Invesque Inc.

Fourth Quarter 2018 Earnings Conference Call

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Brad Sturges
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Mark Rothschild
Canaccord — Analyst

Chris Couprie
CIBC — Analyst

Tal Woolley
National Bank Financial — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, welcome to Invesque Inc.'s fourth quarter 2018 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, Invesque Inc.

Thank you, James. Good morning, everyone, and thank you for joining the call. With me today are Scott White, our Chairman and CEO; and Adlai Chester, our CIO.

Scott will kick things off discussing our activity for the quarter and year, colour around our portfolio, and some overall industry news and trends. I will then cover our fourth quarter and year-end financial results, and Adlai will recap our portfolio performance, recently announced investments, and strategic efforts before starting the Q&A portion of the call.

The fourth quarter and 2018 year-end 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 March 21st.

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.

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

Scott White — Chairman and Chief Executive Officer, Invesque Inc.

Good morning, everybody. Thank you all for joining our fourth quarter and year-end earnings call. 2018 was a seminal year for Invesque. We have nearly tripled our asset base since becoming a public company in 2016. In fact, in 2018, we were one of the fastest-growing publicly traded real estate companies in all of North America.

We are building a world-class real estate company that owns a portfolio of high-quality health care properties. Our diversification strategy provides our shareholders with stable dividends and the opportunity for superior risk-adjusted returns.

The fourth quarter was highlighted by our focus on capital recycling and asset management as we continually look to refine and strengthen our portfolio. As we grow, we believe it is important to manage our existing portfolio and opportunistically prune assets. We then recycle capital to investments that better fit our long-term goal of building a forever portfolio.

On that note, in December, we closed on the previously announced sale of seven skilled nursing facilities in Georgia that are operated by Traditions Senior Management for $70 million. As a reminder, this portfolio was originally purchased as an opportunistic off-market investment, which we identified as having significant upside. We worked closely with our partner, Traditions, to divest these assets at a very attractive price point for our shareholders. More importantly, the sale of the Traditions properties reduced the effective age of our remaining skilled nursing portfolio to just nine-and-a-half years.

This is a number I'm very proud of. We own one of the newest portfolios in the industry today with an overall effective age of approximately 10 years. Having such a young asset relative to many of our public peers is a testament to the strength of our portfolio and is a key differentiator. As we mentioned in the past, our operators are critical to our success.

While our acquisition pipeline is very robust, our existing partners will always be a key component of our investment strategy. We're proud to announce that we have entered into a definitive agreement to acquire three assets, which will be leased to Symphony.

On past calls, you've heard me discuss the headwinds that Symphony and other skilled nursing operators are facing. You've also heard me say that we believe, over the coming years, the market dynamics are going to improve across the skilled nursing industry. We believe that operators who have invested in their real estate and operations are best positioned for success. Symphony has demonstrated this strategy, and we are excited to continue to partner with them. Adlai will discuss the specifics of the transaction later in the call.

Let me take a moment to comment on PDPM, the new Medicare skilled nursing payment model that is set to be implemented in October of this year. We believe the new payment model has the potential to improve margins for sophisticated operators in the industry who are able to effectively navigate this new paradigm. We're optimistic about the skilled nursing sector, and believe that our portfolio of young, post-acute SNFs and sophisticated operators are well positioned to thrive under PDPM.

Let me also comment on our medical office building portfolio. In 2018, we entered this sector with the acquisition of the Mohawk Medical office portfolio. Our ongoing partnership with Mohawk gives us a very strong platform for growth. Our focus on multi-tenant, off-campus MOBs is another key differentiator for Invesque. We expect this to be an area of continued focus and growth in 2019 and beyond.

Private pay seniors housing is also an area where we continue to see opportunities to grow. Many seniors housing operators and real estate investors have reported headwinds leading to negative same-store NOI. These headwinds have primarily been due to significant growth in construction and new supply over the past several years. As a result, we continue to see many opportunities to expand our private pay seniors housing portfolio. But we have been and will continue to be very selective.

We have observed that construction has not been uniform across the United States. Specifically, many of the larger top 31 metro areas have seen greater amounts of senior housing construction than smaller metro areas. As a result, we have seen several opportunities that are substantially less challenged than the industry as a whole. We believe that smaller markets will outperform the larger markets that have seen more robust construction activity.

While we did consummate some sales in the fourth quarter, we were substantial acquirers in 2018 with total acquisitions of approximately $700 million. Looking forward to 2019, our pipeline of growth opportunities continues to be very significant. We believe that with sufficient access to appropriately priced capital, we could generate significant growth in 2019. However, we remain disciplined in our underwriting and will only focus on the right opportunities.

Active portfolio management will be another key theme for Invesque in 2019. Like we did with Traditions, we will opportunistically divest the assets, reposition parts of our portfolio, and explore opportunities with new operating partners. I am truly excited about the team and platform we have built and the future that lies ahead. With 2018 in the rearview mirror, we're looking forward to an exciting 2019.

With that, I'll pass it to Scott Higgs to talk about our Q4 and 2018 financial performance.

Scott Higgs

Thank you, Scott. For the year ending December 31st, FFO was $0.96 per share and AFFO was $0.86 per share. Excluding deal pursuit costs, our FFO was $1 per share and AFFO was $0.90 per share for the year ending 2018.

As a reminder, in the third quarter we incurred deal pursuit costs of approximately $2 million. These costs were attributed to a large investment opportunity that we ultimately decided was not in the best interests of our shareholders. Additionally, and as I'll discuss further, we incurred debt extinguishment costs of approximately 3.7 million, primarily associated with the recast of our corporate credit facility during the fourth quarter, which negatively impacted FFO.

As a result of a significant increase in the DRIP program participation that we have seen in the first quarter of 2019, our effective dividend cash payout ratio is expected to be in the low 70s. As previously announced, we recast our credit facility to a new upsized and unsecured $400 million facility. The enhanced credit facility includes an accordion feature to increase the size up to 750 million.

We were able to work closely with our lending syndicate to reduce our spread by approximately 100 basis points. The reduced spread, combined with the strategic interest rate derivatives in place, provide our company with a more predictable and attractive cost of credit capital from which we can continue to grow. This credit facility is an important milestone for Invesque and provides us with more dry powder and more attractive pricing and, most importantly, the flexibility to consolidate our balance sheet and stagger our maturities.

Combining this new unsecured credit facility with recent refinancings of property-level debt, we now have only 11 percent of our debt rolling over the next three years. Our average debt maturity now stands at approximately five years as of the end of 2018 versus approximately four years at September 30th. We are pleased with the progress we've made on the debt side of the balance sheet.

Also as previously announced in the fourth quarter, we put in place a share buyback program. At various times we believe the market price for our shares may not fully reflect the underlying value of our portfolio. In the fourth quarter, we repurchased approximately 60,000 shares at an average price of

$6.77 per share. We will continue to monitor market conditions and opportunistically buy back shares when we feel they are undervalued. We are also exploring other value-creation opportunities across the capital structure.

With that, I'll pass it over to Adlai to discuss our portfolio performance and investment activity.

Adlai Chester — Chief Investment Officer, Invesque Inc.

Thanks, Scott. The performance of our stabilized triple net lease portfolio remained consistent with previous quarters. On a trailing 12-month basis as of September 30th, our EBITDAR and EBITDARM coverage ratios were 1.2 times and 1.5 times, respectively. Our trailing 12-month occupancy as of September 30th remained consistent at 85 percent for our triple net assets and 89 percent for our stabilized JV assets. For the MOB portfolio, stabilized occupancy stood at 90 percent as of September 30th.

Fundamental to our investment strategy is building our portfolio with the right operating partners. We continued this strategy in the fourth quarter with the closing of Keepsake Village at Greenpoint for $11 million. Keepsake is our third facility operated by Hearth. We further continued this strategy subsequent to the quarter-end. We completed our acquisition of a stabilized memory care community located in Allen, Texas for $8.1 million with Constant Care Management. The community expands our master lease relationship with Constant Care to four properties. When we acquired our initial portfolio with Constant Care, we were granted exclusive rights to future acquisitions. We value our relationship with Constant Care and are excited to continue to grow our relationship with them over the coming years.

As Scott White mentioned, we have entered into a definitive agreement to expand our portfolio with Symphony. Symphony and Invesque have both made meaningful investments in the real estate comprising our master lease. While Symphony provides Medicaid services for many of Illinois' most needy, elderly residents, Symphony has also focused on building operating expertise in caring for the full continuum of post-acute patients. This is evidenced by their brand name, the Symphony Post Acute Network.

Symphony cares for more than a typical short-stay rehab patient by establishing centres for excellence in cardiac care, dialysis, and complex wound care. These areas of service are likely to see enhanced reimbursement under PDPM relative to the current RUGS IV system. In short, Symphony has and will continue to be one of our critical partners. We believe their operations are well-positioned to succeed in the years to come.

Developing the operations necessary to compete in the current skilled nursing environment has been expensive. Symphony has not been immune from the headwinds facing the skilled industry. These headwinds have included lower per diem reimbursement, shorter length of stay, and escalating operating costs. Our acquisition of the three additional properties is being done to support Symphony's go-forward capital structure.

Symphony's capital structure was also recently supported by closing on a new revolving credit facility sponsored by a large institutional lender. Specifically, our acquisition will be consummated at an attractive yield for Symphony, which will help improve the performance of the overall portfolio. At closing, we will consolidate individually leased properties into our existing master lease. We will also reset the maturity date to 15 years from closing.

The amended and restated lease will feature fair market value rent resets in 2025 and 2030, which may provide significant upside to Invesque and is also protected against any potential decrease in rent. We will receive warrants in the Symphony operating company that allow us to participate in value creation over time. Part of the transaction consideration for the portfolio will be paid in common shares of Invesque. This further cements the alignment of interest between us and Symphony.

Lastly, we utilized a portion of the security deposit to repay the outstanding loan balance as of December 31st. Symphony will have an obligation to replenish the deposits with a near-term collection of certain receivables and the remainder over the next several years. Going forward, we expect our in-place triple net yield to be 7.92 percent and our effective remaining lease term to be 13.2 years for the total portfolio.

Moving on to our pipeline. As Scott mentioned at the top of the call, our deal flow continues to be very significant. As of today, we are actively exploring over $3 billion of potential opportunities in senior housing, medical office, and skilled nursing. We believe that this pipeline will result in over $300 million of acquisitions in 2019.

I'd like to thank everyone for joining the call, and we'll now open up the line for questions.

Q&A

Operator

At this time, I'd like to advise everyone, in order to ask a question, please press *, followed by the number 1 on your telephone keypad.

And your first question comes from the line of Brad Sturges from Industrial Alliance. Go ahead, please. Your line is open.

Brad Sturges — Industrial Alliance

Hi. Good morning.

Scott White

Morning, Brad.

Brad Sturges

Just on the commentary there with Symphony, first off, just when would all this potentially close with a new master lease?

Adlai Chester

Yeah. So we would expect in March or April for this all to be done.

Brad Sturges

Right. And with the guidance there on the NOI, how does that—how would that look like from an EBITDAR, EBITDARM coverage ratio perspective?

Scott White

What do you mean?

Scott Higgs

Across the whole portfolio?

Brad Sturges

Yeah. Is there any material change on the coverage ratios with the, I guess, the change in the rent?

Adlai Chester

We would expect to see an uptick in it, but we were at 1.2 and 1.5 in terms of EBITDAR and EBITDARM this quarter. We would expect to see something along those lines into the future.

Brad Sturges

Right. Okay. And then in terms of, I guess, there's going to be, I guess, resets over the next, I guess, on a fixed-term basis, and you've outlined that. I guess for the remaining portfolio, how should we think about the contractual rent growth for the rest of the portfolio?

Scott White

So you're talking other than Symphony, the—

Scott Higgs

Other than Symphony.

Scott White

—the other acquisitions. Yeah. I think it—as far as we know, we expect everything to continue the way it currently is. People are paying their rent, and we expect rent resets as per all the contracts. We have not changed any of those.

Brad Sturges

Right. And maybe just lastly, just on the commentary with the new supplier headwinds on the private pay senior housings side. Is there any specific market or assets that are dealing with those headwinds within your existing portfolio?

Scott White

So obviously there are some in our portfolio that are dealing with those headwinds. It really does vary by operator and by market. I think more importantly, what we're doing is we're seeing a lot of opportunities become available now and be very selective in terms of there's quite a bit more supply than we, quite frankly, want to add to the portfolio.

So the comments around that and as you look at the geographic dispersion of our portfolio, that has been a big industry headline. When you peel back the onion a little bit, it is disproportionately impacting a smaller number of markets. So while it's a headline that I think people believe is applicable across the industry, our point was that it is very market-specific. A number of our operators—in fact, I'd say a lot of our operators are in smaller and secondary markets.

Don't lead that to believe that we're suggesting that they're in rural markets or they're in very small markets because they're not. But we don't have a whole lot of properties in, call it, the top 30 markets in the country, and that's where we're seeing a lot of growth and a lot of supply coming online.

With that said, Brad, I think it's important—and I've said this on probably every call we've done and I'll continue to say it—in that we buy assets with the expectation of holding forever. Forever's a bit of a long term, but 10, 15 years. So while there are short-term dislocations in certain markets, we fundamentally believe that the macros still make sense. We fundamentally believe that the opportunity ahead of us as it relates to the aging demograph baby boom, the aging baby boom demographic is still there. So even to the extent that we had properties or that we looked at properties in markets that we think might be more saturated right now, we fundamentally believe that will correct itself over the coming years.

Brad Sturges

Okay. And maybe just last question just on the Symphony, just on the reset for 2025 and 2030. Is that based on a coverage ratio? Or what would be the mechanics for the rent adjustment at those times?

Scott White

Yeah. That's exactly right. It would be based on a coverage ratio, and that's a real way for us to create significant upside value in the future. The way this was all structured was, it's an operator that we're proud to partner with; an operator that has demonstrated an ability to navigate a very challenging environment.

When you think about a number of our competitors and you think about the headlines coming out of the United States, there have been a lot of fairly serious issues in the skilled space, and we're quite proud of the fact that we've gotten this far with our skilled portfolio without any significant issues. We haven't had any rent cuts. We haven't had any bankruptcies in our portfolio. I'm going to knock on wood pretty loud, but that is the reality. We've partnered well with great operators, and Symphony is one of them.

And the construct that we've come up with is it's easy to say you're a partner, but it's different to behave like a partner in business.

And we're now behaving like a partner and standing behind what we've told all our operators is that if we're going to be partners, we're going to be long-term partners, we expect certain things out of them, and they could expect certain things out of us. And that goes beyond just collecting the rent and checking in every couple of months. It goes to enabling and helping our operating partners through challenging times.

And Symphony was not immune from this. And while we haven't had to cut the rent, we believe that they are the right operator for that market, and we came up with a structure and a construct to help give them the opportunity to ride out this trough and get to exactly what you just asked about, Brad. And I'm glad you keyed in on that because it's an important fact. It's a little detail, but an important fact. We believe that this portfolio's going to be performing quite well in the future, and we want to recapture as much value as we can and provide excess return as far as shareholders, when in fact we come out of this skilled nursing trough.

Brad Sturges

Okay. Great. Thank you.

Scott White

Thanks so much, Brad.

Operator

And as a reminder, if you'd like to ask a question, please press *, followed by the number 1 on your telephone keypad.

Your next question comes from the line of Mark Rothschild from Canaccord. Go ahead, please. Your line is open.

Mark Rothschild — Canaccord

Thanks, and good morning, guys. Maybe first, in regards to the buyback, to what extent is this something that you anticipate using over the next little while based on the current share price?

Scott White

Yeah. So, Mark, we really like that as a strategy, and that's why we implemented it in Q4. We utilized it. I guess a couple things that we need to consider. One, we look at that, quite frankly, as a use of capital and the opportunity calls for that capital vis-à-vis the other opportunities that present themselves, so we're always weighing the next best use for that incremental dollar. Right now, it does seem like a good use of that dollar given where we're trading, and we, quite frankly, believe we're significantly undervalued relative to what we believe the underlying assets in the portfolio are worth. So it is certainly a key area for us to focus on.

The other issue that we just need to grapple with, and it's just a reality, is that there are regulatory hurdles that we need to keep an eye on with regards to when we can buy our securities. As you're probably aware, there are certain times that we can and can't buy our own securities. And the windows are fairly small for us to be able to execute on that DRIP. I think without some of those short windows, we might be able to execute further.

Mark Rothschild

So based on these short windows that you have, should I just assume that it's not going to be something that's going to be utilized in a material way?

Scott White

I think that's right. I think given the—Adlai talked about our pipeline. And it is a robust pipeline. And given a limited pool of capital to deploy, we want to continue to build the business, diversify, and execute on our strategy. And while buying in our shares is highly accretive and value creative to our shareholders, we also have a longer-term vision in mind.

And I've said this before on calls, and I'll repeat it again, this is real estate. This is investing for the long term. And while there are things that you might be able to do on the short-term basis to create value for your shareholders and certainly something that we always consider, what we really do is look through the lens of three, five, and seven years, and say how do we position this portfolio best for long-term success? And how do we deploy that next best dollar for that?

So I think you should expect to continue to see us execute on our share buyback, but I don't think it's going to become a material part of our strategy.

Mark Rothschild

Okay. Thanks. And you sort of led into my next question in regards to this big pipeline you have. Are dispositions something that we should expect to see to fund that? Or will you be looking at alternative sources of raising the equity for acquisitions?

Scott White

So a couple things. As I said in my comments, we will selectively prune parts of our portfolio. And the reason we would do that is to get a look into the lens of where do we want to be, three, five, seven years from now. And there are certain assets, for various reasons, that just make sense to sell and redeploy that capital; things like the Traditions example that we gave. These were assets that were acquired with a shorter time horizon in mind. There was a significant value-creation opportunity. That value creation came to a point where we thought it was in the best interests of our shareholders to exit those assets.

But with that said, we are in growth mode, so to sell just to buy doesn't necessarily build a platform or a long-term, sustainable business. I think you should expect to see this team continue to look for creative ways to grow. I think if we were to rewind and check calls a year or so ago, we got similar calls of, given where your stock price is trading right now, you talk about a massive pipeline. How do you think you're going to be able to execute?

And my answer at that time was, we'll continue to find creative ways to execute on the right deals. And it turned out that last year, we were maybe the largest but if not the largest, certainly one of the largest acquirers of real estate assets across North America. When you look at where we started last year and where we ended on a percentage basis, our growth was, I believe—I believe and I'll emphasize that—in excess of any other public real estate company in North America.

So I can't guarantee you we're going to be able to access capital, find ways to grow, but I can guarantee you that we're working really hard at it, that we have a robust pipeline, and that we have the right team to come up with creative solutions. So stay tuned, and I hope to deliver some news to you at some point during the course of the year.

Mark Rothschild

Okay. Great. Thanks so much.

Scott White

Thanks so much. Take care.

Operator

Your next question comes from the line of Chris Couprie from CIBC. Go ahead, please. Your line is open.

Chris Couprie — CIBC

Good morning, guys. Couple questions—

Scott White

Morning, Chris.

Chris Couprie

Hey. So maybe just rounding out the discussion on Symphony. So this capital injection that you're providing them, if you were kind of going to think about how much time or how much of a bridge that gives them, how would you kind of characterize that?

And then, with respect to the warrants that you're getting in the operating company, how should we think about that, in terms of (audio gap) you can dispose with respect to how we should think about the value of that business and relative to a derivative that you have or the warrants that you have?

Scott White

All right. Great, Chris. So there's two questions there. One, how much time does this provide for Symphony? What's the plan around that? And two, give some more colour around the warrants, what they mean, valuation. Well, I'm going to take the question about how much time, then I'm going to ask my colleague who's in the room, Bryan Hickman, to talk to you about the warrants.

So with regards to how much time, I'd say forever. We went into this with the expectation of we are setting them up for long-term success. This is absolutely not, underlined, can we bridge three to six months and then revisit in three to six months. It is our full expectation that this sets them up for long-term success.

With that said, again, we have to be realists, and we have to realize that the market has idiosyncrasies. The skilled nursing market is at a trough. We, as a management team, feel very strongly that it has reached that trough. Is it a three-month trough, a three-year trough, or longer? That I don't know. We have a belief that we're going to start to see an uptick in things like occupancies, and we're going to start to see an uptick in reimbursement rates. We're going to, at some point—and I'm not smart enough to tell you exactly when—but at some point, we're going to see a softening in the labour markets.

Right now, those are three variables that challenge the skilled nursing industry: one, occupancy; two, reimbursement rates; and three, labour costs. We think we've hit the bottom on those, and now it's just a matter time for coming out of it. We've structured this transaction and what we intend to do with Symphony to be a forever solution. And we fundamentally hope that, as Brad asked before, we're looking at each other at 2025 or whatever it is and resetting that rent, and everyone is pleased with the results.

With that, I'll ask Bryan to comment on how the warrants would work.

Bryan Hickman — Senior Vice President, Investment Officer, Invesque Inc.

Right. So as it relates to warrants, you see a lot of real estate investors like us using a mechanism like this to participate in future upside on their real estate portfolios. It doesn't obligate us to ever inject capital into the business. This is simply a sort of tag-along participation structure in upside in the future.

If you were to think about how you would value something like this, skilled nursing operating businesses, in terms of a multiple, are sort of at all-time lows, as you would expect for an industry that has had some challenges. But you're probably still, at least today, in the 4 to 6x range of multiple of cash flow after rents. So if you were to try and put some parameters around how that might be valued for us in the future, that would be my guidance there.

And the way I would see it monetized is kind of one of two ways. One is if the operator elected to buy us out of that warrant position in the future and wanted to ensure that they had 100 percent control of the business, or it would be a tag-along participation in the event that Symphony were acquired by a consolidator.

Chris Couprie

Mm. Okay. And then just on the fair value write-down in the quarter, can you maybe just talk to some of the changes in your assumptions regarding the investment property values?

Scott White

Yeah. Happy to do that, Chris. So this is a normal course. We do this every single quarter. We go through each of our assets, and we make an assessment on what we believe is the fair market value, the changes that came in this quarter. I think, for the most part, we're fractional movements in cap rates. As we look at certain facilities, as we look at what we're seeing in the market in terms of buying opportunities, we made a conservative assessment as a management team, but a fair, a very fair assessment to say you know what, there's certain assets that we adjusted the cap rates on to a small degree.

Given the size of the NOI stream is small, cap rate adjustments have meaningful impacts. And that's really what drove it. And we do this every quarter.

Chris Couprie

So there was no changes to any of the kind of rent assumptions?

Scott White

No.

Scott Higgs

No. And most of it related to our skilled nursing portfolio, so we increased the cap rate associated with that.

Chris Couprie

Okay. Thanks. And then, with respect to the mezzanine loans, there's another loan loss allowance. It looks like it was mostly related to some of these legacy Mainstreet loans. And I guess you do your best estimate at every quarter. With respect to kind of the net 3 million and change that are still outstanding with Mainstreet, I mean how comfortable are you on that?

Scott Higgs

Yeah. I'm very comfortable on that piece. So to just to remind everyone on how we have historically invested in development, it's been done through mezzanine-type loans where we would have the right but not the obligation to acquire the real estate.

So with Mainstreet specifically, there's a few of those loans that we elected not to exercise our purchase option to acquire the properties. Subsequent to that we've seen—or actually we've seen the interest payments not being made by Mainstreet, which is what caused us to reserve against those. On the one that's left, we actually have collateral on land, so we'll be able to take that land in that instance. So we feel pretty strongly about that loan balance.

I will say, although we reserved, we still are going to be going after those balances to try to collect them. But once again, we wanted to be on the conservative side and take the reserve now.

Chris Couprie

Okay. Thanks, guys. I'll turn it back.

Scott White

Thank you.

Operator

Your next question is from the line of Tal Woolley from National Bank Financial. Go ahead, please. Your line is open.

Tal Woolley — National Bank Financial

Hi. Good morning. I just wanted to start—

Scott Higgs

Good morning, Tal.

Tal Woolley

Just wanted to start, if you look on Page 21 of your MD&A, you sort of outlined all of your debt instruments and the weighted average cost of debt. And I'm just wondering, with the new facility and then the movement in rates early into 2019, like where would you—you've got it at sort of 4.8 right now. Where would you peg that number today?

Scott Higgs

Flat, Tal. I mean so at the end of the year, you saw we put the derivatives in place on a significant piece of our variable rate debt. So although there has been some movement, I would anticipate that it's going to be pretty flat into Q1, Q2 of '19.

Tal Woolley

Okay. And then, just on the fair value write-down, how much of that fair value write-down was triggered by the proposed Symphony transactions?

Adlai Chester

Yeah. I think, from our perspective, a pretty big piece of it, mainly because it kind of spoke to the skilled nursing industry in general. And as you know, the Symphony asset is going to make up a huge portion of our skilled nursing portfolio.

Tal Woolley

Yeah. Okay. And then, just on the—I just sort of want to get clear on the mechanics here. So you're going to buy these properties. You're going to buy 50 million from Symphony at what sounds like a low yield. And then, as it gets amalgamated into the lease, that's what's constituting the fair value rent adjustment?

Adlai Chester

That's part of it. Yup.

Tal Woolley

Okay.

Bryan Hickman

To be clear, the transaction parties are not just Symphony. And another point that I want to highlight from Adlai's script is that, as it relates to the alignment between us and Symphony, we're paying for a portion of this transaction with Invesque shares—

Tal Woolley

Right.

Bryan Hickman

—which we think is a really important indicator that we both believe in this portfolio over the long term.

Tal Woolley

Okay. I got it. And then, Scott, I apologize, I missed the first couple minutes of the call. And can you just make any comment about the changes at the board level that occurred?

Scott White

Yeah. I actually—you didn't miss anything on that because I didn't comment on it further on the call. We put out a press release earlier in the week, and I think that really sums it up. There isn't much more than what was said in the press release.

Tal Woolley

Okay. I'll leave it there. Thank you.

Scott White

Thanks so much.

Scott Higgs

Thanks, Tal.

Operator

And there are no further questions at this time. So with that, we do thank you for joining us today. And this does conclude today's call. You may now disconnect.