FINAL TRANSCRIPT

Mainstreet Health Investments, Inc.

First Quarter 2017 Results

Event Date/Time: May 9, 2017 - 10:00 a.m. E.T.

Length: 20 minutes

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Jenny Ma
Canaccord Genuity – Analyst

Matt Kornack
National Bank Financial – Analyst

Zain Jafry
CIBC World Markets – Analyst

PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to Mainstreet Health Investments' First Quarter 2017 Earnings 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, Carol. Good morning, everyone. With me today is Scott White, Chief Executive Officer, to talk about our performance for the quarter, along with some of our continued initiatives. I will then cover our first quarter financial results. Then we will open the line for your questions. The first 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 May 16.

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 U.S. dollars

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

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

Thank you and good morning everyone. I'm proud to share with you today our first quarter performance. We had a very strong start to 2017, delivering solid results building on our tremendous growth since launching just last June.

During 2016, we tripled the number of assets in our initial portfolio through accretive acquisitions. In addition to assisted living and skilled nursing, we further diversified our portfolio with new investments into memory care and independent living communities. During the quarter, we diligently worked on identifying and assessing various opportunities for growth. These efforts led to our announcement in March that we are further diversifying our portfolio by entering into a definitive agreement to purchase two facilities in California and one in Arizona from the Ensign Group. Ensign will lease the properties under a 20-year triple-net master lease.

These properties are located in high-density neighborhoods within the Los Angeles and Phoenix metro markets, and will be our first acquisitions in these states. This will bring our portfolio to 38 properties in nine states, and one Canadian province. This transaction's in line with our stated growth strategy of owning senior living and care properties and partnering with leading operators. We expect these properties to close in the very near term. During the first quarter, we also filed a base shell prospectus for offering proceeds up to $500 million. With this in place, we'll have the ability to efficiently access capital to further our growth objectives when market conditions permit.

I'd like to take a moment to personally thank everyone who attended our first Annual General Meeting last Thursday, May 4. It was a great opportunity for members of Management and the Board of Directors to meet some of our shareholders. It was also a nice time for celebration of the accomplishments over the past year. June 2 will mark the first anniversary of our listing on the Toronto Stock Exchange. We entered the market last year with 11 assisted living and skilled nursing facilities, and quickly followed with an additional 24 properties. All of this was funded by our IPO, an additional equity offering, and the issuance of convertible debentures.

This has allowed us to expand our assets from $305 million to nearly $700 million today. This significant growth has also fueled an increase in the number of operators we have relationships with. We now work with seven highly regarded, best-in-class operators. Our operating partnerships are the key component to our continued success and our mission of transforming healthcare, and we're very pleased to be working with all of them and look forward to future growth. Our goal for the remainder of 2017 is to continue to explore future avenues of growth to create long-term value for our shareholders. Our strategy will focus on growing our roster of partnerships with high-quality operators, expanding our asset base throughout North America, and maintaining diversification in our portfolio across the continuum of care.

Furthermore, one of our key differentiators is our development investment program, most importantly, our relationship with Mainstreet Property Group, the premier developer of transitional care facilities in the U.S.; a key component of our growth strategy going forward. We're proud to partner with Mainstreet Property Group and look forward to continuing to grow that relationship. As we get closer to completing a full year as a public Company, we look to continue our momentum. We believe the fundamental macro-investment opportunity remains very strong and the opportunities for investment ahead of us are meaningful. This industry is not going away. The opportunity is not shrinking, but rather growing significantly. Our high-quality properties and strong relationships with very reputable operators provides us with a solid platform on which to grow.

To further review our results for the first quarter of 2017, I'd now like to turn it over to Scott Higgs.

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

Thanks, Scott. We're pleased to report that our Q1 2017 AFFO is $0.25 per share. On a per-share basis at the time of our initial offering we forecasted first quarter AFFO of $0.25, and adjusting for the overallotment, our forecasted AFFO for the quarter was $0.23. We're very pleased with this first quarter success. Our payout ratio for the quarter on an AFFO basis was 74 percent. On a normalized basis, we anticipate that our payout ratio will be between 75 percent and 80 percent.

These last months have provided a period of very intensive growth for our Company. We continue to execute on our growth strategy, while also achieving our forecasted financial metrics. Our ability to provide both growth and stable financial results exemplifies our team's discipline and focus. Across our stabilized portfolio, our EBITDARM lease coverage is 1.6 times and our EBITDAR coverage is 1.2 times. We have approximately $240 million drawn on our credit facility, with sufficient capacity remaining. This, combined with our base shelf prospectus, provides us with an efficient platform to continue to grow. Our existing debt, approximately 78 percent, is fixed rate. This aids in ensuring that our results and financial execution are more predictable as we move forward. At the end of the first quarter of 2017, our debt-to-gross book value was 52.8 percent, and exclusive of the convertible debentures was 46.8 percent.

On behalf of the team, I'd like to reiterate how happy and proud we are of the success we've had in our first year and I look forward to updating you on our progress for the remainder of 2017.

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

Q & A

Operator

Certainly. If you would like to ask a question, please press star, followed by the number one on your telephone keypad, and we'll pause for just a moment to allow people to queue.

Our first question today comes from Jenny Ma from Canaccord Genuity. Please go ahead.

Jenny Ma – Analyst, Canaccord Genuity

Hi. Good morning, guys.

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

Hi Jenny.

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

Good morning.

Jenny Ma – Analyst, Canaccord Genuity

Scott White, can you talk a little bit about the—like give us an update on your acquisition outlook. I think the last time we were on the call you had mentioned about $300 million, $400 million of acquisitions in the year, and now we're about halfway through. What are you expecting for the balance of the year, and do you think some of those opportunities may be pushed down to 2018?

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

Hey, no, our acquisition outlook remains substantially the same. As you can imagine, it's fairly lumpy, so it's hard to tell when something big is going to hit, but the pipeline remains robust. We're being super disciplined about what we're going to do. It's not a lack of opportunity. There is ample opportunity, hundreds of millions of dollars worth of acquisitions we're looking at today. We just want to be smart. It's not a growth for growth sakes strategy. We'll execute when we find the right acquisitions that continue on our vision strategy, acquisitions that make sense for creating long-term shareholder value, but we are not in any way changing our view. What I said last quarter I feel the same about today. The opportunity is there, and to the extent the deals make sense, we'll execute on them.

Jenny Ma – Analyst, Canaccord Genuity

Can you talk a little bit about what you're seeing on the third-party acquisition opportunities? Is it more one-off properties? Are you seeing big portfolios, small portfolios? What's coming across your desk these days?

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

All of the above. All of the above. In fact, I would say the biggest thing we need to be disciplined about is allocation of time and resources and making sure we're spending our time in the best spot. Everything you just said, individual deals, check; development opportunities, check; Mainstreet Property Group opportunities, check; mid-sized portfolios, call it, I don't know, $50 million to $200 million, check; large transformative type portfolios, check. We're looking at all of them. We just have to be smart about where we spend our time.

Jenny Ma – Analyst, Canaccord Genuity

Do you think you would be able to undertake a huge transformational portfolio opportunity? Would that likely involve a partner if it was to be quite sizable?

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

Sure. I mean could we do it? Yes. Does it make sense? Possibly. Depends on what the opportunity is. Would we talk to a partner? Absolutely. We are regularly assessing our sources of capital and talking to our investors all the time, so all the above.

Jenny Ma – Analyst, Canaccord Genuity

Okay, great. Speaking of partners, can you tell us a little bit about the Providence Group and what their background is as operators and whether there's any opportunity to work with them in the future following this Houston lease?

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

Sure. This is a great, great example of our relationship with Mainstreet Property Group, the development company. Mainstreet Property Group has known and worked with Providence for a time now, probably a year or two. Mainstreet Property Group has entered into other lease arrangements with Providence. We definitely see this as an operator we would grow with. As a general proposition, you should generally not expect us to do one-offs. We're not looking to build our portfolio with individual operators. Could it happen? Would we do a one project with one operator? Sure, it could happen, but strategically we went into this knowing that there's greater opportunity to expand the Providence relationship, and you should expect to see us do more with them.

Jenny Ma – Analyst, Canaccord Genuity

Okay, and can you tell us a little bit about who they are and what their geographic focus or asset type focus is?

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

Yes, sure. Jenny, they're a privately held company, so they're geographically focused regionally where—kind of where we're going with them, and they're focused primarily on this asset sector.

Jenny Ma – Analyst, Canaccord Genuity

Okay, and then my final question is with regards to what the debt and the credit markets are looking like. I know in the past we've talked about potentially terming out some of the debt that you have on the books. Is that something you're still working on, or are you seeing different opportunities? Give us a sense of where you are with that and what kind of rates you're seeing.

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

Yes, sure. The credit markets continue to be there, so we're evaluating the highest and best sourcing of that capital, but I'd continue to tell you that I think you'll continue to see that happen. We're going to be terming out some of that debt as we move throughout the next couple of quarters, and rates vary depending on the type of debt and term and all of that stuff, so it's a bit hard to handicap that relative to a specific deal, but it's—they're still very competitive and in a good spot (phon).

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

It think we mentioned this part (phon) Jenny, but just to clarify. This is a big initiative for us this year is focusing on our debt strategy and you should expect to see some changes coming in the coming quarters as it relates to us making sure that we've looked at our debt duration, that we've looked at laddering our portfolio, that we've looked at our average cost of capital. Scott Higgs and his team are extremely proactive on this right now. We're not sort of sitting around and waiting for opportunities. You should expect to see some things around that.

Jenny Ma – Analyst, Canaccord Genuity

Great. Thank you very much. I'll turn it back.

Operator

Our next question comes from Matt Kornack from National Bank Financial. Please go ahead.

Matt Kornack – Analyst, National Bank Financial

Hi guys. Just wanted to quickly follow up on the Ensign, the lease replacement there. Is there, in terms of the terms, was there a bit of a drag, or will there be a drag relative to what Ensign was paying on that lease?

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

Yes, Matt. Over the term of the lease, you should expect that the general economic yields are consistent.

Matt Kornack – Analyst, National Bank Financial

Okay. That's good to know. Any other progress at this point on the remaining properties? This was fairly quick, but—I know it hasn't been that much time, but interested where you stand.

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

Yes, so we're definitely having active dialogues on the other two properties. As you may recall, initially there were three properties. Now Providence is in Houston and we're very proud of that. Wichita and Fort Worth are the other two properties that we are talking to operators on. Fort Worth is actually not yet a completed property, so it is probably a little bit lower priority. I could tell you in—I walked the Fort Worth building about two weeks ago. I could tell you we've had operators in both buildings in the last 30 days. I could tell you we're having discussions with a couple of operators. As you've pointed out, not a lot of time has transpired, but it is a priority for this team to make sure that both those buildings are leased. I could also tell you, as you may recall, Mainstreet Property Group is paying the income support on that, so we are financially neutral and they are fully up to date on payment there as well.

Matt Kornack – Analyst, National Bank Financial

Okay, good. With regards to G&A in the quarter, it looks like there were some one-time or at least non-recurring items. Can you speak to what a run rate would be, and am I correct, A, in the other section, as well as the equity compensation component of G&A, that that's non-recurring?

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

Yes, so I think the previous kind of guidance to that respect, Matt, is still pretty consistent. The Q1 is a bit lumpy, so when I talked about 100 basis points to 110 basis points of assets, that's on an annualized basis, so in Q1 we did have the executive DSU comp, which is kind of a one-time hit, but we also had the lumpy G&A costs associated with reporting and all of that stuff in Q1, which is just a Q1 event.

Matt Kornack – Analyst, National Bank Financial

Okay. Good to know. Then finally, now that there's legislation on the books, whether or not it passes is still to be determined. How does this new American Healthcare Act, or whatever they're calling it, end up impacting the business, or do you think there is an impact to the business at this point?

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

There isn't. As we've said before, we invest in this opportunity because we believe that there is a long-term fundamental opportunity and that taking care of our aging population is not going away. It's something that's really important to us. It's really important to our operators. It's something we're focused on. The laws, the reimbursements, all that sort of comes and goes, it changes over time. As long as we partner with the right operators that have seen this before and understand how to navigate, are malleable through multiple markets, we're not the least bit concerned. I can tell you that we have regular dialogues with our operators.

I guess about a week and a half ago there was an announcement that came out, a very, very, very preliminary announcement about potential changes in a couple of years. Within an hour one of our operators called us. We didn't even call them, called us and said, "Hey, just want to give you a head's up. Here's what's going on on this and if you want to talk to our reimbursement specialist," which by the way, we did. That operator set it up for us. That's the kind of relationships that we feel really comfortable with and we feel like we'll be able to navigate these markets because we're partnered with the right operators.

Matt Kornack – Analyst, National Bank Financial

Okay. Last question for me. With regards to the mezzanine loan profile, have you, with regard to the underlying assets, have you got a sense as to which ones in the near term you'll be taking or what the size of that opportunity potentially is from an acquisition standpoint over the next, sort of 12 months?

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

Yes, so as you know, we have about a dozen mezzanine loans on our books right now. Those are all mezzanine loans that we entered into with the expectation that we will acquire those properties. I mean we don't—we're not in the business of doing mezz loans just for the sake of doing mezz loans. We're in the business of doing mezz loans to give us clarity around a pipeline and we're proud of that. When and if we'll execute on each of those, it really will depend on what's going on when they come due. So as with all development, it is somewhat lumpy, and even when you have clear projections on when these properties are to be completed, invariably there's a month, there's two months, there's three-months delay for some reason, whether it's weather-related, whether it's related to anything that's going on locally in that area, so what we do is as these properties become available, we assess how they fit into our overall holistic portfolio.

We assess geography. We assess operator. We assess all the different variables and then make a decision. We have a dozen in the pipeline right now we do have a robust opportunity to execute on in the next year. Will we execute on all of them? Probably not, just because they're probably going to come too fast. Might we? Sure. We might. We'll assess them on an individual basis, but we feel really good about what we have in the pipeline, and you'll probably see us doing some more mezz loans in the not too distant future.

Matt Kornack – Analyst, National Bank Financial

The nearest potential—what is the nearest sort of completion for one of these? Is it second half of this year or into 2018 at this point?

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

Oh, no. We'll definitely have some completed in the second half of this year, no question.

Matt Kornack – Analyst, National Bank Financial

Okay, great. Thanks guys.

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

You got it. Thanks so much.

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

Thank you, Matt.

Operator

As a reminder, if you'd like to ask a question, please press star, followed by the number one on your telephone keypad, and your next question comes from Zain Jafry from CIBC. Please go ahead.

Zain Jafry – Analyst, CIBC World Markets

Good morning, guys.

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

Good morning, Zain.

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

Good morning, Zain.

Zain Jafry – Analyst, CIBC World Markets

I just wanted to follow up regarding the Houston property. Great to see you guys establish that relationship with Providence. Do you know when we can expect the rent to commence? Is sometime in Q3 fair to assume?

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

Yes, I think that's fair. Q3 is a good estimate for that.

Zain Jafry – Analyst, CIBC World Markets

Perfect, and just following up on Jenny Ma. In terms of the acquisition environment. As opportunities present themselves, what leverage would you be comfortable with in the short term?

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

We've always been—I think we're going to stand behind that 50 percent to 55 percent is the right number. Is it possible we'll creep a little bit over that, as you say, in the short term? Yes, it's possible, but I think as we think about our long-term vision in the portfolio, 50 percent to 55 percent is a good number to think about for us.

Zain Jafry – Analyst, CIBC World Markets

Great. Thanks, and maybe just one more for me. Have there been any changes to the terms of Magnetar's lock-up period? I think 75 percent comes up for due next month?

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

Yes, that's correct. There have been no changes, and as a large shareholder of ours, we talk to them on a regular basis.

Zain Jafry – Analyst, CIBC World Markets

Great. Perfect. That's great for me. Thanks. I'll turn it back.

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

Fantastic.

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

Thank you.

Operator

We have no one left in queue at this time. I'll turn the call back over for closing remarks.

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

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

Operator

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