

**Invesque Inc.**

**First Quarter 2021 Earnings Conference Call**

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## **CORPORATE PARTICIPANTS**

**Scott Higgs**

*Invesque Inc. — Chief Financial Officer*

**Scott White**

*Invesque Inc. — Chairman and Chief Executive Officer*

**Adlai Chester**

*Invesque Inc. — Chief Investment Officer*

## **CONFERENCE CALL PARTICIPANTS**

**Jenny Ma**

*BMO Capital Markets — Analyst*

## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Welcome to Invesque's first quarter 2021 earnings conference call. At this time, all participants are in a listen-only mode.

After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press \*, then 1 on your telephone.

Please be advised that today's conference is being recorded.

If you require any further assistance, please press \*, then 0.

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

**Scott Higgs** — Chief Financial Officer, Invesque Inc.

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

Scott will get us started with an industry update on COVID-19 and progress with vaccinations within our portfolio, as well as an update on our new framework with Symphony.

I'll then cover our first quarter financial results, and Adlai will provide details of some of our strategic transaction activity and portfolio management initiatives before opening the line for Q&A.

The first quarter 2021 earnings release, financial statements, and MD&A are available on our website, and a replay of this call will be available from 12:45 p.m. Eastern Time today until 11:59 p.m. Eastern Time on May 20th.

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 first quarter 2021 earnings call.

As we discussed on our call in March, the last year was an extremely challenging year for our industry and for our company. Our operators navigated one of the most challenging operating times we have ever seen, and I'm happy to say that we're starting to see some positive momentum within the portfolio over the last 45 days.

I'd like to quickly acknowledge once again the frontline health care workers and all of our operating partners who have played a critical role in our communities and continue to serve the residents and families that call our communities home. We would not have weathered the storm of the last year without you all.

The Invesque team has been hard at work over the last couple of months executing on a mix of strategic initiatives as part of our ongoing portfolio management efforts. As previously disclosed in late 2020, we executed a nonbinding MOU with a new framework for our relationship with Symphony. I am thrilled to announce that we have successfully closed on the first phase of a series of transactions underlying some of our facilities previously operated by Symphony. On April 30th, we transitioned four skilled-nursing facilities previously leased to Symphony to Cascade Capital Group.

We also sold one property in Chesterton, Indiana to Symphony for \$20 million, netting Invesque approximately \$5.5 million in cash proceeds. The Chesterton property was operated under a stand-alone

lease between Invesque and Symphony, which was absolved upon closing of the sale. But our work is not done yet. As part of the final phases of the new framework with Symphony, we have executed a purchase and sale agreement to sell up to four additional facilities currently operated by Symphony back to Symphony in the coming months.

We are also finalizing an amended and restated 15-year master lease for the remaining properties with Symphony and restructuring the outstanding loan agreements. This was a very important step in our portfolio-management initiative and will reduce our exposure to Symphony by over 50 percent when all is said and done, from approximately 25 percent of NOI to approximately 11 percent of pro forma NOI. Symphony has been a key strategic partner to Invesque since our IPO almost five years ago, and we believe this new framework will set both Invesque and Symphony up for long-term success.

I'm also excited to welcome the Cascade team to the Invesque family. They're a world-class group of professionals who are well respected in the industry and we expect to grow with them in the future.

Adlai will touch on the specifics of these transactions and a couple of other important transactions that we have in the works later in the call.

Turning to COVID-19 and its continued impact on our properties. We are happy to report that the positivity rates within our portfolio have declined dramatically over the last 45 days as our communities successfully deployed the COVID-19 vaccine during and subsequent to the first quarter. Almost all of our facilities in the United States have now cycled through multiple phases of vaccine.

As of May 7th, there are only five positive COVID cases within our portfolio of almost 11,000 beds. The current rate of incidence in our portfolio is a fraction of the peak activity observed in mid-May

2020 and has remained at this consistently low level since the last week of March 2021. This is truly remarkable given that at the peak we had more than 700 cases in our portfolio.

While the first quarter presented many challenges for operators and the general fundamentals within the industry, I'm happy to report that many of our partners have seen a significant increase in enquiries, tours, and move-ins over the last two months. We and our strategic operating partners are cautiously optimistic that this trend will continue.

Many families that were cautious about moving their loved ones into senior living communities during the pandemic are moving forward with those plans now that visitation restrictions have been lifted, and most residents within the communities are fully vaccinated.

Our subsidiary management company, Commonwealth Senior Living, saw the highest number of long-term move-ins in their 20-year history in the month of March. This trend has continued as Commonwealth has seen an increase in census every week through April. In fact, ending occupancy in April was up 80 basis points from March and 130 basis points from the February trough. We believe this is indicative of the strong market demand for the health care real estate asset class, and the positive long-term viability of the communities that we own.

Before I turn the call over to Scott, I want to take a moment to highlight Invesque being named as one of the best places to work in Indiana by the Indiana Chamber of Commerce and the Best Companies Group for the second consecutive year. Our company culture and the team we have built continues to be something I'm extremely proud of, and I'm very much looking forward to celebrating with the team in person soon.

I'm equally excited to announce that our subsidiary management company, Commonwealth Senior Living, was certified as a great place to work by the Great Place to Work Institute for the third year

in a row. Earl and his team have built a world-class culture that aligns with the values of Invesque and, given the challenging environment of last year, this is a recognition that truly deserves praise and accolade.

Thank you to our frontline workers. Once again, you are true heroes.

With that, I'll pass it to Scott.

### **Scott Higgs**

Thank you, Scott. For the quarter ending March 31st, FFO was \$0.09 per share and AFFO was \$0.10 per share.

I want to take a quick moment to comment on our results. Given some of the moving pieces through the end of 2020 and the first quarter of 2021, we expect the first quarter to be the trough and further expect earnings to ramp up through the balance of 2021 and normalize in 2022 back to near 2020 levels.

Relative to Q4 2020, the reduction in AFFO per share is primarily attributable to a reduction in NOI with our Commonwealth platform assets of approximately \$0.04 per share and a reduction in Symphony-related AFFO of approximately \$0.03 per share.

As Scott mentioned, the Commonwealth assets have already begun to rebound in the second quarter, and we are confident in the team. Further, we believe that we have created a structure with Symphony and Cascade to help set each of the three parties up for success going forward. Again, we expect that for fiscal 2022, results will return to full 2020 levels, while deleveraging the balance sheet significantly.

Our finance team was busy again in the first quarter, executing on two transactions to address near-term maturities and take advantage of the favourable interest rate environment. We refinanced the

\$17.3 million mortgage underlying the Commonwealth Senior Living at Charlottesville property at a fixed interest rate of 2.96 percent and extended the approximately \$8.5 million mortgage underlying one of our Autumnwood properties at a fixed interest rate of 2.17 percent.

The Charlottesville refinance results in approximately \$300,000 in annual cash and finance cost savings. Upon closing both loans, we have less than 7 percent of our total debt maturing over the next 12 months and approximately 11 percent of our total debt rolling over the next 24 months.

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

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

Thanks, Scott. As expected, we saw a decline in the performance of our stabilized portfolio as of December 31st, due to the continued impacts of COVID-19. On a trailing 12-month basis, our portfolio-wide EBITDAR and EBITDARM coverage ratios were 1.1 times and 1.3 times, respectively.

Our operating partners saw a decline in occupancy in the fourth quarter and early part of 2021, as many states were seeing significant increases in COVID-19 positivity rates. As of December 31st, our trailing 12-month occupancy for the stabilized triple-net assets and stabilized SHOP was 77 percent and 83 percent, respectively, while our medical office portfolio stabilized occupancy declined to 85 percent.

As a point of reference, the trailing 12-month occupancy for the stabilized triple-net assets and stabilized SHOP assets as of December 31, 2019, was 86 percent and 87 percent, respectively.

Comparing 2020 to 2019, occupancy declined 890 basis points for our stabilized triple-net portfolio and 400 basis points for our stabilized SHOP portfolio.

As Scott touched on earlier in the call, we are cautiously optimistic that this decelerating trend from an occupancy standpoint is stabilizing and beginning to reverse, given what we have witnessed in our Commonwealth portfolio and recent data we have seen from our peers. As a reminder, our ownership

structure of Commonwealth gives us a very unique lens into real-time movements and trends, and the record movements we saw during March and April give us confidence that the industry as a whole may have hit bottom from an occupancy standpoint.

Turning to the Symphony transactions that we shared in our press release and that Scott touched on earlier in the call. Invesque and Symphony executed a nonbinding MOU in the fourth quarter of last year. At the time of the MOU's execution, Symphony represented almost 25 percent of Invesque's NOI, and it had been a long-standing goal to diversify this exposure. The Symphony relationship is one that has been an important piece of Invesque's evolution, as a portion of the portfolio was the seed portfolio that we acquired when Invesque was formed over five years ago.

To diversify our exposure as a company and set up both Invesque and Symphony for long-term success, we are happy to have executed on the first tranche of our new framework with Symphony. The sale of the Chesterton assets to Symphony for \$20 million and an attractive pricing on a per bed basis netted us over \$5.5 million of cash proceeds, which we immediately utilized to pay down our line of credit with KeyBank.

KeyBank is a critical lender to Invesque, and they have worked very closely with us to provide us flexibility as we work through this series of complex transactions with Symphony. We are grateful to have KeyBank and the full syndicate of preferred lending partners.

Simultaneous with the sale of Chesterton, we transitioned operations of four skilled-nursing facilities to Cascade Capital Group. Cascade is a privately held health care real estate investment and management company focused on skilled nursing, rehabilitation, and post-acute care services throughout the Midwest with a significant presence in the Chicago area.

The Cascade management team has a long-standing history of successfully managing skilled-nursing facilities and we are pleased to add them to our roster of operating partners.

The new lease with Cascade for these four properties features a 10-year absolute triple-net lease with two five-year extension options. Rent for the portfolio will increase from \$3.4 million in the initial year to \$5.5 million in year three and then by 2 percent thereafter. We received multiple offers to lease these properties, and the structure with Cascade was the most attractive of the offers received. The lease also features an option for Cascade to purchase the facilities at a predetermined price in the fifth year. We are looking forward to a long and fruitful relationship with Cascade.

As Scott noted earlier, we are diligently working on the final phase of the Symphony MOU. We expect to sell up to four additional facilities back to Symphony in the coming months and execute an amended and restated master lease for the remaining properties that Symphony will continue to lease from Invesque. Additionally, Symphony has paid May rent in accordance with this updated master lease in conjunction with the terms of the MOU.

We also expect to resolve and restructure the outstanding loan agreements between Invesque and Symphony as part of this final phase of the transaction. We currently anticipate closing on all these final phases over the coming months and will provide additional colour at that time, including the financial impact to Invesque's earnings and pro forma leverage.

Moving past Symphony, I am pleased to share that we are working on the sale of our ownership interest in four assets to Inspirit Senior Living at attractive pricing above our original basis. We have executed a purchase agreement to sell these four communities currently operated by Inspirit to them for approximately \$35.5 million. This disposition is expected to close during the second quarter and is

anticipated to net \$15 million of net cash to Invesque, which we will use to further delever our balance sheet.

This transaction is a win-win for both Inspirit and Invesque as Inspirit has been actively growing their wholly owned community portfolio and the pricing provides favourable economics and excess liquidity for Invesque.

As many of our peers have mentioned on their calls over the last few weeks, we are seeing an increase in transaction activity in the market as things begin to rebound from COVID-19. As has been our strategy, we will continue to be diligent about managing our portfolio, and we are hopeful that we can expand some of our existing operator relationships. We also continue to watch transaction activity very carefully and will continue to divest assets that we view as noncore, or where we can achieve favourable pricing as the acquisition market continues to fall over the coming months.

With that, I would like to thank everyone for joining the call and, Operator, please open the line for questions.

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## Q&A

### Operator

Certainly. As a reminder, at this time if you would like to ask a question, please press \*, then the number 1 on your telephone keypad. Once again, to ask a question, that is \*, then the number 1 on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Once again, if you would like to ask a question, please press \*, then the number 1 on your telephone keypad.

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

**Jenny Ma** — BMO Capital Markets

Thanks, and good morning.

**Scott White**

Good morning, Jenny.

**Jenny Ma**

Congratulations on executing the first phase of the MOU. I'm just wondering with the Cascade transaction, have you guys gone through all the opportunities you have with them? I guess in other words, do you expect to have any other opportunities with these guys? Or have you gone through the whole portfolio? Or did you discuss with them only in the context of the first batch of properties?

**Scott White**

That's a great question, Jenny. So one of the things that I think Adlai mentioned in his remarks is we do expect the opportunity to potentially grow with Cascade.

Strategically, since we started the Company, we've always said that we want to have a finite number of operators that we can have long-term growth opportunities with, and Cascade is certainly one of those. I would expect over time that we could grow that relationship.

**Jenny Ma**

Okay. And then with regards to the bad debt expense that was taken this quarter specific to Symphony, that \$1.4 million, does that capture everything involved in the MOU? Or again with respect to the first phase? So should we expect any more coming out of that going forward? And I guess that same question with regards to the adjustment on the credit as well?

**Scott White**

Higgs, do you want to take that one?

**Scott Higgs**

Hey. Yeah. Sure. So hey, Jenny. I think, as Adlai mentioned, first of all, we're going to come out and give some more kind of intelligence about the transaction once it closes. But in terms of the bad debt, I think from a—it more aligns with the MOU, so to get down to where that run rate is going to be. So I think that that's a fair way to think about it.

**Jenny Ma**

Okay.

**Scott Higgs**

And same on the credit with the loan. Sorry. Sorry. Same on the credit with the loans. It's more so it's line up—what happened in Q1—

**Jenny Ma**

Mm-hmm.

**Scott Higgs**

—aligns with where the transaction is going with respect to those loans and where we're going to end up there.

**Jenny Ma**

So sorry, just to be clear. Are you saying that it captures just the first phase of the MOU? Or the entirety of the MOU?

**Scott Higgs**

It captures the activity in Q1 relative to the full MOU.

**Jenny Ma**

Okay. So that would have been pre-closing. So I would expect there to be some more moving parts for Q2.

**Scott Higgs**

Correct.

**Jenny Ma**

Okay. Great. And then maybe could you—you know what? I will turn it back for now.

**Scott White**

Thanks, Jenny.

**Jenny Ma**

Thanks.

**Operator**

There are no further questions. At this time, I would like to thank everybody for joining the Invesque Incorporated's First Quarter 2021 Results Conference Call. You may now disconnect.