

Tiptree Inc. NasdaqCM:TIPT

FQ2 2009 Earnings Call Transcripts

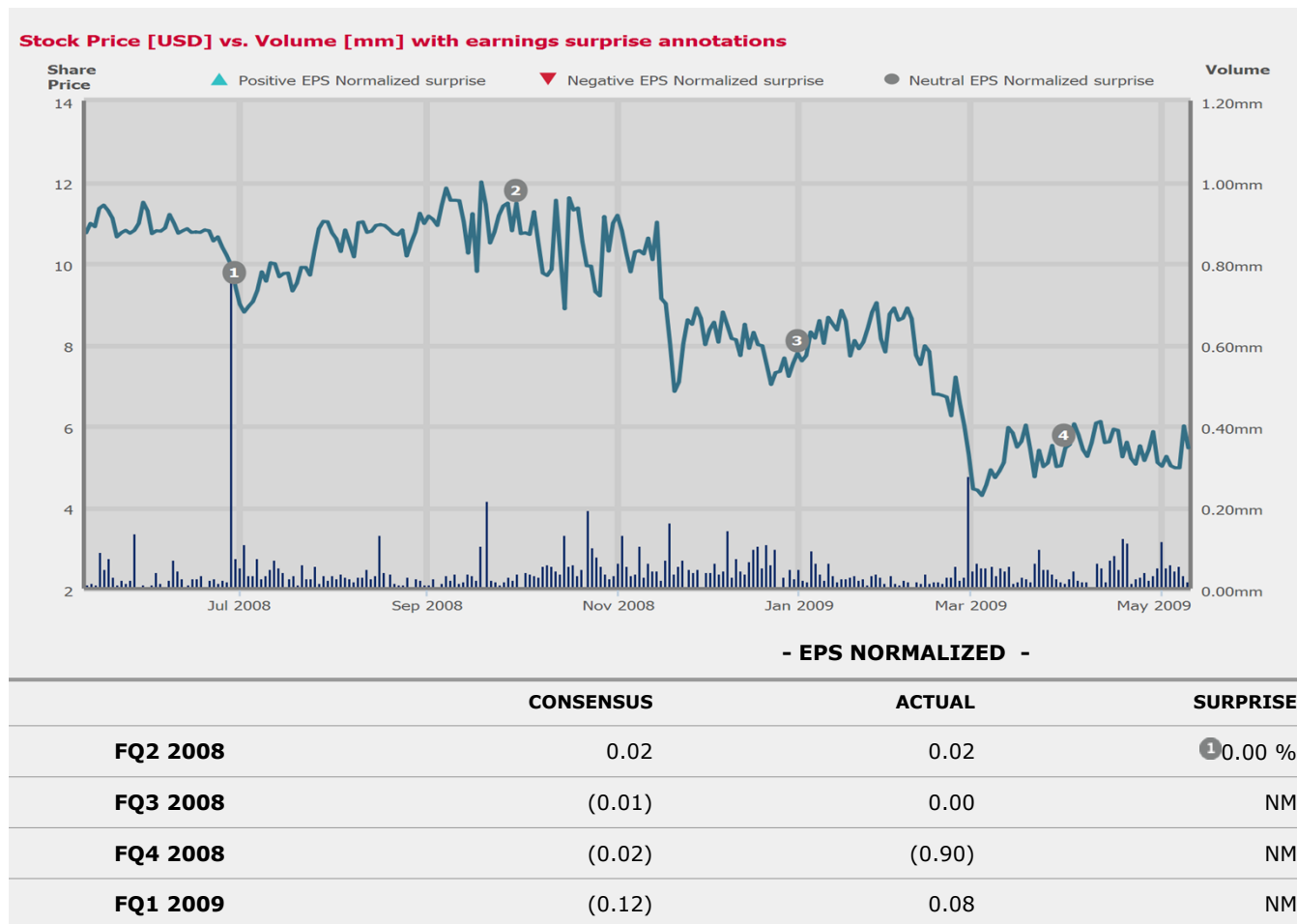
Monday, August 10, 2009 3:00 PM GMT

S&P Capital IQ Estimates

	-FY 2009-
	CONSENSUS
Revenue (mm)	15.48

Currency: USD

Consensus as of Jul-13-2009 11:32 PM GMT



Call Participants

EXECUTIVES

Leslie Loyet

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

ANALYSTS

Dan Bernstein

Stifel Nicolaus

Lee Kruter

Ryan Zacharia

Jacobs Asset Management

Scott Bommer

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Care Investment Trust Second Quarter 2009 Conference Call. [Operator Instructions] And I would now like to turn the conference over to Leslie Loyet, Financial Relations Board. 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 second 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 Risk Factors 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 the events or circumstances after the date of such event.

Also, during today's conference call, the company may discuss Funds From Operations or FFO and Adjusted Funds From Operations or AFFO, both of which are non-GAAP financial measures as defined by SEC Regulation G. A reconciliation of each non-GAAP financial measure and the comparable GAAP financial measure of net income can be found in the press release issued this morning, August 10, 2009 and on the company's website again at carereit.com by selecting the Press Release regarding the company's second quarter earning. At this time, I'd now like to introduce Paul Hughes, Chief Financial Officer of Care Investment Trust. Paul, please go ahead.

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Thank you, Leslie. And thank you to everyone who joined us this morning to talk about Care's second quarter results. Scott Kellman, our Chief Executive Officer expresses his apologies for not being able to attend this call due to unforeseen family issues.

Joining me on the call today are Suman Sarma [ph] (2:42) Vice President in Healthcare Finance; and Chris Corso [ph] (2:46) who supports me for financial reporting.

Today, we will discuss our financial results for the quarter, review our portfolio's continued strong performance, walked through Care's current liquidity position, then wrap up by addressing some of the recent questions we've received relating to our largest shareholder and external manager, CIT Healthcare. Beginning now with our financial results. Care generated about \$5.1 million of total revenues during the second quarter comprised of \$3.2 million of rental revenue, \$1.8 million of interest income from our mortgage portfolio and other income of about \$100,000. Other income includes interest earned on cash balances in miscellaneous fees. The interest income of \$1.8 million is lower than prior periods due primarily to the sale of two loans and the prepayment of two loans that occurred over the last nine months, plus a lower interest rate environment on our portfolio of floating rate loans.

Operating expenses during the quarter was \$3.1 million, customarily \$3 million related to marketing, general and administrative expenses. Other operating expenses included about \$500,000 in management fees and a little more than \$855,000 in depreciation expense related to wholly-owned real estate. The components of operating expense identified so far aggregate to a total of approximately \$4.3 million. This amount was offset by a positive adjustment of \$1.2 million to the carrying value on our books of our mortgage investments that we previously marked to the lower of cost or market to discount the face value

that we booked in the fourth quarter of 2008 when we first adjusted the carrying value of these assets, will decrease each reporting period as the individual loans approach their respective maturity dates. This resulted in a recovery of \$1.2 million during the quarter.

Loss from investments in partially-owned entities were a little less than \$1.3 million for the quarter. This included a \$1.6 million loss related to our investment in the Cambridge properties that resulted from a non-cash depreciation 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 \$259,000 gain on derivative instruments, largely resulting from a revaluation of our obligation to issue operating partnership units related to Cambridge. This revaluation was primarily driven by a small decrease in Care's stock price during the second quarter.

Interest expense related to the mortgage debt supporting the Bickford acquisition totaled a little less than \$1.5 million. Care's effective interest rate for the quarter was approximately 6.88% on this debt. Consequently, Care's net loss for the quarter equalled \$540,000 or \$0.03 per share. While FFO equalled \$2.7 million or \$0.14 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 \$800,000 or \$0.04 per share. The AFFO metric reflects additional adjustments from non-cash income and expense items, including stock-based compensation, the non-cash effects of straight lining lease revenue, the unrealized gain resulting from the revaluation of partnership units issued in the Cambridge transaction and also this quarter, the \$1.2 million gain associated with the second quarter adjustment to mark our mortgage portfolio to the lower of cost to market.

Now relating to our portfolio, portfolio metrics were excellent for the quarter. 100% of the payments due for the quarter were collected and portfolio cash flows produced strong debt service coverage ratios. Debt service coverage on the mortgage portfolio continues to average more than 1.7x. After deducting an imputed 5% management fee and \$300 per bed for capital expenditures from the cash flows of the assets available to service to our loans, Care has no loans past due or are 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 underwriting assumptions. Our investments in assisted living continued to demonstrate strength as well, with both our Bickford and Senior Management Concepts portfolios showing growth in occupancy.

As it relates to liquidity, Care's liquidity was greatly enhanced by the prepayment at par of two mortgage investments totaling \$37.5 million during the quarter. At June 30, 2009, Care held \$53.8 million in cash and cash equivalents. Subsequently under the quarter, we did distributed approximately \$3.4 million in dividends to our shareholders, leaving us with approximately \$50 million in cash at the end of July. During the first quarter of 2009, we repaid all outstanding balances under our line of credit with Column Financial and terminated all obligations under the credit facility. Therefore, our mortgage portfolio is now entirely unencumbered, and we have no debt maturity prior to 2015.

In light of the fact that CIT Healthcare serves as Care's external manager, senior management has received a number of inquiries regarding the impact of CIT's recent activities on the provision of services to Care. I want to assure our shareholders and clients that there has been no change in the amounts or quality of services provided by CIT Healthcare to Care as a result of these recent events. The key employee that provides services to Care under the terms of the management agreement have seamlessly continued to do so over the past several weeks. Operator, that wraps up the prepared remarks. Could you please open the line up for questions, if there are any?

Question and Answer

Operator

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

Dan Bernstein
Stifel Nicolaus

This is actually Dan Bernstein filling in for Jerry. Good morning. I actually just wanted to slight start off on easy question and just -- what was the jump in the G&A from first quarter to second? Like it jumped over \$1.5 million?

Paul F. Hughes
Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Yes, we've been incurring some expenses in our G&A related to evaluating strategic alternatives, so in a time where we've got a lot of cash on our books and we've been looking at what to do with not only our cash, but also our company.

Dan Bernstein
Stifel Nicolaus

I guess that would lead me to -- my second question is, what alternatives are being considered? What can you comment on that? And then assuming an ongoing concern, what opportunities are you seeing out there in the marketplace? And are you actively pursuing opportunities to invest that cash?

Paul F. Hughes
Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Well I cannot go into as much as you would like on what we are doing. But keep in mind, we've got several options open to us and we are looking at them as to whether to invest or whether to hold on until the right opportunities come across.

Dan Bernstein
Stifel Nicolaus

Do you have any other expected loan prepayments coming up in this year?

Paul F. Hughes
Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

We're always interested in receiving that to continue to enhance our liquidity, but I'm not aware of any prepayments per se.

Operator

[Operator Instructions] And our next question is from the line of Michelle Mercier with SAB Capital.

Scott Bommer

It's Scott Bommer. Two questions for you, just vis-à-vis CIT, are you concerned that the recent events that CIT might compromise your ability to use to put on the mortgages? And what steps are you taking to work through that? And then secondly, in some of the recent events with CIT and financial instability potentially constitute an event of default under the management agreement and might that let you break that management agreement without paying them termination fee?

Paul F. Hughes
Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Scott has call two questions there, one related to was it the right of our ability for the put agreement?

Scott Bommer

Yes, exactly. And are you worried that they might be compromised given what's going on? You've got a --

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Yes, CIT management recently announced that they had a \$3 billion credit facility that enables them to support their business operations and Care has no reason to believe that the terms of the put agreement in place will not be honored at this point. So we have no reason to believe that any put arrangement we have with CIT will not be honored. Now what was the second one, Scott?

Scott Bommer

And part B of that first one is, are you taking any steps vis-à-vis that put agreement? I mean, it also expires in September, so you're down to a tight timeline anyway. What steps are you taking to address put -- vis-à-vis the normal expiration into September and the fact that what's going on when their near bond default? Is it also just created on uncertainty of the market?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Yes. Well, we are pleased about their \$3 billion credit facility that's in place, so that at least allows, what we feel, allows us to exercise whatever put arrangements we would like to or we have available for us. I think there's about \$80 million more of capability under that and we are actually considering utilizing some of that at this point, but we are not concerned about the ability to be able to exercise it.

Scott Bommer

One of the considerations if you all exited the going-concern business and liquidated the company once that you would owe CIT termination fee under management agreement. So my question is, does the financial instability at CIT, the near bond default the bondholder rescue, have you done any analysis at the company to see if that would constitute enough of a breach from their end that it would allow you to not owe them a termination fee if you went the liquidation ramp?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Yes, that was the second part of your question. Yes, we have looked at the terms of our management agreement and to date, nothing has been triggered to change the terms and conditions of that management agreement. But we are looking at it carefully.

Operator

And our next question is from the line Lee Kruter with GoldenTree.

Lee Kruter

Can you just refresh my memory a little bit? Can you just kind of go through what the, I guess, specifically on the Bickford investment, kind of what cap rate you guys initially underwrote the deal at? And I guess given some growth you've seen in NOI now, kind of where you think the equity sits on a cap recreate?

Company Speaker

Sure, we underwrote Bickford in the low eights back in mid-2008. We then followed up with additional investment with Bickford in September, which we underwrote in the high eights. So those are the cap rates that we employed back in 2008 when making the investment.

Lee Kruter

And can you just -- I guess we're getting certain numbers, but I mean, how was NOI kind of trended there?

Company Speaker

NOI trended positively. We've been monitoring the investment for the past year plus and the performance is tracked to our projections, so we've been happy with the way the Bickford assets have performed.

Lee Kruter

I know you guys mentioned the opportunity that kind of put back the CIT additional loan. I mean, have you done any analysis on kind of valuation right here because I mean obviously the debt market have moved substantially back from where they were, even from your last put to CIT. I mean, have you done any sort of analysis on where you're thinking the third party might come out for fair valuation among other of your loans?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Yes, we are looking at them. We are watching the market carefully. We've been seeing some appositive signs here, so we're looking at it closely.

Lee Kruter

But you haven't gone back to a third party in the interim to get a revaluation, have you?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

We may be doing that on individual loans that exist out there, but that's about it.

Operator

And our next question is from the line of Ryan Zacharia with JAM Partner (sic) [JAM Partners].

Ryan Zacharia

Jacobs Asset Management

Just commenting on the positive signs, I guess, the HTP transaction that was recently announced, was that kind of 82% of face on some mortgage loans, which taking your Q1 mark on your loans, which where I think held it at around 86% of cost. It almost looks like the market, despite what we're seeing with spreads coming down and other asset classes actually deteriorated a little bit, just kind of want to get your guy's thoughts on that particular transaction, if you have any.

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Although we've been encouraged, we have to go through a mark in our portfolio, et cetera, so we're always looking. We ourselves are seeing some positive signs. We're looking for more to come. Suman [ph] (21:10), would you look at that held HTP?

Company Speaker

Yes, we certainly saw that transaction that came across. And as we are going through our revaluation, we consider that as a data point along with others that we looked at in terms of what we're seeing out there in the market and then we use that to come to the market we took on the portfolio for the second quarter.

Ryan Zacharia

Jacobs Asset Management

Right, I guess I'm just saying if that's a negative data point, where are the positive data points? Is that transaction cleared at a mark lower than just looking at your Q1 mark, lower than that mark?

Company Speaker

Yes, I think some of that has to do with the specifics of that particular transaction and our portfolio as well. I think looking at our portfolio, I think we felt comfortable that given the environment that we're in and the feedback that we've got from talking to the market and talking to third parties that the market we took on our portfolio was appropriate.

Ryan Zacharia

Jacobs Asset Management

Is there any relationship would have an 86% mark on loans mean for an equity investment that you guys have? If 14% of the loan is being written off, what does that say for your guys' equity investments?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Yes, those are different property characteristics and they're also sort of driven by different issues. As I had mentioned earlier, our own portfolio of real estate is operating within our underwriting assumptions and even our mortgage portfolio. Even though the marketplace has required us to put a discount on it, there's nothing past due or a non-accrual, it's in good shape.

Ryan Zacharia

Jacobs Asset Management

Is there any kind of return of capital contemplated as your cash balance grows in your investing in treasury, is it 50 basis points or whatever you guys are doing?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Well it's always one of those strategic alternatives that we talk about looking at.

Ryan Zacharia

Jacobs Asset Management

And is there any kind of update on that or a buyback or anything to that end?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

At this time, damn, sorry, I don't. We do not have any decisions with respect to that.

Operator

[Operator Instructions] And our next question is from the line of William Mansfield [ph] (24.19) with Kendall Capital [ph] (24.21).

Analyst

Just to be clear on the strategic alternative side, initially, it sounded like you were focused on acquisition opportunities. Is that the limit of your strategic alternatives, or is there strategic alternatives of broad panel play of where you potentially would be selling the company or distributions to capital as well?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

It's a broad range of opportunities.

Analyst

So there's no limit on-- you're not really just looking at acquisition opportunities?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

That's correct.

Analyst

And then there was a question on the management agreement and I didn't understand your answer. What I was curious about is if CIT files for bankruptcy, would that affect the status of the management agreement?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

It might affect the status of that management agreement. CIT is comprised of many entities, which ones file and how it affects the services. So put it this way, it might affect the management agreement.

Analyst

Lastly, there was a question about the put arrangement with CIT and I think you've said that there was approximately a potential for \$80 million of loans in the September time frame that could be put back to them, is that the right figure?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

That's correct, William.

Analyst

And do you have any sense today of what the number might be put back to them in that time frame? Could it be as big as \$80 million or is it a much, much smaller number than that?

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

It could be as high as that. But at this point in time, we have not reached any decisions on the amount that it would be.

Operator

And there are no further questions in the queue. I would like to turn the call back to Mr. Hughes for any closing comments at this time.

Paul F. Hughes

Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Thank you very much. Again, I wish to thank everyone for joining us today and appreciate you listening in. Have a good week.

Operator

Thank you. Ladies and gentlemen, this concludes the Care Investment Trust Second Quarter 2009 Conference Call. If you would like to listen to a replay of today's conference, please dial 1-303-590-3030, or you can dial 1-800-406-7325 and enter access code 4133239 followed by the pound sign. Thank you for your participation. You may now disconnect.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.

The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.

THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.

© 2017 Capital IQ, Inc.