Invesque Inc.

First Quarter 2019 Earnings Conference Call

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Chris Couprie
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Tal Woolley
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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Invesque Inc.'s first quarter 2019 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, Lindsey. 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, colour around our portfolio, and some overall industry news and trends. I will then cover our first quarter 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 first quarter 2019 earnings release, financial statements, and MD&A are available on our website, and a replay of this call will be available from 1:00 p.m. today until midnight on May 22.

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 earnings call.

As we come off a banner year of asset growth in 2018, our year-to-date activities highlight our commitment to expanding our relationships with some of our key operators. Year to date, we have announced over $90 million of acquisitions with existing operating partners.

We closed on the previously announced transaction of three assets currently operated by Symphony for $52 million. The purchase was funded with a mix of cash and $5 million of Invesque stock issued at $9 per share to the sellers. At closing, we consolidated our individually leased properties into a cross-collateralized 15-year master lease. The amended lease features fair-market value rent resets in 2025 and 2030.

In addition, we structured the transaction to receive warrants for a 9.8 percent stake in the Symphony operating company. Participating in the long-term upside of our operators through economic alignment provides another avenue for value creation for our shareholders. Symphony is one of our important partners, and we remain committed to maximizing the value of our properties and ensuring the credit underlying our lease is strong and sustainable. They have demonstrated the ability to successfully navigate changes in the skilled nursing industry, and we believe they are well positioned to succeed in our portfolio.

Further to our commitment of expanding with our key partners, we completed our previously announced acquisition of the Allen, Texas memory care community leased to Constant Care in January. Subsequent to the end of the quarter, we entered into a definitive agreement with Ellipsis to acquire three brand-new Class-A memory care assets leased to Constant Care. With these four acquisitions, we have grown our portfolio with Constant Care from three assets at the end of 2018 to seven assets after we close on this new portfolio.

Our pipeline of growth opportunities continues to be very significant, particularly in the private pay space. One important area of growth for Invesque will be through development projects with Ellipsis. Constant Care and Ellipsis are important partners for us, and we plan to continue to grow our relationships with both of them. Adlai will expand on this further a little later in the call.

One of our areas of focus for the balance of 2019 will be asset managing our existing portfolio. We will carefully monitor and possibly reposition parts of our portfolio through operator transitions to maximize performance. This will allow us to grow with our preferred operating partners and also explore opportunities with new best-in-class operators.

In addition, we will continue to opportunistically divest assets at attractive price points for our shareholders. We will redeploy proceeds into assets that better fit our long-term strategy of building our forever portfolio across the health care spectrum. The Magnetar joint venture we expect to enter into is an example of this capital recycling effort that Adlai will further discuss.

Let me comment on some industry themes. Excess development and the related supply in senior housing has been a headwind for the sector over the last few years. However, we have observed a recent drop-off in new construction starts. This support our view that inventory growth will decline in 2020. We believe the excess supply dynamic in seniors housing represents a tale of two cities. Supply continues to be heavily weighted to the top ten MSAs, with almost 40 percent of new senior housing units under construction in these top ten MSAs.

Our focus on regional markets has allowed us to avoid some of the oversupply issues facing the sector. By focusing on smaller and midsize markets, we continue to source sizable, high-quality opportunities that are substantially less challenged than the industry as a whole. With that said, we do not believe the headwinds for the sector are completely in the rearview mirror. We'll continue to be

diligent and very selective as we execute on our growth strategy in private pay senior housing, with a particular focus on partnering with regional market leaders.

On the skilled nursing front, we believe our portfolio of post-acute focused SNFs are poised to success under the evolving payment paradigm. The Centers for Medicare and Medicaid Services recently issued proposals for the rate year beginning October 1, 2019, that would update the Medicare payment rates and quality programs for SNFs. CMS estimates an increase of approximately $887 million, or approximately 2.5 percent in payments to SNFs. This should serve as the first step for improving the operating environment for SNF operators.

Also, as we noted last quarter, we believe the implementation of the new case-mix model, PDPM, has the potential to improve margins and drive profitability for sophisticated skilled nursing operators, including the operators in our portfolio.

With that said, SNF headwinds have included lower per diem reimbursement, shorter lengths of stay, and escalating operating costs due to wage inflation. Wage costs, which remains near cycle highs, has been a significant driver of operating margin deterioration for skilled nursing operators over the last few years. We continue to actively monitor performance of our portfolio to make sure we're proactive in our partnerships.

Let me quickly touch on our medical office building portfolio. Our focus on multi-tenant, off-campus MOBs is a key differentiator for Invesque. There continues to be a large spread in cap rates between on-campus single tenant and off-campus multi-tenant medical office product. We really like the risk-adjusted returns we expect to generate on assets we target. We have observed health care systems and providers focusing their efforts on gaining market share by positioning away from the on-campus and

into high-growth secondary markets. We remain excited about growing our niche strategy in the medical office space through our partnership with Mohawk.

I'm excited about what we've accomplished thus far. I'm even more excited about our robust pipeline and the opportunities we're seeing. We're on track for continued growth in 2019.

With that said, I'll pass it to Scott Higgs to talk about our Q1 2019 performance.

Scott Higgs

Thank you, Scott. For the quarter ending March 31st, FFO was $0.24 per share and AFFO was $0.21 per share. Due to a significant increase in the DRIP program participation we have seen in the first quarter of 2019, our effective dividend cash payout ratio was down to roughly 72 percent.

On the debt front, our average debt maturity now stands at approximately 4.7 years as of the end of the quarter, with only 14 percent of our debt rolling over the next three years. We are actively exploring opportunities to refinance debt to further stagger our maturities, given the attractive market pricing. We anticipate that we will continue to refresh our debt stacks strategically to enhance the profile for both Invesque and our partners. This will continue to strengthen our platform over the long term.

Having just recast our credit facility to a new upside and unsecured $400 million facility at the end of 2018, we continue to look up and down our capital structure to create value for our shareholders. We believe that various corporate securities within our capital structure trade at significant discount to their intrinsic value. On that note, we put into place a buyback plan to repurchase the convertible debentures due in 2022 and 2023 respectively.

The NCIB for the convertible debentures is in addition to our current stock buyback plan, which we are actively using, and adds another tool for our belt for value creation. We will closely monitor market

conditions and opportunistically repurchase stock into convertible debentures when we believe that it is the best investment opportunity for our shareholders.

With that, I will 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 portfolio remains consistent with previous quarters.

On a trailing 12-month basis, as of December 31st, our EBITDAR and EBITDARM coverage ratios were 1.2 times and 1.5 times, respectively. Our trailing 12-month occupancy as of December 31st stood at 85 percent for our triple-net assets and 89 percent for our stabilized JV assets. For the MOB portfolio, stabilized occupancy sit at 92 percent as of December 31st.

As Scott noted earlier, our activity noted year to date showcases our relationship-driven approach to investing. We have entered into a definitive agreement to purchase from Ellipsis three brand-new Class A memory care facilities leased to Constant Care.

As a testament to our alignment, Ellipsis and Constant Care have agreed to take back consideration in the form of repayment of the mezzanine loan and Invesque common shares at a price of $9 per share.

We formed our partnership with Ellipsis a little over a year ago, and we cannot be happier with the outcomes to date. The partnership provides us exclusive access to a right of first offer to invest in all of their senior housing and medical office development projects. We also have the right to purchase these properties upon completion.

The Ellipsis management team brings decades of experience developing health care real estate assets, as well as strong relationships with senior housing operators such as Constant Care. Partnering

with Ellipsis is a great way to grow and capitalize on our development platform, and you should expect to see us continue to focus on development opportunities with them.

Moving on, we announced this morning that we expect to enter into a definitive agreement to form a joint venture with Magnetar in May of this year. We will contribute nine properties to the venture, which includes four properties leased to Bridgemoor and five properties leased to Ensign. We will manage the operations of the joint venture in exchange for an asset management fee equal to 25 basis points of gross book value.

Magnetar will acquire a 35 percent interest in the venture in exchange for a cash payment of $23 million to Invesque. The proceeds from the transaction will be used to fund future acquisitions. As a part of the joint venture transaction, we will provide a working capital loan of up to $10 million to Bridgemoor. Bridgemoor was formed in 2017 and operates the four communities in Texas that we are contributing to the joint venture.

The working capital loan will provide them the financial flexibility to continue to ramp up their operations. We will receive warrants for a 9.8 percent interest in Bridgemoor, which will allow us to participate in the upside of the operating company.

Magnetar's been a very important partner for us since our IPO almost three years ago. The joint venture provides us the opportunity to raise attractively priced capital to continue our growth.

As Scott mentioned at the top of the call, our deal flow continues to be very robust, particularly in the senior housing space. With proceeds from strategic dispositions and favourable debt availability, we now feel confident that this pipeline will result in continued acquisitions and growth in 2019.

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

Q&A

Operator

At this time, if you would like to ask a question, please press *, then the number 1 on your telephone keypad.

Our first question comes from Stephane Boire with Echelon Wealth Partners. Your line is now open.

Stephane Boire — Echelon Wealth Partners

Thank you. Good morning. I was just wondering, can you give us some more details regarding the warrants for the stake in the Symcare operating company? I mean, what are the conditions for you to be able to exercise the warrants? And do they have an expiry date? And more importantly, what would be the impact on your liquidity if you were to exercise those warrants?

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

Hey. This is Bryan. I'll take that one. So with respect to the Symphony warrants, the duration is even-date with our master lease. And the conditions upon which they become effective, it's effectively like a tag-along right. If they were to ever sell the operating company, we get a chance to participate as a 9.8 percent stake.

A couple of important things to consider about it from a liquidity standpoint, the warrant position does not ever obligate us to make any kind of capital contribution, so it's an upside-only feature. And as it relates to what it does from a cash flow perspective, the only impact to our liquidity is if the Company were to ever transact, we get to participate in the benefit.

Stephane Boire

Okay. So there's no capital also when the—if there's a transaction?

Bryan Hickman

When we elect to exercise the warrant rights, the consideration is nominal, call it $10.

Stephane Boire

Okay. Okay. Okay. That's good. And can you give us some details on the loss from joint ventures this quarter? It came in at 3.8 million, which seems to be obviously related to the change in fair value according to the MD&A. But I'm trying to understand the mechanics here and, obviously, from a modelling standpoint, trying to forecast what to expect in future quarters. And if there were any onetime items in there?

Scott Higgs

Yeah. So this is Scott. So you're right on. I mean, the loss is predominantly driven by fair value adjustments. As you know, similar to the investment properties, we go through the same valuation process every quarter with respect to the joint ventures. And this quarter, we were down a little bit, just based on performance in cash flows and projections and so forth.

But in terms of how to predict that going forward in terms of the fair value, as you've seen from quarter to quarter, it moves somewhat based on market conditions and performance. So it's a little bit hard to give you a prediction on that particular element.

Stephane Boire

Okay. That's good. That's it for me, then. I don't have any more questions. Thank you.

Scott White

Thanks, Stephane.

Operator

Our next question comes from Troy MacLean with BMO Capital Markets. Your line is now open.

Troy MacLean — BMO Capital Markets

Thank you. Good morning. Just on the Bridgemoor loan, Adlai, I didn't quite catch your comments at the end. Is the loan because the tenant coverage has declined? Or is this for them to expand?

Adlai Chester

So we acquired these buildings in the last, call it, 12 to 24 months. They're brand-new buildings. They were paying rent before they were able to actually bring residents into the facility, and so it's in ramp-up. They're in stabilization. So we are supporting them through that process. We've seen a lot of positive momentum with them.

But once again, we want to continue to support them. We believe in them. And that's why we obviously structured the warrants as well in that situation.

Troy MacLean

So is the stabilization going about as well as it was predicted like 12 to 24 months ago? Or is it—

Adlai Chester

No, no. I think the first 12 months, I would say because they were delayed in being able to admit residents, it did not hit our expectations. But I would say, based on the re-forecast of where things are, they are in line with what we're expecting. So delayed from where we wanted it to be, but we see the path.

Troy MacLean

And then just the interest rate on the loan, so what is the interest rate on the loan to Bridgemoor? And is it a pay-in-kind? Or is there actually cash interest paid until the term of the loan's over?

Adlai Chester

So it's 5 percent is what they're paying, and then there's a waterfall based on performance of when that gets paid back. So we would expect—obviously, we've modelled it that we would start receiving payment once the building has stabilization.

Troy MacLean

And then just on the Magnetar JV, is there any assumed debt? Or is the $23 million like a good way to look at the value of the 35 percent stake in total?

Adlai Chester

That is with debt in the JV. So that's only the equity portion of that joint venture. So that's—

Troy MacLean

So what would be the total—

Adlai Chester

—to answer your question—I'm sorry. Go ahead.

Troy MacLean

So what would be the total transaction value, then, on Magnetar's stake for the nine properties?

Scott Higgs

About 180 million.

Troy MacLean

And then just, would you say the valuation of the JV properties like on a per-bed basis would be consistent with the rest of the portfolio? Or would be, because it's Ensign, there'd be some more upside and there's some newer properties in there?

Scott Higgs

We believe that the pricing was attractive in terms of the rest of our portfolio. So we achieved a very good valuation on this joint venture.

Troy MacLean

And then, so just on the asset management we talked about potential operator transitions. Would it be fair to say that you'd rather switch operators than cut rent? Or how do you think about that when you're looking at what you want to do and where you want to take the portfolio?

Scott White

Yeah. So I think it's facts and circumstances-based. At a holistic level, we want to grow with operators that we believe we have a long-term future with. There are some operators, as we've gone through and grown as quickly as we have last year, we acquired portfolios where you might have an operator operating one or two buildings; maybe an operator in a building that we don't think is suitable for that building, so in that case we'll look to either potentially sell the building, and we've indicated we're looking to do that, or swap out the operator.

But with all else being equal, when we go into transactions, we acquire buildings and operators we want to be partners with. And generally speaking, for the operators that we fundamentally believe in, i.e. Symphony, we will work with them to keep them in the building because we think they're best suited for that building.

Troy MacLean

And then just finally, pro forma the JV with Magnetar and the memory care acquisitions you're going to make in May, what's the mix of medical assets or NOI that comes from medical office buildings, private pay, or SNF? Do you have that breakdown available?

Scott White

Well, the MOB's about 8 percent. The skilled is probably still about 50-ish percent. And the seniors housing is about 42 percent. Our skilled now is just about 50, but what you could see us starting to do is make sure we're focusing on the mix that we've been talking about since the beginning. As we talked about during the IPO road show and subsequent to that, our ideal portfolio to be approximately a third weighted towards skilled, approximately a third weighted towards seniors housing, and approximately a third weighted toward other strategic inclusive of MOB.

We never have, nor will we manage our portfolio to hit those buckets. However, we do reflect at a holistic level where do we want the portfolio to be. We want it to be more evenly balanced. And what we did with the Magnetar JV and what we've done with Ellipsis, and what I think you might to expect to see from us in the future is to continue to focusing on reducing the overall concentration of skilled in our portfolio to likely below 50 percent in the not too distant future.

Troy MacLean

Okay. That's good colour. I'll turn it back.

Scott White

Thanks so much, Troy.

Scott Higgs

Thanks, Troy.

Operator

Our next question comes from Brad Sturges with IA Securities. Your line is now open.

Brad Sturges — IA Securities

Hi, there.

Scott Higgs

Good morning, Brad.

Adlai Chester

Hi, Brad.

Brad Sturges

So taking into account the acquisition with Ellipsis and the joint venture, if you were to just look at AFFO going forward, is there any guidance on with the two transactions of how we should be thinking about the AFFO impact?

Scott Higgs

Yeah. Brad, I think the result of those two transactions in and of themself will result in a pretty consistent run rate on an AFFO basis, on a blended basis.

Brad Sturges

Okay.

Scott Higgs

Which I think is important from the standpoint we are transitioning from skilled to senior housing. So that just remains the same as a positive movement.

Brad Sturges

Right. With the JV with Magnetar, the asset, I guess the implied purchase price, is that consistent then with your IFRS value for those assets?

Scott Higgs

It is.

Brad Sturges

Yeah. And with Ellipsis, how much stock is being issued to Ellipsis as far as that transaction?

Scott Higgs

Yeah. So I think the great thing about that one, it took about $3.5 million of stock. I think the important concept, though, is they're taking no material cash. So they're paying off lenders, and then they're either applying it to the loan or taking back shares, so no cash going to them just to create more alignment.

Brad Sturges

And are those assets, from an operational point of view, stabilized at this stage?

Scott Higgs

So one, Fishers, which is one of the three buildings, is leasing up very well. I think they're now at 21 residents out of 36. And it's been open for, I think, now about seven or eight months. So it's way ahead of what they anticipated. The other two, we will not be closing on until they are, in fact, opened.

I think the thing that we—why we were attracted to doing this transaction, if you look at the last two buildings that Constant Care has developed and opened, both have hit 100 percent occupancy with waiting lists ahead of projections.

So we feel very good, once again, with Constant Care as an operator, and we're excited to own these buildings.

Brad Sturges

Mm-hmm.

Adlai Chester

I think it's worth highlighting that the buildings will also be consolidated into the Constant Care master lease so that we don't have individually leased fill-up assets.

Brad Sturges

Right. And I guess just maybe last question in terms of dividend policy. Yield is north of 10 at the moment, and you've highlighted a pretty robust pipeline of opportunity on the acquisition side. Any thoughts on the dividend strategy at this stage whether you're comfortable at these levels? Or would it be more prudent to be trying to retain more cash towards growth?

Scott White

Yeah. I think it's a great question, Brad. From a dividend policy standpoint, we intend to keep our dividend policy and our expectation exactly where it is today. We don't intend, as I say, to either cut, nor to grow our dividend. Yes, it is a high-yielding equity, but that's because we fundamentally believe that the equity is substantially undervalued.

While I would love to retain some of that cash and continue to grow, we know a lot of our shareholders have invested in us and believe in us. And we're looking for that dividend, and they are not expecting a dividend cut. So I could tell you where we stand right now, we have no expectation of changing that dividend.

Brad Sturges

And with regards to the DRIP program, no change there as well?

Scott White

In terms of do we intend to eliminate it or anything like that?

Brad Sturges

Yeah. Whether you would suspend or not, given you believe you're highly undervalued at these levels?

Scott White

Yeah. So at the moment, we're going to leave the DRIP program in place. It's certainly something I think we can continue to assess over time. It's one of the tools we can think about as we want to think about our allocation of capital. The other thing is we have our share buyback, which we have to date not spent a lot on. And we do fundamentally believe the shares are undervalued and do think there is a substantial ROI in buying in our shares. However, with limited capital, we need to balance that against the opportunities we have ahead of us.

And as you can see, we're now not quite halfway into the year, in fact, I'd say barely four months into the year, and we've already announced $90 million in transactions.

Historically, you've seen this team, going all the way back to the health lease days, execute on a minimum of 300 million to $400 million per year, and I feel confident that we're going to continue on that run rate. So we do balance the ability to grow and to execute our strategy with things like what you're asking: the dividend, which we have no execution of cutting; the DRIP; and the share buyback.

Brad Sturges

Okay. Great. Thank you.

Scott White

Thanks so much. Take care.

Operator

Our next question comes from Chris Couprie with CIBC. Your line is now open.

Chris Couprie — CIBC

Morning, guys. I wanted to start with the JV. In terms of the initial size, the 180 million, that's at 100 percent basis, is that right?

Scott Higgs

Correct.

Chris Couprie

Okay. How was that size determined? And then how did you guys decide which assets would get put into the JV? And is there an ultimate size that you think this JV could become? And did you have discussions with other parties to structure a JV like this, other than Magnetar?

Scott White

Yeah. So let me start with the last question you asked, and that being will you have discussions with other potential capital sources to joint venture? And the answer is yes.

So as we continue to execute on our strategy—and as I mentioned before and I'll continue to emphasize, we have a very robust pipeline—we need to continue to be strategic and creative in how we access capital. It's nice to have the pipeline. If you can't access the capital to execute on it, it is very challenging.

With that said, as we've just discussed, we believe that our stock is substantially undervalued, and as such, don't intend to issue equity to the market. So we continue to look for creative ways to access capital and joint ventures are one of those ways.

With regards specifically to how we size this and the assets we selected, it was purely negotiations between us and Magnetar. Magnetar has been a great partner of ours. They have supported us a number of times, both through the initial equity and then, as you know, through convertible preferred.

We explained to them how we have a pipeline we want to execute on and looked at various ways to access capital so we can continue to grow and execute on our pipeline. And in a negotiation that

is between us and them, we decided what sizing was right for both us and them. And we decided what asset mix had the right risk-reward profile for them.

You think about why skilled versus seniors housing; why seniors housing versus MOB. As we talk to various capital providers, different capital providers are looking for different risk-return profiles. For us, we're looking for a way to continue to execute on our strategy. As I said before, and I think it's worth emphasizing, we were and, I think, today still are slightly over-allocated to skilled.

We're not afraid of skilled. In fact, don't be surprised if we don't do another skilled deal. With that said, all else being equal, we do want to focus on the balance in our portfolio. So this was an eloquent way of saying, okay, why don't we take some chips off the table at a very reasonable fair but full valuation, take some chips off the table and reallocate some of those dollars from skilled, i.e. the nine assets that are in this portfolio, to seniors housing, i.e. Ellipsis and maybe some other assets.

Chris Couprie

So in terms of the ultimate size of this JV, is this just a one and done with Magnetar?

Scott White

I would say for now the expectation is this is one and done. I wouldn't say that that's definitive, that there's no chance we would grow it, but I think for right now the expectation is there is a certain pool of capital we were looking for and this sort of met that goal.

Chris Couprie

Okay. Then with respect to Bridgemoor, so my understanding is this sale was the old Rapid Recovery portfolio. So Bridgemoor, they are a new operator, I guess, that's assuming the operatorship of these properties. Am I right? And then if so, was there any—did you have to get permission for this to take

place? Was there any kind of change in the lease structure? Any changes at all with Bridgemoor now operating?

Scott White

Yeah. So it is not a new operator. You're right. These are the former Rapid Recovery centres, and it is a name and ownership change with regards to that operator. But it's the same operator that's been in that building from the beginning. It's the same operator that we believed in from the beginning and still do today. Nothing has led us to believe that this operator won't be able to execute. It's an operator that actually has experience operating very similar buildings in these exact markets years ago in a prior life and with a prior company. This was a new operator two or so years ago right before we acquired these assets.

And as Adlai pointed out, and I think it's important, the model has not changed, nor has the projections for those properties changed. What has changed is the timeline of ramp-up. So these were brand-new assets, and brand-new assets are a double-edged sword. On the one hand, you have assets that are in lease-up. On the other hand, I believe, and I'm going to emphasize believe because I'm not 100 percent certain, but I believe we have by far the youngest portfolio in the industry.

How do you get that? You get that by acquiring new assets that then have to go through lease-up. So what we've struggled with a little bit here and in other assets is, they just take longer to lease up. Why is that? Well, on these specific assets, it had delays around licensure and registration with the various entity that they need to register, and that set them behind a few months. They were paying full rent through that time, and when you're paying full rent on empty buildings for a few months, all of a sudden you turn around and you realize, well, our pro forma still works, but we're a few months behind. How do we make that cash work? And that's where we're partnering with them.

Chris Couprie

Got it. Okay. With respect to Ellipsis, can you remind us what's kind of left in that pipeline after you make these acquisitions?

Adlai Chester

Yeah. Yeah. So they continue to grow it. So if you look at the operating assets that they have, they have a medical office building that the … specifically the hospital that they partner with has a purchase option. So I'm not sure we'll be able to acquire that unless we negotiate with the hospital. But they have several projects that are in development right now. So I would expect to see potential acquisitions with them not for the rest of '19, but as you get into 2020 you'll see some more opportunities.

Chris Couprie

Okay. So just then maybe just rounding out the acquisition discussion, I think on the last call your pipeline was in the kind of $3 billion range; hoping to do 300 this year. Any change in either of those two kind of figures?

Scott White

No.

Adlai Chester

No. I think we believe we'll be able to achieve what we indicated. Once again, we have to be creative with our capital to make sure we can source appropriately priced capital to do the transactions, but we still feel confident that's going to happen.

Chris Couprie

Makes sense. Okay. And then just last question from me, just big picture. The Medicaid backlog in Illinois, any update there?

Bryan Hickman

Yes. It’s Bryan. I’ll take it. That answer there is that there was some favourable movement with respect to both rate uptake and with respect to an elimination of pendings going forward. However, the backlog, while it remains valid, is not yet being collected.

Chris Couprie

And just kind of what’s the, I guess, rhetoric in the market right now as to timing as to when that backlog might start to be repaid?

Bryan Hickman

Yeah. We’re hearing that it will happen over the course of 2019, but no one has set a date certain for when we expect those payments to commence.

Chris Couprie

Okay. So then with respect to the capital that was provided to Symcare—or Symphony, is the expectation that that backlog gets addressed at a certain point in time this year?

Bryan Hickman

Yes. That’s correct.

Scott White

Yes.

Chris Couprie

Okay. All right. Thanks, guys.

Scott White

Thanks so much.

Bryan Hickman

Thank you, Chris.

Operator

Our next question comes from Tal Woolley with National Bank Financial. Your line is now open.

Tal Woolley — National Bank Financial

Hi. Good morning.

Scott White

Good morning, Tal.

Scott Higgs

Morning, Tal.

Tal Woolley

Scott, you had talked in the past about when you're using equity takebacks from vendors and you're still pricing those shares at $9 that there were some concerns about whether there's a lockup in place for that kind of stuff. Have you reconsidered that in these new deals that you struck?

Scott White

What do you mean about—so these new deals do not have any specific lockups, other than the statutory period required by Canadian securities law, which I believe is four months, if I'm not mistaken.

Tal Woolley

Okay. No, I guess like if I got back to the medical or to the Mohawk acquisition, they were issued some stock at a premium to market, and there was some concern afterwards that that had created a dislocation in the trading price. And so I'm just wondering if you're still issuing stock to some vendors at a premium to market, have you attempted to lock up those shareholders?

Scott White

No. So essentially, you say that because we don't know the answer, but we've heard sort of two sides of that coin. On the one hand, when you don't lock up shareholders, maybe they get out quickly, and it puts pressure on the stock. On the other hand, when you do lock up shareholders, you're not helping with your lack of float and trading liquidity. So all else being equal, we want people to be able to trade.

Now look, if we do really large deals, then obviously we are concerned about somebody dumping a lot into the market. With that said, given the current float and average daily trading volume, I'm not sure anybody could unload a very large portion in a short period of time. So generally speaking, we do understand the statutory lockup requirements. There are some circumstances where we will go longer than that, but it's not a key area of focus for us.

Tal Woolley

Okay. And then, if you could just refresh my memory, what is the participation rate on the DRIP right now?

Scott Higgs

It's about 15 percent.

Tal Woolley

Okay. And on the medical office side, what is your—you've talked about some of the things you want to do in the US. Do you have any interest right now in continuing to grow the Canadian portfolio?

Scott White

Happy to. Yeah. I mean, we always have from the beginning looked at the Canadian opportunity very similar to the US. We don't have a separate bucket. You won't see in any of our materials a target for US versus Canada.

We consider it just like we do—so when we think about do you want more MOB, more seniors housing, more skilled, you really just look at the opportunity cost of that next incremental dollar, and we look at Canada the exact same way. What's the next opportunity cost of that incremental dollar? Where is it best suited to spend? And so if we found the right opportunities in Canada, we'd be happy to put a dollar there.

With that said, we have generally found that the market is a little bit thinner in Canada, and thus, fewer deals to look at.

Tal Woolley

Okay. And then just going over the cash flow statement, when I look at like your tenant and other receivables balances, it was down this quarter by about $1 million. And so on the cash flow statement, I'd expect to see about $1 million inflow from that. But there's almost a $5 million outflow. Can you just talk to is there anything going on in the reserving for tenant receivables or anything like that that we should be aware of?

Scott Higgs

No. It's really just a function of timing, Tal. I'm happy to walk you through it perhaps for your modelling purposes, or what have you, but it's really a function of timing. Nothing significant from a reserve standpoint there.

Tal Woolley

Okay. And you guys are—you take reserves. You're not just—you're putting—you're not—because I notice there is some discussion about whether you can reserve in your P&L or just put it through your fair value gains. You guys are actually reserving it in your P&L.

Scott Higgs

For sure.

Tal Woolley

Okay. Perfect. Thank you very much.

Scott White

Thanks a lot, Tal.

Operator

Our last question comes from Troy MacLean with BMO Capital Markets. Your line is now open.

Troy MacLean

Oh, thank you. I just wanted to circle back on asset management and potentially switching tenants. I'm just curious, if you were to put a tenant in today, what coverage ratio would you want to set the rent at? And is that how you'd set the rent, first and foremost, looking at coverage?

Scott White

So it varies considerably by property type, by geography. There's a lot of variables in there. I wouldn't say we start with coverage. Look, if we were buying a new portfolio, we would certainly focus on coverage. There's no doubt about it. If we are substituting an existing operator, the assessment really is who's the best-suited operator to be in that building? And what's a reasonable agreement you can reach with that operator?

So it's great to say we want coverage of our skilled portfolio to be at 1.7, for example. I'm just sort of choosing that as a reasonable benchmark. But if you needed to replace a skilled operator—I'm not suggesting that we do by the way—but if you need to replace a skilled operator, you might not have the ability to then find a tenant that's going to come in and agree to a term that's going to work at 1.7.

All else being equal, we prefer to have stronger coverage than yield. We'll trade coverage for yield. But I wouldn't say from a replacement standpoint, the starting point is coverage.

Troy MacLean

And then would you say with the changes that you expect in the industry that the market for signing new operating tenants is improving?

Scott White

I'd say it's improving. Again, I think it varies by the asset class. I think what you have seen over the course of the last year or two is a natural shakeout in the tenants, so weaker tenants have disappeared. You've seen, if you've followed any of the media, there have been a number of bankruptcies, a number of reorganizations, a number of operators or tenants leaving the business, quite frankly. I think those that have been able to weather the headwinds over the last couple of years will come out stronger. And I do believe that as we project forward, there will be a group of operators that we want to work with; we're excited to work with.

We continue as one of the key things we've emphasized right now, if you look at what we did over the first quarter, is we have strengthened our relationships with existing operators. It doesn't mean we want to add new operators. In fact, I can tell you right now, we are going to add new operators. But all else being equal, we're trying to find a handful, without defining exactly what that number is, a handful of operators that we really want to partner with. We put a real emphasis on there. We have a chief relationship officer on our team, and his key focus is to work with our operators to grow that relationship and strengthen it.

Troy MacLean

Okay. Thank you. That's good colour. That's it for me.

Scott White

Thanks so much, Troy.

Scott Higgs

Thanks, Troy.

Operator

This concludes the Q&A session for today’s call. We thank you all for your participation. This concludes today’s conference call. You may now disconnect.