FINAL TRANSCRIPT

Mainstreet Health Investments Inc.

Fourth Quarter Results Conference Call

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CONFERENCE CALL PARTICIPANTS

Jenny Ma
Canaccord Genuity — Analyst

Matt Kornack
National Bank — Analyst

Yashwant Sankpal
CIBC World Markets — Analyst

Rob Sutherland
Echelon Wealth Partners — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Mainstreet Health Investments fourth quarter results conference call.

I would now like to turn the call over to Scott Higgs, Chief Financial Officer. Please go ahead, Mr. Higgs.

Scott Higgs — Chief Financial Officer, Mainstreet Health Investments Inc.

Thank you, Chris (phon). Good morning, everyone. With me today is Scott White, Chief Executive Officer.

The fourth quarter earnings release, financial statements, and MD&A are available on our website, and a replay of this call will be available from 1:00 p.m. today until midnight on April 6th.

Before we get started, please be reminded that today's call may include forward-looking statements regarding our future operations. Such statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied today. We have identified such factors in our news release and other public filings.

As we discuss our performance, please bear in mind that all amounts are in US dollars.

For the call this morning Scott White will comment on our highly successful year in 2016, along with some of our continued activity. I will then cover our fourth quarter and year-end financial results. Then we will open the line for your questions.

With that, I'll turn it over to Scott.

Scott White — Chief Executive Officer, Mainstreet Health Investments Inc.

Thank you. Good morning, everyone. I'm absolutely thrilled that my first conference call as the newly appointed CEO I can share with you some of our achievements since we became a public company.

As we discussed in our previous calls, 2016 was a year full of growth and successes. We tripled the number of assets in our initial portfolio and more than doubled our assets by dollar amount. The growth and diversification of our portfolio provided us with the ability to internalize our management team within just five months of our initial offering.

At the beginning of the fourth quarter, we successfully completed the acquisition of interests in four transitional care properties located in Kansas and Texas; one post-acute transitional and memory care property in Chicago; four seniors housing properties in Ontario; and five mezzanine loans for the development of transitional care properties. And we capped off the year with the acquisition of three stand-alone private pay memory care communities operated by Memory Care America.

The activity in 2016 is a clear demonstration of our team's depth and breadth, and our ability to execute on our strategy.

I'd like to just take a couple of minutes to recap where we started, where we stand today, and the path that led us here.

So last June we entered the Canadian capital markets with an initial portfolio of 11 skilled nursing and assisted-living facilities operated by Symphony Post Acute Network in Chicago. In the seven months that followed our initial offering of $110 million, we successfully completed a follow-on equity offering of $75 million, as well as a convertible debt offering of $45 million.

With proceeds generated from these offerings, we completed the purchase of 24 properties, growing our asset value from $305 million to over $675 million.

Our portfolio is now diversified across seven states, and we expanded into Canada with four senior housing properties in Ontario.

We have grown from an initial one operator to seven highly regarded, best-in-class operators, expanding our investment basis across the care continuum to include assisted living; memory care; independent living; skilled nursing; and transitional care.

Our operating partnerships are a key component to our continued success and our mission of transforming health care. We're proud to be partners with Symphony; The Ensign Group; Triology; Hearth; Autumnwood; Memory Care America; and Saber.

Let me take a moment and pause and talk about our exceptional team. As part of the offering and the acquisitions in November, we were able to internalize 15 talented professionals in acquisitions; accounting; finance; and asset management. I'm very proud to be a part of this team.

Our acquisition group is relentlessly exploring future avenues of growth that will create long-term value for our shareholders.

We're extremely disciplined, staying focused on our mission of transforming health care and building a highly diversified portfolio of seniors housing, transitional care, and skilled nursing assets.

We believe our best path forward is growing with high-quality operators as our partners and continuing to expand our asset base into new geographies throughout North America. We continue to believe that our strategy of building a highly diversified portfolio across the continuum of care will deliver the best risk-adjusted returns for our shareholders over the long term.

We've also assembled a top-notch asset management team to maintain the quality of our portfolio. This team has numerous responsibilities, such as inspecting the physical plant quality of our facilities, performance tracking, and operator relationships. Maintaining consistent, transparent communication with our partners serves everyone well and creates value.

We want to ensure our partners achieve financial success so that they're positioned to provide the best care possible for their residents.

An example of these great partnerships is our growing relationship with The Ensign Group. As we announced earlier this month, we entered into an agreement to purchase three properties from Ensign for a $38 million transaction in the Phoenix and Los Angeles markets. These buildings have great operating metrics, and represent new markets for Mainstreet Health Investments.

Across our stabilized portfolio, our EBITDARM lease coverage is 1.7 times and our EBITDAR coverage of 1.3 times for the trailing 12-month period.

As we've mentioned, a pillar of our strategy has been to establish a development investment program to provide a steady flow of acquisition opportunities into our pipeline. As our development investments begin to bear fruit and stabilize over the next few years, we expect these coverages to continue to be strong.

As you can tell, we've been hard at work executing the strategy we outlined as we entered the market in June. Our thesis is strong, our operating partnerships are strong, and our team is strong. We will continue to build our platform, and work hard to create long-term value for our shareholders.

To get further into some of the achievements in 2016, I'd like to hand it over to Scott Higgs to discuss our financial results.

Scott Higgs

Thanks, Scott, and good morning, everyone. Before I get into the financial results for the year, I'd like to echo Scott's comments and emphasize the stability and strength of our foundation to fuel our growth into the future.

At the time of our initial offering we forecast fourth quarter AFFO per share of $0.24, exclusive of the over-allotment option of the initial offering. We're thrilled to announce our fourth quarter AFFO per share is in line with these projections at $0.24 a share.

In a period of extensive growth of our portfolio in 2016, including the creation of an internalized operating platform, achieving our forecasted AFFO per share exemplifies our discipline and focus on the execution of our strategy by our team. This accomplishment right out of the gate is proof of our commitment, hard work, and diligent adherence to our strategy.

Further, we believe that our current platform is well-positioned for continued portfolio expansion.

Through all the accretive acquisitions and transactions during the fourth quarter, we were able to maintain our core financial metrics, including our AFFO payout ratio. On a normalized basis, we anticipate our payout ratio will be between 75 and 80 percent.

During the fourth quarter we also exercised the accordion of our credit facility, expanding our capacity to 285 million, and completed additional property-level refinancings, which begin our steps in accomplishing our capital strategic plan of laddering debt maturity, strengthening our balance sheet, and improving our cost of capital.

We anticipate continued execution on this plan in the first half of fiscal year 2017.

At the end of 2016, our debt to gross book value was 53 percent, and is 47 percent exclusive of the convertible debentures. We have approximately 228 million outstanding on our credit facility, and approximately 80 of our debt is of fixed rate.

In conclusion, 2016 was a great year filled with growth and achievement. And we look forward to a strong 2017.

We'll now open up the line for questions. Chris, can you please walk us through the process?

Q&A

Operator

Ladies and gentlemen, in order to ask a question, press *, then the number 1 on your telephone keypad. Again, press *, then number 1 on your telephone keypad.

Your first question comes from the line of Jenny Ma. Your line is open.

Jenny Ma — Canaccord Genuity

Thanks. Good morning, guys.

Scott Higgs

Hey, Jenny.

Scott White

Good morning, Jenny.

Jenny Ma

Wanted to discuss acquisitions. Previously you had guided to a sort of several hundred million dollars of acquisitions, and we've got $38 million in the pipe. So I wanted to get some colour on the deal flow that's going on particularly south of the border, and if you are still committed to, call it, 300 million to $400 million of acquisitions this year, provided the capital markets remain friendly?

Matt Monson — Vice President, Mainstreet Health Investments

Hi, Jenny. It's Matt Monson. Yes. The answer is yes. We have over 100 million of actionable acquisitions on both sides of the border, and by year-end absolutely 200 million to 300 million is very doable.

Jenny Ma

Okay. Perfect. How has the deal flow been in the United States in particular? Has that had any sort of pause or change because of all the headlines going on down there?

Matt Monson

Large portfolio acquisitions, the answer is yes there has been a slowdown, but we have not seen a slowdown as far as smaller one-off and smaller portfolio acquisitions.

Scott White

And in fact, Jenny, I actually think that this location is creating a lot of opportunities for us. When everyone else is looking it's hard for us to be competitive. And when everyone else is backing off and saying I'm going to take a pause and see how things shake out, remember our investment thesis continues to be exactly the same as the beginning that this is a long-term investment value-creation opportunity.

And while in any given week, month, quarter, year there'll be dislocations, there'll be changes in the market, we fundamentally believe over 5, 7, 10, or more years the diversified portfolio that we're creating is going to create outsize return for our investors.

So we actually are excited about the dislocation in the market because it opens up opportunities that maybe didn't exist last year.

Jenny Ma

Great. Is there any commentary on what you're seeing as far as pricing?

Matt Monson

Pricing hasn't shifted too much. Lower-quality assets we're starting to see cap rates ticking up a bit; I wouldn't say anything more than 25 basis point-ish.

Jenny Ma

Mm-hmm.

Matt Monson

But on the high-quality portfolio they've stayed pretty consistent.

Jenny Ma

Okay. That's good colour. Thank you. Moving on to your recent announcement with The Ensign leases that were given back on the three properties, I understand that Mainstreet Property Group is going to provide the income support payment. Is there anything in your agreement where there is a limit to the time frame? Or are they on the hook for that basically until they get it leased up to your satisfaction?

Scott White

That's a—the second part of your question is the answer. There is no time line on the income support agreement. The income support agreement is put in place until such time as an appropriate operator is put in place and lease payments commence.

So as far as we're concerned, we are financially neutral; doesn't really have an impact on us.

Jenny Ma

Right. But it'll just—I guess this is for Scott Higgs—it'll just flow through to the line below AFFO on the adjustment as opposed to top line?

Scott Higgs

That's correct.

Jenny Ma

Okay. And then turning to G&A, you had previously guided to sort of 100 basis points on GBV as a good run rate for G&A now that you're internal. With, I guess, four or five months behind you, is that still consistent with what you're seeing?

Scott Higgs

Yeah. I think that's pretty fair, Jenny. I think if you look at the fourth quarter exclusive of kind of the onetime internalization set-up platform costs, it's a relatively good run rate.

Jenny Ma

Okay. And then my last question is with some management changes in Q1, are you expecting to see any onetime costs associated with that run through G&A?

Scott Higgs

There could be a small amount, yeah, but I wouldn't call it material to the overall financials.

Jenny Ma

Okay. Great. Thank you. I'll turn it back.

Scott Higgs

Thanks, Jenny.

Scott White

Thanks, Jenny.

Operator

Your next question comes from Troy MacLean of BMO Capital Markets. Your line is open.

Scott White

Good morning, Troy.

Scott Higgs

Hey, Troy.

Operator

The gentleman's line has dropped. We do have a question from Matt Kornack of National Bank Financial. Your line is open.

Scott White

Good morning, Matt.

Operator

Mr. Kornack, your line is open.

Matt Kornack — National Bank

I'm here. Can you hear me?

Scott White

Yes. We can hear you now.

Matt Kornack

Okay.

Scott White

Gosh, we missed that voice, Matt.

Matt Kornack

Okay. I was speaking to myself for a little while there. In terms of the development lease income, you have the 868,000 in the quarter. I'm just wondering is there any of that that would have been already converted to income? And from a run rate standpoint what should we be modelling? And at what point—I know there's some timing issues with the unsigned leases—but at what point do you think it converts to sort of top-line rent?

Scott Higgs

Yeah. So from a functional perspective, it'll convert to top line once the rent commences, right? So just from an—

Matt Kornack

Right.

Scott Higgs

—accounting functionality perspective, it'll stay down below the line until that point in time. So as of the end of the year, Matt, no, I think it's a pretty … That's where we would have pretty much expected that number to be based on the transactions.

Matt Kornack

Right.

Scott Higgs

And in terms of a time line, I guess yeah, like I said, it goes back to Scott's answer previously of when the leases commence.

Matt Kornack

And so—

Scott Higgs

Happy to work with you off-line on the model if—

Matt Kornack

Yeah. One of the four did end up—

Scott Higgs

Correct.

Matt Kornack

—leasing up, so some will come off and then the other three will be dealt with. And can you just remind me what the property value is associated with the development properties? Just I mean if it's not flowing through our NOI we have to add it back to NAV.

Scott Higgs

For the three that remain out?

Matt Kornack

Well, that's for the four in the fourth quarter, right? So the four that—and then I'll adjust for the three.

Scott Higgs

Yeah. I can get you an exact number—

Matt Kornack

Okay.

Scott Higgs

—like I said and the math—

Matt Kornack

It's okay.

Scott Higgs

It's 80 million, 85 million.

Matt Kornack

Okay. Perfect. And then with regards to the debt strategy, do you have a sense as to time line in terms of when you'd push out the maturities? And at this point what is your goal from a weighted average sort of term on debt going into 2017?

Scott Higgs

Yeah. So for the long term, goal is six to eight years on a weighted average basis. And to answer the first part of your question, in the first six months of '17 I expect you'll see some movement there.

Again, a lot of the functionality of the short-term nature is we just got started, plus the acquisitions in the fourth quarter we assumed a fair amount of construction short-term notes, so as we get those refinanced out it'll impact that number.

Matt Kornack

Okay. Makes sense.

Scott White

And I can tell you, Matt, it's a big initiative of ours this year, there's no doubt. Scott Higgs and his team have been maniacally focused on getting that all set up, and you should expect to hear some news from us on that in the coming months.

Matt Kornack

And net-net, if I remember correctly, the term is increasing, but the overall weighted average interest rate should remain roughly the same as to what you have now?

Scott Higgs

Yeah. That's fair.

Matt Kornack

Okay. Final question with regards to The Ensign properties, have you had any incremental news with regards to leasing up some of that space? I think you were in discussions, but there was nothing firm as of the announcement.

Scott White

Yeah. It's still the same case. It's, I guess, been two weeks, ten days or so, since the announcement, so not a lot has changed.

We are in active discussions on all three properties and multiple operators' term sheets, but I don't have a sense, as you could imagine, these things take a little bit of time, so I'm not sure I want to guide you a specific day.

But certainly in the coming months we expect to have those leased. Again, as we said before, given the income support agreement, we're financially neutral and we are working diligently to get those buildings re-leased.

And we're working with Mainstreet Property, the developer, as well. Bear in mind they obviously have a real interest in getting these re-leased.

Matt Kornack

Sure. No, makes sense. Thanks, guys.

Scott Higgs

Thanks Matt.

Scott White

Other questions?

Operator

Your next question comes from the line of Yashwant Sankpal of CIBC. Your line is open.

Yashwant Sankpal — CIBC World Markets

Good morning, guys.

Scott Higgs

Hey, Yash.

Scott White

Hey.

Yashwant Sankpal

Just back on the Ensign issue, I'm trying to understand what … Why did Ensign decide to not lease these properties? Like what changed?

Scott White

Sure. So I cannot tell you directly on behalf of Ensign what's going on inside their mind. I can tell you that they have put out public releases that you can go check that they are a little bit less interested in the moment in lease-up assets and turnaround-type assets.

They approached us early in the year saying that they'd love to grow with us and be a long-term partner and build a solid foundation with us; they'd also love to have fewer lease-up assets in their portfolio; might we be able to have a conversation to help both of us accomplish our goals? And that's sort of what transpired.

We want to grow and we want to demonstrate that we are a good partner of theirs, and as such we said, okay, if you really don't want lease-up assets, that's fine. These are phenomenal buildings, Class A, brand-new assets in great markets that Ensign was willing to sign leases on—so clearly they were interested in them—if you really don't want lease-up assets right now in your portfolio might we find another way to grow our partnership? And that's what precipitated the acquisition of the other three buildings that we're really excited to add to our portfolio.

Yashwant Sankpal

And is Mainstreet, the developer, are they going to lease the—I mean run the properties? Or they're waiting to get another operator?

Scott White

They are working with us to find a third party operator in those buildings. So they're not operating them. Bear in mind, one of them [indiscernible] isn't complete yet. Wichita is just barely complete. It would not have had an operator prior to this anyway. Houston is the only one that is complete waiting on an operator, and it hasn't been waiting that long.

So this is all a real-time sort of there—as Ensign looked at the pipeline and said, all right, these are coming online over the first six months of the year, might we have this conversation?

Yashwant Sankpal

Okay. Okay. That's it for me. Thank you.

Scott White

Thanks, Yash.

Operator

Your next question comes from the line of Rob Sutherland of Echelon Wealth Partners. Your line is open.

Rob Sutherland — Echelon Wealth Partners

Good morning, guys.

Scott White

Good morning, Rob.

Rob Sutherland

How are you? Jenny kind of talked a little bit about acquisition pipeline, but acquisition pipeline in Canada? And then I guess kind of new markets that you're looking at either in Canada or the US and where you're kind of looking at placing money?

Matt Monson

We are looking at both sides of the border. This is Matt Monson again. We are looking all the way from Eastern Canada all the way down to the Southwest of the US. The investments that come in, the opportunities are really strewn across both countries; no region and specific.

Scott White

Yeah. Rob, we don't look at the portfolio at the beginning—as part of our strategy to say what markets do we want to be in? The way we look at our portfolio and when we look at our jobs as stewards of capital is to build a diversified portfolio and to partner with the right operators.

We think it's better to find operators that want to operate in markets rather than proactively choosing markets and then seeing if we can find an operator that wants to be there. So we're relatively agnostic as to the geographical location.

With that said, we care very much about the operator and we care very much about the market it particular. So we drill down and understand that market—we won't go to any market—but we don't proactively pick markets, if that makes sense.

Rob Sutherland

Absolutely. So then turning that around, are there operators that you've targeted that you would like to work with that you haven't yet that you're out wooing?

Scott White

Absolutely. Let’s start with our existing operators because that’s the key to our success right now. We have seven operators that mean a lot to us. I mean I actually went out of my way to name them on this call because that’s how we view our business; that’s how we view our growth strategy.

We understand we don’t have the largest chequebook. We understand that we don’t have the lowest cost of capital. The way we’re going to win and create shareholder value is by building meaningful relationships with our operators. I could tell you definitively we have very strong relationships with all of our operators. We spend a lot of time with them, and that’s the initial key to our growth strategy.

With that said and now answering your question directly, Rob, we’re also out constantly meeting new operators. Matt, Scott Higgs, and I are on the road probably quite a bit more than we want to be right now spending time with new operators, getting to know them. A lot of them we know already, and it’s getting comfortable with them.

To us, making a bet and developing a relationship with an operator is one of the biggest decisions we make. Our team, I think, would universally say that we could be in a marginal building in a marginal market with an exceptional operator, and always prevail. We could be in an exceptional building in an exception market with a subpar operator, and it won’t work.

So the key to our business is building the right operator relationships.

Rob Sutherland

Okay. And then just the last one is do you have a target number of mezz loans that you'd like to have out at a single time?

Scott White

Definitely not a number. We do target a certain percent of our portfolio, and that's sort of how we look at it. I'd say on the high end no more than about 10 percent of our gross book value. And I don't think we push that high now, given the size of our company.

Over time we might, but we're probably more comfortable in the 5-ish percent rage of gross book value.

Rob Sutherland

Perfect. That's it for me. Thank you, guys.

Scott White

Thanks so much, Rob.

Operator

Your next question comes from Jenny Ma of Canaccord Genuity. Your line is open.

Jenny Ma

Thanks. Just a quick follow-up for me. Within the mezz pipeline, are you aware of Ensign being involved in any one of them?

Scott White

No.

Jenny Ma

You're not aware? Or you know definitively that they're not in there?

Scott White

They are not in any of the mezz loans that we have right now. I don't know—if your question is is Ensign talking to Mainstreet Property Group, the developer, about doing future projects and presenting future mezz loans to us, that's very possible. I don't know. We're not involved.

We don't have the visibility into the long-term pipeline on the development company side. I can tell you definitively of the twelve mezz loans we have outstanding, Ensign is not an operator in any of those.

Jenny Ma

Okay. That's what I was getting at. I just wanted to know if there were potentially other properties they may back out of.

Scott White

Yeah.

Jenny Ma

Okay. Perfect. Thank you.

Scott Higgs

Thanks, Jenny.

Operator

There are no further questions at this time. I return the call to Mr. Higgs

Scott Higgs

Thank you all very much for listening in and the questions, and we'll talk to you next quarter.

Operator

This concludes today's conference call. You may now disconnect.

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