper Jaffray

And just the final question is, can I get your books value at year end?

F. Scott Kellman

You know, [Soomon] do you have that off the top of your head? Because I don't actually.

Soomon Sarma

We actually have a book value as of 12/31/2008 of approximately $241.1 million.

Operator

Your next question comes from [Unidentified Analyst] - Stifel, Nicolaus & Company, Inc.

Unidentified Analyst
Stifel, Nicolaus & Company, Inc.

I guess the only question that I really have at this point is do you plan on seeking any additional credit lines? I mean, you got rid of the warehouse line. You still have obviously good liquidity, but are you looking to do some kind of revolving credit line to enhance that liquidity at any point?

F. Scott Kellman

You know, right now I'm not really considering that as a go forward strategy. My sense is that most of our investments have been funded with asset specific debt that is long term in nature. And as long as the uncertainty remains in the debt markets, seeking short term debt in terms of a credit line at the corporate level is an unlikely strategy for us. We actually came to the conclusion to pay off Credit Suisse's line simply because it didn't make sense to us to finance a long term asset with a line that was going to expire in a little over a year.

So at that point, what you end up with is the risk of refinancing that line which is what's so pressing on [led] devaluations of the other REITs right now as people question whether they're going to be able to refinance and at what levels they're going to be able to refinance. So at least until there's more clarity in the market and the market stabilizes I don't think we'll be looking for a corporate credit facility.

Unidentified Analyst
Stifel, Nicolaus & Company, Inc.

And the other question I had is I thought you were looking at a large acquisition potentially in the fourth quarter. I don't know if you can comment on whether you decided not to do that or whether there were other issues there.

F. Scott Kellman

It was likely rumored in the industry and a lot of people called us about that acquisition. That was an accurate rumor that we actually had reached agreement with someone contingent upon a number of issues. And given the volatility in the market and the desire of our board to be conservative, we did not close on that acquisition and my understanding is that pieces of that acquisition have been refinanced by others since then.

Operator

Your next question comes from Douglas Harter - Credit Suisse.

Douglas Harter
Credit Suisse

Thanks. My questions have been answered.

Operator

And there are no further questions in the queue at this time, sir. Please continue.

F. Scott Kellman

Okay. I just want to thank everyone for calling in. It's an interesting market out there, fraught with challenges. I believe that our board has taken prudent steps to solidify our company and provide us maximum flexibility on a go forward basis to enhance shareholder value and I appreciate your support. Thank you so much.

Operator
Thank you. Ladies and gentlemen this does include the Care Investment Trust Inc. fourth quarter 2008 conference call. If you would like to listen to a replay of today's conference please dial 303-590-3000 or you can dial 1-800-405-2236 and enter access code 11127135 followed by the pound sign. We thank you for your participation. You may now disconnect.