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# FINAL TRANSCRIPT

## Invesque Inc.

## Second Quarter 2018 Earnings Conference Call

Event Date/Time: August 15, 2018 — 10:00 a.m. E.T.

Length: 31 minutes

## CORPORATE PARTICIPANTS

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## CONFERENCE CALL PARTICIPANTS

**Troy MacLean**
*BMO Capital Markets — Analyst*

**Chris Couprie**
*CIBC — Analyst*

**Mark Rothschild**
*Canaccord Genuity — Analyst*

**Stephane Boire**
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## PRESENTATION

**Operator**

Good morning, ladies and gentlemen. Welcome to Invesque Inc.'s second 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, Dan. Good morning, everyone, and thanks for joining the call. With me are Scott White, our CEO and Adlai Chester, our CIO. Scott will kick things off, discussing our activity for the quarter and some colour around our portfolio. I will cover the financial results from the second quarter, and Adlai will recap our recent investments and strategic efforts before starting the Q&A portion of the call.

The second quarter earnings release, financial statements, and MD&A are available on our website, and a replay of this call be available until midnight on August 22nd.

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** — Chief Executive Officer, Invesque Inc.

Thank you. Good morning. We're very pleased with the progress we made over the recent quarter as we continue to execute on our strategy. This quarter, we celebrated the two-year anniversary as a company. Our growth over the last two years has been remarkable, but more importantly, consistent with our strategy since the day we started. We've spent the last two years working on diversifying our portfolio in terms of operator, geography, and asset type, establishing a strong and robust platform, and building our team and infrastructure.

Over those two years, we've built a solid foundation for growth by expanding from an initial 23 buildings and only five operators to where we are today, with 104 properties and 20 industry-leading operating partners. Now we're starting to see the strength in our platform, with significant cost efficiencies and with meaningful sourcing opportunities.

As an example, we closed on the Mohawk portfolio just three months ago, and less than 75 days later, we are able to execute on an additional acquisition of a medical office building outside of Buffalo, New York. This is exactly the type of programmatic growth we expect from our platform and which we will replicate in the coming quarters. We also said the platform is highly scalable, and Scott Higgs will comment shortly on the meaningful G&A efficiencies that we've started to see.

Our 20 operating partners are some of the best in the industry. In addition to operating our properties, they provide us with valuable real-time industry insight and investment opportunities, fueling our platform with ample runway for organic growth. Growing with our existing operators is a strategic focus for our company. The opportunities sourced by our operating partners are often off-market and feature two distinct benefits. First, they offer attractive economics relative to broker transactions; and second, these transactions are more likely to fit well with our partners' existing operating platforms, thus maximizing the probability of their success.

We will continue to evaluate acquisition opportunities to grow with our existing partners in markets that fit into their respective growth plans, as well as look to potential partners outside our portfolio as another way to fuel our growth and further diversify.

In addition to our strong operating partnerships, another pillar of our company is the strength of our team. We've been very fortunate to enhance our team this quarter with two key hires, Bryan Hickman and Adam Zeiger, who together have nearly 30 years of industry experience, have immediately contributed in a meaningful way to the Company and have been wonderful complements to the management team.

You've heard me talk about our strategy before, and I want to take a moment to really drive home what we're doing. We believe building a highly diversified portfolio of income-generating properties across the full spectrum of health care real estate is the best path to long-term value creation. This is a clear differentiator for us from our competitors. We're not picking a particular sector or sectors of the health care real estate. We have a broad investment mandate and believe that diversification is a critical component for generating strong, long-term risk-adjusted returns.

I'm very excited about what our team has accomplished over the last few years, and even more excited about what our team can accomplish in the years to come.

I'll now let Scott Higgs talk to you about the financial performance for the quarter.

**Scott Higgs**

Thank you, Scott. We had a great second quarter. For the quarter ending June 30th, FFO was $0.29 per share, AFFO was $0.25 per share, and our payout ratio remained conservative at 73 percent. On a forward run rate, we expect our payout ratio to continue to be conservative and in the low to mid 70s.

Our attractive debt profile is an important element in the strong financial health of our company. Over the course of the quarter, we were able to increase our ratio of fixed rate debt to more than 75 percent, and maintain the amount of debt to total assets of approximately 54.8 percent, or 51.6 percent excluding debentures, and in line with our target.

As Scott mentioned earlier, we've built a highly scalable platform. Since our IPO just a little over two years ago, we've almost tripled our total asset value from 440 million to nearly 1.4 billion. We've been able to achieve that growth while reducing our G&A as a percentage of total assets.

For the three months ended June 30th, our G&A costs were only 24 basis points of our total assets. For the six months ending June 30th, our total G&A costs were just 45 basis points of our total assets. This is a reduction of 20 basis points from the same six-month period in the prior year, and in line with our targeted run rate.

The performance of our stabilized triple net lease portfolio remained consistent with previous quarters. On a trailing 12-month basis, our EBITDAR and EBITDARM coverage ratios were 1.2 and 1.5 times respectively. We have seen these ratios trend up recently. On a trailing three-month basis, which includes the impact of the Care portfolio, EBITDAR and EBITDARM coverages were 1.3 and 1.7 times respectively. And our trailing 12-month occupancy increased to 86 percent.

The second quarter was the first full quarter of operations with the Care Investment Trust acquisition fully integrated into the Invesque platform. The Care portfolio includes 18 joint ventures, which for the period ending March 31st, had occupancy of 87 percent in the stabilized assets.

With that, let me pass it to Adlai to discuss our recent investment activity and strength of our pipeline.

**Adlai Chester** — Chief Investment Officer, Invesque Inc.

Thanks, Scott. It has been a tremendous year so far expanding our platform. In the second quarter, we made an important investment into the medical office space with the acquisition of Mohawk Medical Properties REIT. We closed that portfolio in May, which added 14 buildings comprised of more than 545,000 square feet located throughout Canada and the United States.

One of the many reasons we like the Mohawk investment is it further diversifies our platform by allowing us to enter a completely new asset class. In addition, partnering with the Mohawk team provides the ability to grow that portfolio well into the future.

In July, we closed on the acquisition of an additional medical office building outside Buffalo, New York. That building is over 90 percent occupied and adds approximately 35,000 square feet to the existing portfolio.

Also in May, we entered into an exclusive development agreement with the Ellipsis Real Estate Partners. The Ellipsis partnership provides us preferred access to the acquisition of their existing five projects under development, and access to the entire development pipeline going forward. The first project in Fishers, Indiana just received certificate of occupancy, and the other four projects will come on line over the next 12 to 18 months.

We continue to see development investment opportunities in select markets and expect to capitalize on this partnership and others in the years to come. Our pipeline is robust, consisting of opportunities across the spectrum of health care real estate. We have proven that our platform is capable of adding and consolidating properties in the skilled nursing, senior housing, and the medical office sector. Our partnerships allow us to review and analyze stabilized value-add and ground-up development opportunities.

As Scott mentioned earlier, our existing operating partners have introduced us to an incredible number of investment opportunities. Today, our pipeline is in excess of $1 billion. With such a substantial pool of potential investments, we will continue to remain diligent and disciplined in the execution of our investment strategy. I believe that discipline will allow us to continue to capture value from the larger macro opportunity in front of us and continue to build a highly diversified health care portfolio.

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

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## Q&A

**Operator**

Ladies and gentlemen, we will now conduct a question-and-answer session. If you would like to ask a question at this time, simply press *, followed by the number 1 on your telephone keypad. If your question has been answered or you would like to remove yourself from the queue, you may press the # key. Thank you.

Your first question comes from the line of Troy MacLean with BMO Capital Markets. Please go ahead.

**Troy MacLean** — BMO Capital Markets

Good morning.

**Scott Higgs**

Morning, Troy.

**Troy MacLean**

I know your leverage is at target and you probably wouldn't want to reduce liquidity. But given where the share price is at right now, would you consider even a small buyback program?

**Scott White**

Yes, Troy. To answer the question, we're constantly considering different sources of capital. Is it one of the things we're considering? Absolutely. But as you pointed out, we need to balance the relative opportunity of a share buyback versus what we're seeing in the market. Adlai commented on the size of the pipeline. There is immense opportunity to grow this platform right now. So we as a management team continue to assess what is the highest and best use of our capital, what is the opportunity cost of the capital, and is a share buyback versus leverage, versus the next best opportunity for us where we should be deploying our capital. So it's absolutely something we're considering, but it's not necessarily our highest priority today.

**Troy MacLean**

And then in the past you've talked about SNF cap rates probably haven't moved as much as they could. There could be more downside. Would you look to sell any of your SNF assets to kind of redeploy into some of the development in some of the other asset classes that seem to be the primary focus right now?

**Scott White**

Absolutely. We assess our portfolio on a regular basis. We've been in growth mode for the last two years, so dispositions haven't been our top priority. However, now, as we mentioned in our comments, we feel like we've built the platform, we built the team, we've broadened and diversified what it is that we're doing. We are very carefully going through the portfolio and that's one of the things, we mentioned we added a couple professionals, both Bryan and Adam. They come to us with significant industry expertise. They are helping us go through the portfolio operator by operator, building by building, what makes sense in terms of our long-term strategy. You should expect to see some select redeployment of capital.

**Troy MacLean**

And then with the recent additions to the executive team, is the management team set for the time being? Or are you looking to add anyone else?

**Scott White**

The management team is absolutely set for the time being. We've spent a lot of time putting this team in place. I'm very proud of it. This is the second call that we've talked about it and there's a reason for that. This is a phenomenal team. We've really assembled some people that have a great deal of experience, that fit well with our culture, and round out some of the areas we needed to complement and grow. Now I think the team is in place, we're ready to move forward. It's an interesting and exciting inflection point for us as a company. As you know earlier this year, we changed our name, a couple months ago we moved to a new corporate headquarters, so we're in a brand new corporate headquarters. Later today we're going to be launching a brand new website. Team's in place, the brand's in place, we're ready to roll.

**Troy MacLean**

That's good colour. Thank you. I'll turn it back now.

**Scott White**

Thanks so much, Troy.

**Operator**

Your next question comes from the line of Chris Couprie with CIBC. Please go ahead.

**Chris Couprie** — CIBC

Morning, guys. More of a macro question.

**Scott White**

Good.

**Chris Couprie**

Can you help us understand what you think the impact of the transition to PDPM could be for your operators? Do you have a sense for how much of your SNF operators rely on therapy versus other sources of mix? And just, I guess, what's the long-term impact of this on margins, do you think, for your operators?

**Scott White**

That's a great question, Chris. For those following the industry, there have been a fair number of headlines over the last few weeks about new payment models and a change in the broad macro. Here's what I could say. It's too early to really understand the full implications. It's important to understand that it is a budget-neutral change. In other words, there are no more dollars flowing into the space nor fewer dollars—or I should say dollars being removed from the space.

So what does that really mean when you boil it all down? What it means is that there'll be winners and losers, because it's the same pie being split. There'll be winners and losers. What we have said historically and still stand very strongly behind is two things. One, remember this only is relevant for our skilled portfolio. I emphasized in the comments earlier and I've met with a lot of you and emphasized in the past the magic here, the special sauce. What we're trying to do is build a highly diversified portfolio across lots of different types of medical real estate. So this impact is on skilled nursing only. No impact on our senior housing portfolio, no impact on our medical office building portfolio, and no impact on other types of sectors that we may be exploring.

Now let me drive down more specifically, Chris, and respond to, okay, so we realized it's budget-neutral and we realized it only impacts SNF. How will it impact your SNF operators? We don't know. It's way too early to understand what it's going to mean for anybody in the industry. We have been very proud of and historically said that we love the operators we're partnered with and we're very choosy about the operators that we want to be partners with. And we focus on two key attributes when we select operating partners. One, we generally—not exclusively—but generally focus on partners that have a track record in the industry. This is a tough, complicated business. We are not in the business generally of putting operating partners in business.

And the reason I emphasize that is because this is not the first change or the last change in this paradigm. In fact, the only thing that is consistent in skilled nursing is inconsistency. And we did this call two years ago and we talked about a different change. And this management team was involved in another public company a few years ago with a similar strategy, and we talked about the advent of Obamacare. So a lot of you should realize that this theme is a common theme. So as long as we partner with the right operating partners—and again, now circling back to who they are—those that have experience seeing change, adapting their model to work with the new paradigm, those are the ones that are going to succeed.

The second key attribute—and I want to circle back to this—is we focus on operators that have a certain level of sophistication. This business is complicated. No question about it, and it gets more complicated every day. I think the losers in this are going to be the generally smaller, less-sophisticated operators of which those are not the types of operators we partner with. So I am optimistic, as I always am, that this is going to be a win for us, but it's just too early to know.

On a related note—and it's not directly answering your question with regards to the PDPM change—but you should also note I think as a general proposition that on an annual basis CMS comes out with new rates for reimbursement around Medicare, and that came out recently. Surprisingly, I think it's seen fewer headlines. I think people only focus on it when they are down or very small increases. There's a fairly sizeable increase this year on a relative basis. Starting October 1st of 2018, the market basket index, which helps with pricing Medicare reimbursement, has increased almost 2.5 percent. That's a healthy increase for our skilled nursing operators.

**Chris Couprie**

Okay. Great. And maybe just on EBITDAR coverage. Are you able to break out the coverage for the SNFs versus the seniors housing? Or in your reported numbers, is it really just—is it ex the Care IT seniors housing? And just in general, at what EBITDAR coverage does an Operator start asking you for help?

**Scott Higgs**

That's a good question. To answer your first one, the coverage that we report are on an aggregated basis. And I think as we continue to grow and enhance the portfolio, you'll see us break out some different metrics, including this one. But for the time being, that's where we're at.

And in terms of coverage, if you think about where we're at, a couple of comments there. One, we talked a bit about it before, and why we disclose the EBITDAR and EBITDARM coverage is generally speaking, EBITDARM, which is before the management fee. The management fee is generally getting paid to a similar company or affiliated company of the operator, so that metric represents their aggregated margin if you will before paying those costs. And where we're at today, I think at 1–5 to 1–7 on a trailing-three basis, that's a very comfortable margin on the aggregate.

**Chris Couprie**

Okay. So at what level does it start to—for the operator, does it start to be a challenge?

**Scott White**

Yeah. I think it's hard to put a specific number on that. I think it varies, one, by the operator; and two, by the type of property, the location. And let me flush that out a little bit more. A number of our operators have broader businesses. So while we are their capital partner of choice on certain buildings, we're not their capital partner of choice on their entire portfolio. They have management companies and other ancillary businesses that work with their portfolios. So the NOI or the cash flows coming off of just the buildings are part of the equation, not the entire equation.

So, yeah, the obvious question is well, if you dip below 1–0 or something like that, does it still make sense for the operator? I'll tell you in certain circumstances, given the broader platform that some of our operators have, it actually does. And that's why it's very hard to say well, at this number, that's where it's a problem.

I will tell you as a management team, we very carefully monitor every operator. It's one of the things that—I answered the question before about the management team, and part of the reason we brought on Adam Zeiger is he now is fully responsible every day to make sure he and his team are monitoring the performance of our operators. Have we done that historically? Absolutely. However, we've grown very quickly and it's very hard for myself and our CFO and our CIO to sort of part-time monitor that. That is Adam's full-time job, so now we have somewhat real-time updates on okay, what's going on in each of our buildings, what trends are we seeing. And we reach out to our operators. There's no doubt about it. We have regular dialogues with our operators and we identify where we see issues. We understand what those issues are—are they short-term issues, are they long-term macro issues—and how can we be a helpful partner. There will be circumstances where we can be a helpful partner, and we are proud to do that.

**Chris Couprie**

Okay. So just as it stands then today as you look at it, all your operators are—because you said it's an aggregate number—but it's safe to say that if we look at all your operators, you're comfortable with the coverage for each of them?

**Scott White**

No, actually it's not. There are certain buildings that we monitor, for example, that are being taken offline to CapEx, and those coverages dip for a reason. There are certain buildings where in this past cold winter flu season, where we saw dips in those buildings for short periods of time, where they raised flags for us. So I don't think it would be accurate to say across our entire portfolio, every building in there and every operator is covering at a level we're comfortable with. I think what would be accurate to say is we know where they all are, we're talking to all of them, we know where there are things that need to be fixed, and it's a focus of ours.

**Chris Couprie**

Okay. Thanks, guys. Turn it back.

**Scott White**

Thanks from us.

**Operator**

Your next question comes from the line of Mark Rothschild with Canaccord. Please go ahead.

**Mark Rothschild** — Canaccord Genuity

Thanks, and good morning, guys.

**Scott Higgs**

Hey, Mark.

**Mark Rothschild**

In regards to Mohawk, how big do you think this portfolio can grow of medical office buildings? And down the road, how much exposure to the US do you expect this portfolio to have? Or do you expect it to be more of a Canadian-focused investment?

**Scott Higgs**

That's a good question. So first of all, with the platform itself, we believe that it has substantial opportunity to grow I mean, two, three, four times where it is today with the existing platform. So we're continuing to look at opportunities to get that up to—once again we've talked about a third, a third, a third, and we are not managing to those buckets. But we absolutely believe medical, office, and other, what we call strategic health care bucket, has huge runway in front of us.

In terms of the medical office buildings themselves, there is going to be opportunities in Canada. We're actively looking at some right now. We're seeing a lot in the US as well. So I would think on the initial acquisition, it was more heavily weighted towards Canada. I think you're going to see more opportunities in the US over the short and medium term.

**Mark Rothschild**

Okay. Great. And then maybe with—just my other question with the mezzanine loan portfolio. I see you've made some changes in the way you classify some of the loans as far as the security. Are there any issues there? Or anything that we should be aware of to keep in mind?

**Adlai Chester**

So we've done the mezz investment for quite some time, even if you go back to the first public company we were involved in. I really like the mezz. And the reason I like mezz loans is that it puts us in a preferred position in development opportunities and it allows us to acquire Class A buildings. So with the existing mezz loans, we believe that the entire portfolio has adequate collateral to repay those mezz loans.

With that said, we have a couple that we saw some—what I would say the enhanced risk from when we initially underwrote them, that we along with the accounting team decided to do a small write-down on those just to be on the conservative side. And specifically, it relates to some assets in Arizona where we have mezz loans where the operator that was going to operate those buildings for the developer is no longer there, so they need to replace that operator and find a new tenant. And as such, we went ahead and took a small write-down. But once again, we feel very comfortable that the collateral is sufficient to repay us.

**Mark Rothschild**

Okay. Great. Thanks so much.

**Operator**

Your next question comes from the line of Stephane Boire with Echelon Wealth Partners. Please go ahead.

**Stephane Boire** — Echelon Wealth Partners

Hi, good morning. So I just had a few quick questions regarding—from a modelling perspective, I guess. So in terms of G&A, should we expect Q2 to be a good run rate in dollar amount? And same question for the income from joint ventures, taking into account Ellipsis?

**Scott Higgs**

Well, so the first question on the G&A basis, yeah, I think it's a pretty good run rate, especially as you look at it on a percentage of total assets basis. But I think as Scott mentioned, as we talked about, we've got—and we talked about it before, the platform is stabilized and we believe we can grow with the existing platform without significantly increasing the G&A cost of it.

So the other question, on the income from joint ventures, so I think it's a pretty fair run rate from a modelling perspective of the existing portfolio stuff. I think that obviously does not include any of the Ellipsis or any other acquisitions that we may have coming down the pipeline. So those would be kind of incremental to that, if we do choose to acquire them.

**Scott White**

If I could just—I want to go back to the G&A question because it's really important. It's something that we're really proud of. We've said since day one, this is a highly scalable platform. I feel like today, we can stand here and definitively demonstrate it's a highly scalable platform. Our

G&A as a percentage of our assets really has come down considerably. We have not added a whole lot of G&A.

And as I said, two years ago, we owned 23 properties. Today we own 104, and the G&A isn't meaningfully different. Not only is it highly scalable, but we're very careful about managing our G&A. And if you run comps on us relative to a lot of our industry competitors, you'll see that we've done a very nice job at maintaining a efficient machine.

**Stephane Boire**

Right. Okay. Thank you. Okay. And I guess regarding the recent acquisitions, are there any onetimes or nonrecurring items that we should be aware of related to the integration of those acquisitions?

**Scott Higgs**

No. Not specific to the integration. I mean, I think you saw the transaction costs come through in the first six months for Care IT. I mean those are obviously onetime nonrecurring. But in terms of specific integration-related, nothing significant.

**Stephane Boire**

Okay. Perfect. And regarding the direct property operating expense related to Mohawk, is it fair to expect approximately 1.1 million to 1.2 million per quarter, given that Q2 had 700,000 for two months, including Williamsville?

**Scott Higgs**

I think that's approximately right, Steph. I mean, that will ebb and flow a bit with occupancy. As the occupancy ebbs and flows, there'll be some more or some less. And as we add properties to it. I mean, that will obviously have a direct impact. The other thing I would say on the direct property cost is just keep in mind that we're also recovering on balance the occupancy percentage in the portfolio, recovering that, the ACAM revenue. So the net expense is pretty light, so you'd have to factor those two together when you're really modelling.

**Stephane Boire**

Okay. Great. And the final one. In previous calls and earlier also, you talked about the partnership with Ellipsis and Mainstreet and Dia, the loans that you have and also the respective pipelines with the two partners. I was wondering if you could provide first an update on these two, and how can the current stock price affect your acquisition strategy in this regard?

**Scott White**

All right. So let's start with the pipeline around development. First of all, let me broaden it to say that we're not wed to any particular developer or developers. One of the things that hopefully you've heard us say in prior calls is we do have a clear strategic goal of broadening our development relationships, and I think you can count on seeing more of those relationships coming forward.

The pipeline's robust. I mean Ellipsis is our newest relationship, and there are five identified by address under construction properties that we have purchase options on, as well as a robust pipeline behind that. The issue, the question, which was one of the very first questions we got, and I think you just highlighted it, is okay, great, it's a great pipeline, how are you going to grow it given the current stock price. And the answer is I don't have a great answer. This management team has demonstrated over the last two years that we've had limited access to capital, yet we've creatively grown in a number of ways. We've now been quiet this quarter by only acquiring one property, and that's only about 75, 90 days after the last big acquisition.

So I would say that there isn't a clear or great answer to well, what are you going to do given the current stock price and how are you going to continue to execute on your acquisition strategy. All I would say is look at what we've done over the last two years and don't count us out, I think we've got some more things coming.

**Stephane Boire**

Right. Okay. Perfect. Thank you for the information.

**Scott White**

Thanks so much.

**Operator**

Your next question comes from the line of Chris Couprie with CIBC. Please go ahead.

**Chris Couprie**

Hi, guys, just a couple quick follow-ups, again modelling. Keepsake, is that still on track for Q4? And are you required to buy that? Or is it—do you have an option to buy it?

And then question two is just on the debt maturities for the balance of this year. What's the outlook there?

**Scott Higgs**

So on Keepsake, the first question, yeah, still on track to close in Q4. And yes, it is a contractual commitment. We're fully under contract for that. We're just going through the process of finalizing everything there. So Q4, you can expect that.

With respect to the debt maturities, we're actively looking to refinance or extend. So I think from a modelling perspective, Chris, I think using the existing leverage point and rate is a fair way to go.

**Chris Couprie**

Thanks a lot.

**Scott White**

Sure.

**Operator**

And we have no further questions in the telephone queue at this time.

I would like to thank everyone for attending today. This will conclude today's call and you may now disconnect.

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