FINAL TRANSCRIPT

Mainstreet Health Investments Inc.

2016 Third Quarter Results Conference Call

Event Date/Time: November 9, 2016 — 10:00 a.m. E.T.

Length: 27 minutes

CORPORATE PARTICIPANTS

Randy Henry
Mainstreet Health Investments Inc. — Director, Investor Relations

Adlai Chester
Mainstreet Health Investments Inc. — Chief Executive Officer

Scott White
Mainstreet Health Investments Inc. — President and Chief Operating Officer

Scott Higgs
Mainstreet Health Investments Inc. — Chief Financial Officer

Matt Monson
Mainstreet Health Investments Inc. — Vice President

CONFERENCE CALL PARTICIPANTS

Troy MacLean
BMO Capital Markets — Analyst

Jenny Ma
Canaccord Genuity — Analyst

Matt Kornack
National Bank Financial — Analyst

Yashwant Sankpal
CIBC World Markets — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Mainstreet Health Investment's 2016 third quarter results conference call.

I would now like to turn the call over to Randy Henry, Director of Investor Relations. Please go ahead, Mr. Henry.

Randy Henry — Director, Investor Relations, Mainstreet Health Investments Inc.

Thank you, Carol. Good morning, everyone, and welcome to our third quarter earnings conference call. With me today are Adlai Chester, Chief Executive Officer; Scott White, President and Chief Operating Officer; and Scott Higgs, Chief Financial Officer. The third 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 November 16th.

Just 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 risk 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. And also, as we discuss our performance, please bear in mind that all amounts are in US dollars.

For the call this morning, Adlai will comment on our progress to date, Scott White will provide an update on the recently acquired portfolio, and Scott Higgs will cover the third quarter financial results. We will then open the lines for your questions.

With that, I'll turn the call over to Adlai.

Adlai Chester — Chief Executive Officer, Mainstreet Health Investments Inc.

Thanks, Randy. Good morning, everyone. As you know, last week we closed on our previously announced acquisition of seven senior housing and care properties, investment in five mezzanine loans, and the successful internalization of the executive management and support teams. An exceptional first transaction for us. Scott White will provide much more colour on these assets and the mezzanine strategy in just a moment.

I would first like to talk in general about our portfolio and briefly address why we chose to internalize now, and what it means going forward for the Company. After the close of the transaction last week, we now have over $630 million of assets in our portfolio, a tremendous start for the Company since our initial offering in June of this year. It was a huge accomplishment for us getting this second round of acquisitions finalized and a good testament to the depth and experience of our team.

We have strategically positioned our portfolio with quality operators who understand their business; in some cases, dominate their markets. This is a big consideration in how we select and underwrite deals. We want to have an ongoing relationship with those partners as we look for future opportunities to strategically grow. We have outstanding operators in our buildings and are excited to be partnering with them to transform this industry. We look forward to growing our high-quality portfolio through expansion with these operators, as well as new operators. We want to work with those who have the experience and the knowledge to adapt in changing times, while continuing to deliver a high-quality level of care to the consumer.

Speaking of these quality operators, our stabilized portfolio generated EBITDAR and lease coverage of 1.7 times, and EBITDAR coverage of 1.3 times for the trailing 12-month period through Q2 2016. This is in line with our expectations. We work with each of these tenants on an ongoing basis to review and discuss their performances. With all of our new product coming on line through development over the next 24 months, we would expect these coverages to continue to be strong and outpace the rest of the industry.

Let's now talk about our decision to internalize the team. As we said during the initial offering, we had a very strong intention to internalize. We would have done this at the initial offering, but we weren't large enough to make the math work. We needed the portfolio to reach a certain size, to provide a steady income stream from in-place leases. When we identified this most recent group of assets to acquire, we determined we could accomplish our goal of internalization immediately. We think it is an important statement to the market to have been able to internalize so quickly. I think it is also important that I point out that there were no termination fees or internalization fees associated with ending the management agreement with Mainstreet Property Group.

Further, a new development agreement was entered into with Mainstreet Property Group, keeping that important pipeline in place. We are very excited about the internalization. We are fully dedicated to Mainstreet Health Investments and very proud to have accomplished this so quickly. We believe this is in the best interest, long term, for both our shareholders and our future growth as a company. With the shared services agreement that we entered into with Mainstreet Property Group, we have the ability to utilize existing infrastructure and resources, without having to scale our employees too quickly. The benefit of this internalization is that it gives us a solid management platform to achieve our very aggressive growth goals and maximize shareholder value over the long term.

I will now turn the call over to Scott to comment on the new assets in the portfolio.

Scott White — President and Chief Operating Officer, Mainstreet Health Investments Inc.

Thanks, Adlai, and thanks to everyone on this call for your continued support.

From the time we announced our return to the Canadian capital markets, we planned to aggressively build a high-quality portfolio consistent with our investment thesis. We see significant opportunities and believe strongly in the investment thesis. When we came to market as a new company in June of this year, we very clearly and succinctly explained our strategy to build a high-quality portfolio of health care real estate diversified by operator, geography, and type of asset. We also said we would selectively enter the Canadian real estate market for the right transaction, and we said we would internalize the management team. Well, with the closing of the transaction on November 1st, we can definitively say we have accomplished everything we set out to do at the initial offering, and we did it in less than five months.

Let me now give you a little bit of background on the assets we acquired last week. The acquisition of the four transitional care properties being developed by Mainstreet Property Group provides us with a portfolio of brand-new, beautiful assets, all operated by a high-quality operator, Ensign, who already operates our Topeka transitional care property. Recall, two of these assets are located in Texas and two are in Kansas. We are pleased with the locations and the expansion of our relationship with Ensign. This is a great example of how our partnership with Mainstreet Property Group provides us with an exceptional pipeline of brand-new, off-market opportunities.

The Symphony asset we acquired is another example of how our relationships with key operators lead to opportunities. Symphony completed major renovations to the building in 2015 and 2016, then approached us about owning the asset and expanding our portfolio and relationship with them. We think the location in the affluent suburb of Evanston, Illinois, coupled with Symphony's reputation as a best-in-class operator, makes this a quality addition to the portfolio.

The joint venture with Autumnwood was a perfect vehicle for us to enter the Canadian market. The joint venture initially acquired two assets located in Ontario that were previously owned and operated by Autumnwood. The joint venture also has a right of first opportunity with Autumnwood on future senior housing opportunities, including existing assets, expansions, and new developments. In fact, we announced just yesterday that the joint venture acquired two additional assets from Autumnwood. We looked at these assets as part of our diligence with Autumnwood and were able to close on them with cash on balance sheet from the over-allotment of the recent offering. We're very pleased to not only have acquired our first assets in Canada, but to be able to partner with Autumnwood.

Finally, I want to highlight our strategy for mezzanine investment. Last week, we announced that we acquired four existing mezzanine investments in Mainstreet Property Group development projects, and we entered into a new mezzanine commitment to finance a Mainstreet Property Group project in Lincoln, Nebraska. We really like the diversity of geographical location and operators on these five projects. Further, we'll use the pipeline we're growing as a result of these loans. As we have mentioned previously, we believe that the ability to secure proprietary development pipeline of transitional care assets for Mainstreet Property Group is a key competitive advantage and differentiator for us.

We now have 10 mezzanine investments on our balance sheet. The projects are spread over four states in Western and Southwestern US. The investments will provide a return of approximately 14 percent, while outstanding, and are a great way for us to maintain an interest in the development pipeline with an exceptional return on the invested capital. All 10 are expected to be completed through 2017.

Recall that as part of the development agreement with Mainstreet Property Group, we have a purchase option on each property we finance with mezzanine investments, meaning we have purchase options on all 10 projects. From a strategic standpoint, this is an exceptional way for us to make ongoing accretive investments and build our pipeline. Currently, less than 5 percent of our total assets are invested in development in some fashion. We will look to continue to make additional investments into development, as we believe this is a key component for us to be able to build a high-quality portfolio.

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

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

Thanks, Scott. Let's now turn to a review of our key financial metrics.

We were very pleased with the results of the quarter. AFFO per share was $0.23 for the quarter and in line with our expectations. We provided a forecast as part of the initial offering, which projected AFFO per share of $0.24 for the third quarter. The difference is attributable to the additional shares issued with the exercise of the over-allotment option in the June offering, which the forecast did not contemplate. On a gross dollar basis, AFFO was directly in line with the forecast.

A few other items of note on the third quarter results. Revenues were driven by a full quarter of rents on the initial 21 projects acquired as of the initial offering. Ensign began paying rent at our Topeka, Kansas property effective August 1st. Recall from the time we closed on the property in June, until then, we were receiving rent from Mainstreet Property Group under a development lease. We closed on the first Hearth property—the Hearth at Greenpoint—in early August, so the third quarter reflected a portion of rental revenue from that asset.

As you know, we also closed on several strategic acquisitions and transactions subsequent to the quarter. I want to point out a couple of additional subsequent events in addition to the acquisitions previously mentioned.

In October, we closed on the second Hearth asset—the Hearth on James—which was previously announced as part of our June offering. We assumed $3.7 million of mortgage debt, which bears interest at a fixed rate of 4.1 percent annually. Also, on November 1st, we exercised the accordion feature on our existing credit facility and increased its total capacity from $200 million to $285 million. The term loan component of the facility now has a capacity of $200 million, and the revolver of the credit component has a capacity of $85 million. We used proceeds from the additional capacity to repay in full three existing mortgages totalling $35.5 million on the Chesterton, Indiana; Mooresville, Indiana; and Topeka, Kansas properties. We also swapped an additional $53 million of the term loan in conjunction with the transaction, and the swap is coterminous with the term loan through October 2019 at a fixed rate of 4.2 percent.

Taking into account all subsequent acquisitions and transactions, our debt to gross book value is at 51 percent. We have approximately $228 million outstanding on our credit facility and approximately 80 percent of our debt is fixed rate. With our conservative balance sheet and the low leverage point, we have the ability to execute on additional acquisitions without coming back to the market to raise incremental capital.

I'll now turn the call back over to Randy.

Randy Henry

Thanks, Scott. And we will now open the line for questions. Carol, could you please walk through the process?

Q&A

Operator

Absolutely. As a reminder, if you would like to ask a question over the phone at this time, please press *, followed by the number 1, on your telephone keypad.

And your first question today comes from the line of Troy MacLean from BMO. Please go ahead.

Troy MacLean — BMO Capital Markets

Good morning.

Adlai Chester

Good morning, Troy.

Troy MacLean

Just with—

Adlai Chester

No questions about politics. Hey ,Troy. No questions about politics. Okay?

Troy MacLean

Okay. Well I wasn't—I wasn't going to have one. But on the Kindred's looking to exit the SNF business, I mean obviously they had no operator in place there. Is that something you would look at? I mean it's obviously a very big portfolio, but would you look to buy something that maybe where an operator leaves, where you could replace it? Or are you looking for more stabilized properties?

Adlai Chester

Yeah. No. So absolutely we would look at that. The one thing that as we look at all the skilled nursing assets that we acquired, and once again, we're building a diversified portfolio across the spectrum—both skilled nursing transitional care, assisted living, memory care—so across the whole portfolio. With the skilled nursing, we want to acquire assets that are strategic to our partners or even our new partners, and so to the extent that there were assets that would work well within our current network and we felt like would be strategic for our operators, we absolutely look at it. There are buildings that Kindred has that I'm keenly aware of, that are really well-performing assets so—some of them are actually very high quality. So we would be interested in those if it made sense for our existing partners or even new partners that we're working with.

Troy MacLean

And then just where the cost of equity is at right now. Does that kind of tilt maybe the acquisitions you're looking at? Like are you looking at more SNF stuff today? Because you've talked of doing a third assisted living, a third SNF, a third transitional care. Like are you looking at more higher-yielding stuff now, so you can make it more accretive?

Adlai Chester

Yeah. The one thing that we're—in building up the diversified portfolio, we're going to make sure that we're constantly keeping an eye on what you just said, which is right now our equity cost is probably not where we'd want it, to go out buy a bunch of independent living, as an example; but we're going to continue to try and make sure we partner the skilled nursing with senior housing in transactions. We don't want to go down the path of just buying long-term care, because that won't ultimately accomplish our goal, but I think we still believe that we can partner it with senior housing and hit that yield in the high 7s, which is still going to be extremely accretive for our shareholders.

Troy MacLean

And then the stable—the coverage ratio for the stabilized portfolio was 1.3. Were there any operators that were well below this average? Or is that pretty consistent across the board?

Adlai Chester

No. That's very consistent. We had some that were performing better than we anticipated, that we didn't get the full reporting with them, which you'll see next quarter, because the timing of some of the assets that came on—but that's across the board. And one thing we'd like to point out is, we do like the—looking at the EBITDARM as well—because of the way a lot of our leases are structured. It's probably more indicative of the coverage.

Troy MacLean

And then just finally. On the last call, you talked about you're seeing cap rates kind of come up in some parts of the space. Has that been consistent this quarter? Have you seen kind of—especially for SNF assets—have you see cap rates come up from the deals you're seeing?

Adlai Chester

Yeah. In fact I'm going to turn it over to—I have Matt Monson here with me, who heads up a lot of our acquisition efforts, and he and I were just talking about this yesterday, so I'm going to kick it to him to kind of answer that question, Troy.

Matt Monson — Vice President, Mainstreet Health Investments Inc.

Yeah. I'll keep it short. Troy, very, very little movement at this point. There's been a little bit as far as cap rate expansion, if you will, but with the number of skilled assets that have actually hit the markets, we expect that pricing's going to change on those long-term care assets.

Adlai Chester

Especially in the tertiary markets. I think you're going to see, as a lot of these hit the markets over the next six months, the ones that are not in the top MSAs, you're going to definitely see the cap rate go up on them.

Troy MacLean

Okay. Thanks for the colour. I'll turn it back now.

Operator

Your next question this morning comes from the line of Jenny Ma from Canaccord Genuity. Please go ahead.

Jenny Ma — Canaccord Genuity

Hi. Good morning, everyone.

Adlai Chester

Hey, Jenny.

Scott White

Hey, Jenny.

Scott Higgs

Good morning, Jenny.

Jenny Ma

Wanted to ask about the mezzanine loan extension for the quarter. That was the Lincoln, Nebraska asset—is that correct?

Adlai Chester

The $3.5 million was Lincoln, Nebraska, yep.

Jenny Ma

So the $3.7 that was extended in Q3, was that a different mezzanine loan?

Adlai Chester

Yeah. So that was what we'd announced at Q2—the additional three that we invested in, in the Southwest portfolio.

Jenny Ma

Okay. Okay. So the rest of them are going to come in in Q4?

Adlai Chester

Yes.

Jenny Ma

Okay. Gotcha. As far as your partnership with Autumnwood. I'm wondering, for the shares that were issued to them, if there was a lockup period involved?

Scott White

Yeah. It's 12 months. It's actually a tiered release, and we can get you some additional details on it, but it's essentially—it's a third, a third, a third. So they're incentivized to hold on to it, starting in month 4 and then month 8 and then month 12.

Jenny Ma

Okay. And then I know you can't speak for them, but can you give us some colour on what kind of activities they're doing in their market? Looks like it's just Ontario now. And I understand they own six assets in total, including the ones that they've sold 50 percent interest to you. So are you able to shed any light on what their plans are, as far as growth? And what kind of markets they be looking to build in?

Adlai Chester

Yeah. They know the Northern Ontario markets as well as anybody, and it's one of the reasons why we wanted to partner with them in the first place. They are a developer; they've developed all six of the assets, including the four that we now own, and we're looking for future development opportunities with them. They've identified a few other sites that we're assessing at this point, as well as potential expansion opportunities on at least two of the four that we've acquired.

Scott White

Yeah. We're very excited about partnering with them. We think they're—once again, it's a good way for us to enter into the Canadian market.

Jenny Ma

Okay. And then as far as the Canadian markets. Are there any other markets that you're sort of kicking the tires on right now that you could speak to? Or what kind of opportunities there are north of the border?

Scott White

Yeah. Not at this point. There are several that we're working on, but they're in really preliminary stages at this point.

Adlai Chester

Yeah but I think—Jenny, this is Adlai. I think the—I think we have a message to the operators that's going to be compelling. If you think about—we're uniquely positioned for those operators that are kind of mid-market, who want to keep their business but grow it. And we can come alongside them, be a good capital partner, and help them do that. So I think it's going to resonate. I was just out in Vancouver last week with a lot of them, talking to them about that as an option.

Jenny Ma

Okay. And then my last question is related to the election, but hopefully not political. Has there been any chatter about Medicare, Medicaid funding, coming out of that? If there was, I'm not sure if it was lost in all the other rhetoric. But if there's any information or insight you could provide from your standpoint, that'd be great.

Adlai Chester

No, there hasn't. I think, in general, there's going to be a little bit of wait and see what happens. Interesting, health care space was up initially this morning. I think people—they're viewing it positively with Trump and that situation. So we'll continue to monitor it. The one thing that we know in our industry, specifically on the government reimbursement side of things, is that it's constantly changing. But our operators are used to it, and they're going to continue to adapt. And we know our industry's going to be here in the next 10 years, and it's going to be profitable for operators, and we just want to make sure we're partnering with the groups that know how to adjust to it. So as we look at it, it's probably too early to say, but in general, we feel positive about the direction it's headed.

Jenny Ma

Okay. Sounds great. I will turn it back. Thanks.

Adlai Chester

Thanks, Jenny.

Operator

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

Matt Kornack — National Bank Financial

Morning, guys. I just wanted to quickly follow up on Jenny's question there, not so much with regards to Medicare or Medicaid, but in terms of the Affordable Care Act. Has that changed the dynamics at all within the space, in terms of the interplay between hospitals and SNFs? Or is it fairly—or is it the same as it used to be?

Adlai Chester

No, it has. And I think whether it's the Affordable Care Act or just a shift in what was going to happen regardless, is the idea that hospitals are now going to be more concerned on where they're discharging their patients. And so we're hearing it over and over again. The one thing that's great about the partnership with Mainstreet—the private company—the number one conversation they're having is with hospital systems. And so although they're partnering with operators, the hospital system is at the table in the beginning.

So it is—whether the Affordable Care Act stays intact or doesn't, this is where the industry is headed, which is the operators that are going to win—and Symphony is a good example of this—are the ones that understand the importance of partnering with the hospital systems. The hospital systems will continue to decrease the number of skilled nursing facilities they're discharging to, and we want to make sure we own the properties that are well positioned to increase our market share.

Matt Kornack

Interesting. And in terms of your acquisition strategy going forward—development versus buying third-party acquisitions. Can you speak to sort of what you favour in this market at this point? And also 10-year bond yields have crept up a little bit in the States as a result of this—I guess infrastructure spend—hopes out of the Trump administration. So do you think that impacts the industry at all from a cap rate standpoint?

Adlai Chester

Yeah. No. It's a great question, Matt. And we—there's a little bit of thread in the needle, which is in a rising interest rate environment, we're going to have to make sure that we're acquiring things at either higher yields or alternative types of investments. It's why development becomes interesting, because it's extremely accretive for us from that standpoint. So we're going to want to continue to do development in a big way, because we believe it's the best way to generate a higher-than-market return, plus also have brand-new assets.

With that said, we want to make sure that we are building a portfolio that has stabilized coverage. And so getting too much development and not having stabilized coverage in the underlying operations is something we want to be keenly aware of. So it's a little bit of a balancing act. So I would say that you'll see us do more development, because ultimately that's higher quality assets, but we're going to continue to look at acquisition opportunities, both in the senior housing and the skilled nursing space. We're not afraid of skilled nursing space; we know it really well, and we know which markets we want to be in and which operators we want to partner with. So I think you're going to see us do a little bit of both, but I would expect you'd see us tick up the development a little bit.

Matt Kornack

And your leases—remind me. There's a CPI adjustment component to a lot of them? Or is there not?

Adlai Chester

They are. Yeah. All of them have either stated lease escalators or something tied to CPI. So that obviously keeps us growing at a clip, but if we want to outpace anything, then we're going to have to find ways to be creative in some other structures, which is we like the development.

Matt Kornack

Okay. Thanks.

Operator

And as a reminder, if you would like to ask a question, that's *, 1 on your telephone keypad.

Our next question comes from Yash Sankpal from CIBC. Please go ahead.

Yashwant Sankpal — CIBC World Markets

Good morning.

Adlai Chester

Good morning, Yash.

Scott White

Morning.

Yashwant Sankpal

Just one question. Adlai, you said in your prepared remarks that you think your operators will outpace their peers in terms of operating metrics. So just wanted to understand what gives you that confidence?

Adlai Chester

Yeah. So I think we have an advantage from other groups in the fact that we are starting from essentially—we're small cap—and we're starting from zero in terms of what we're acquiring, and we're $630 million in assets. But as we acquire assets, we have the advantage of being behind the change, so we know the change is coming already, as we acquire the asset. So I think it allows us to make sure we're partnering with the right operators and in the right markets and, once again, getting in early with the hospital system, because I can't stress it enough. Over the last two months, I've been talking with investors that—that is where this industry is going on that piece of our portfolio.

Obviously the senior housing's a different element, but the skilled nursing piece of it and long-term care—the hospital system is so vitally important. So I just feel like the operators that we partner with understand that, and we're acquiring assets in markets that are well positioned.

Scott White

Yeah. Yash, this is Scott White. Let me comment on that as well. When we focus on operators and you look at our portfolio of operators, I think what you'll find is we have to date, historically, not partnered with the very largest operators in the country, and I think what you've seen transpire over the last couple of weeks is that some of the very largest operators have a very difficult time maneuvering the ship. It is an industry that rewards the ability to be nimble, that rewards the ability to pivot. As Adlai answered before, some of the questions about where is the industry going? What's going on with the reimbursement? The reality is no one really knows.

The reality is that the industry's not going away; thus, the successful ones will be nimble and able to pivot. On the other end of the spectrum—so I mentioned that we're not partnering with the very largest partners or operators in the industry—and the other end of the spectrum, this industry continues to become more complex. And one of the things you will find for the most part is we're not going to be partnering with operators that own one or two buildings or are brand new to the industry. So as you look at the portfolio of our operators, they all have a long track record of doing this. They're small enough that they can pivot and be nimble; yet they're large enough and sophisticated enough that they can understand the change and operate in an ever-changing environment. I fundamentally believe that the smallest and newest operators are not going to be able to survive long term.

Yashwant Sankpal

Okay. That's good. Thank you.

Adlai Chester

Thank you.

Operator

And presenters, we have no one further in queue at this time. I'll turn the call back to you for any closing remarks.

Randy Henry

Thanks, Carol. Thanks, everybody, for participating in the call and have a good week.

Operator

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

*****