Invesque Inc.

Fourth Quarter and Year-End 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Scott White
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Adlai Chester
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CONFERENCE CALL PARTICIPANTS

Tal Woolley
National Bank — Analyst

Mark Rothschild
Canaccord — Analyst

Jenny Ma
BMO Capital Markets — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Invesque's Fourth Quarter and Year-End 2020 Earnings Conference Call.

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

Scott Higgs — Chief Financial Officer, Invesque Inc.

Thank you, Candy (phon). Good morning, all, and thank you for joining us. I'm joined today by Scott White, our Chairman and Chief Executive Officer, and Adlai Chester, our Chief Investment Officer.

Scott will get us started with a couple of industry highlights and an update on COVID-19 and vaccination within our portfolio. I will then cover our fourth quarter and year-end financial results, and Adlai will review the status of some previously announced strategic efforts before opening the line for Q&A.

Please note that the fourth quarter 2020 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 March 18th.

Before I turn the call over to Scott, 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, all, and thank you for joining us this morning to discuss the Company's fourth quarter results. 2020 was a unique year in so many ways. Our industry was challenged. Our portfolio was challenged. Our company was challenged. We worked through the challenges we never could have anticipated. However, with 2020 in the rearview mirror, I'm cautiously optimistic about where we're headed in 2021 and beyond.

I'd like to start once again with a very sincere thank-you to our operating partners and their teams for their ongoing efforts and dedication over the last 12 months as the COVID-19 pandemic drastically impacted the day-to-day operations of our industry. I continue to be in awe of health care workers' response to this pandemic, and I'm hopeful and excited that the vaccine rollout will allow our partners to begin returning to some sense of normalcy in the coming months.

Our operating partners are critical to our company's success, and I'm prouder than ever of the partners Invesque has. We're very appreciative of you all.

Since Invesque was formed five years ago, we have acquired numerous assets. We have sold noncore assets. And we have strategically transitioned assets to different operating partners. At the beginning of last year, we set out with a very clear strategic plan for 2020 to focus on portfolio management to assure we're maximizing value within each asset of our portfolio.

We made significant headway on this portfolio management initiative last year. We transitioned operations of the majority of our former greenfield portfolio to our proprietary management company, Commonwealth Senior Living.

We maximized value in our Royal Senior Living portfolio through a combination of asset sales and a transition of the remaining portfolio in South Carolina to expand our relationship with Phoenix, one of our strategic operating partners.

And we transitioned the management of our medical office building portfolio to JLL, a world-class leader in property management across the globe, to further institutionalize that platform.

But we're not done yet. We continue to look across our portfolio at each asset to make sure we have the right operating partner on an asset-by-asset basis. Further, we constantly review each asset and make sure we believe the asset remains core to our strategy. In cases where the assets are not going to help us grow shareholder value, we have sold the assets and will continue to look for opportunities to sell other assets if we can lock in favourable pricing.

We closed out the year and expanded our relationship with Constant Care by acquiring a memory care community in Rogers, Arkansas. Constant Care is an important relationship for Invesque, and we're excited about the opportunity to expand our relationship with them, as I will touch on this acquisition a little later in the call.

As announced on our last call, we signed a nonbinding memorandum of understanding with Symphony, our largest skilled-nursing operator, in the fourth quarter, that includes a combination of asset sales to Symphony, a transfer of operations of a handful of facilities to a strong regional operator, and an amendment to our existing master lease for the remaining assets in the portfolio. This is a complicated transaction that is progressing as we work through the details.

While there's still some wood to chop between now and closing, we're optimistic that our team and Symphony will continue to work towards a mutually beneficial solution that sets all parties up for success over the long term. As currently contemplated, we expect this transaction to have a negative impact on overall AFFO but a positive impact on our concentration risk to Invesque. It is my expectation we'll be in a position to share more details soon.

As has been the case over the last 12 months, the COVID-19 virus continues to create a challenging operating environment for our portfolio and the entire industry. Our portfolio saw an increase in COVID-19 cases in December and throughout the first 45 days of 2021. With that said, we're pleased to see a significant decline in positive resident cases in our buildings through the back half of the first quarter of 2021.

As of March 5th, our portfolio currently has only 38 total patients or residents with COVID-19 being treated and quarantined in Invesque communities, which is down significantly from the high point we saw in May and June of 2020 when there were over 700 positive cases. This is quite the feat when looked at in the context of our approximately 11,000 beds across the entire portfolio.

Despite the increase in COVID cases that our operators saw late last year and into the beginning of 2021, we're optimistic that the vaccine rollout is helping to create an environment where our operators can begin returning to some pre-pandemic visitation activity norms.

Many of our operators have seen a very high resident participation in the vaccine clinics that have been held at the properties and continue to urge their staff to receive the vaccine. As of March 5th, 95 percent of our US seniors housing and skilled-nursing properties have cycled through the first phase of vaccinations, and almost 90 percent of the properties have also cycled through the second phase of vaccinations.

Our operators are working closely with local and state health agencies to determine what COVID protocols will remain in place in the coming months to ensure the health and safety of our residents and staff, while beginning to reestablish dining, activities, and visitations that were in place pre-pandemic.

At this time, reopenings remain driven by state and local mandates, but most of our communities have reopened for in-person tours, small group activities, communal dining, and are allowing some form of family visitation. We expect that the limitations currently in place will continue to be reduced as the vaccine is rolled out more broadly. Just yesterday, the CDC announced relaxed visitation activity restrictions within seniors housing and skilled nursing facilities.

As we have discussed on prior earnings calls, federal and state government support to date has been helpful in offsetting some of the financial burden experienced by our operating partners because of the pandemic. To date, our operating partners have received approximately $71 million in government funding. We believe that additional funding will be critical for the industry, and we’re hopeful that the government will continue to target operators that have been disproportionately impacted by COVID-19.

Despite the challenges that 2020 brought, I do feel a sense of rejuvenation and excitement from our operating partners and our team. The rollout of the vaccine seems to be providing a small light at the end of the tunnel. To be clear, it will take time to remount census, and there will be elements of COVID-19 safety and precautionary measures that remain for the future. However, we remain very optimistic about the industry and the Invesque portfolio.

As I said many times in the past, real estate is a long-term asset class. Our investment thesis is predicated in part on a massive wave of aging baby boomers. The pandemic did not change the demographic fundamentals. As one of the youngest portfolios in the industry, we’re well positioned for long-term success and shareholder value creation.

Our Invesque team also weathered the storm of 2020 extremely well. The team has been remote for 12 months and did not miss a beat. I am very pleased to report that we were recently named one of the best places to work in Indiana for the second consecutive year. This award is a true testament to the team and the culture we have built, and I could not be more excited to lead this team for many years to come. We continue to be driven by our core values of excellence, positive energy, family, teamwork, and fun, and look forward to getting together in person in the coming months to celebrate our successes.

With that, I'll hand it back to Scott Higgs to touch on the Company's financial results.

Scott Higgs

Thank you, Scott. For the quarter ending December 31st, FFO was $0.19 per share and AFFO was $0.17 per share. For the year ending December 31st, FFO was $0.87 per share and AFFO was $0.77 per share.

It was a busy year for our finance team as we were able to successfully refinance multiple loans, taking advantage of the lower-rate environment. These refinancings allowed us to extract some excess proceeds while allowing us to further ladder our maturities. During 2020, we executed on multiple financing transactions that will reduce debt service by approximately $1 million on an annual basis.

We continue to actively evaluate opportunities within our portfolio to take advantage of the favourable credit market. I'm pleased that there are no meaningful debt maturities in the near term. As of today, we have approximately 3 percent of our consolidated debt rolling over the next 12 months.

As a reminder, we modified our senior credit facility, led by KeyBank, in the fourth quarter of 2020. The modification provides us an incremental surge period through June 30, 2021, which will allow us to maintain our current leverage on a consolidated basis with the existing unencumbered asset pool.

During the incremental surge period, the corporate leverage covenant is increased to 65 percent, which allows us for incremental liquidity of approximately $9.5 million. Upon completion of a series of transactions underlying the new framework with Symphony, the credit facility will be reset back to the original covenant level except for the fixed-charge coverage ratio, which is permanently reduced from 1.7 times to 1.6 times.

Our leverage, for purposes of the bank covenant, was approximately 60.3 percent at 1,231, and we have sufficient cash or other alternatives to ensure we're below the 60 percent threshold by June 30th. The modification will allow us to continue executing on our portfolio management strategy through the remainder of 2021 and beyond.

As we discussed throughout 2020, portfolio management continues to be our key area of focus. We're excited about the potential framework with Symphony, and we look forward to continuing our long-standing relationship with their team. Although we expect short-term reduction of rental income received under the new structure in 2021, we anticipate that rental revenue will stabilize in 2022.

With that, I'll pass it over to Adlai.

Adlai Chester — Director and Chief Investment Officer, Invesque Inc.

Thank you, Scott. As of September 30th, on a trailing-12-month basis, our portfolio-wide EBITDAR and EBITDARM coverage ratios were 1.2 times and 1.6 times respectively. After removing the impact of government stimulus dollars and extraordinary expenses related to COVID-19, our portfolio-wide EBITDAR and EBITDARM coverage ratios would otherwise be 1 times and 1.3 times respectively.

As of September 30th, our trailing-12-month occupancy for the stabilized triple-net assets and stabilized SHOP was 79 percent and 84 percent respectively, while our medical office portfolio stabilized occupancy increased slightly to 87 percent.

As expected, and as noted by many of our peers in their earnings releases over the last couple of weeks, 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. We were not immune to this but are pleased with our operator's ability to maintain NOI in a very challenging environment.

We expect to see this trend reverse and to see occupancy start to turn positively again in the back half of 2021 as the majority of our communities will have a significant portion of the residents vaccinated and be less restrictive on move-ins and visitations.

As noted in our press release this morning, in the fourth quarter, we acquired a 32-unit, Class A, memory care community in Rogers, Arkansas. Upon closing of the acquisition, we entered into a 15-year, absolute triple-net lease with Constant Care, one of our preferred operating partners that specializes in memory care communities. The lease includes two five-year extension options and allows us the ability to consolidate this asset into our existing master lease with Constant Care in the future.

This expands our existing relationship with Constant Care to eight communities, and Constant Care will represent approximately 4 percent of our pro forma NOI. We have worked closely with Constant Care for the last two years and will look to continue to grow with them as we believe they are one of the best operators in this space for this product type.

As an example, we have a small mezzanine investment in a new development with Constant Care in Grand Rapids, Michigan. This investment gives us the right to acquire the 42-bed memory care building in the future. The building was open toward the end of 2020 in the middle of COVID. Even with the headwinds, the Constant Care team has ramped occupancy in this building to almost 50 percent in just a handful of months.

We are also excited to announce the completion of significant expansion projects at three Commonwealth Senior Living communities in Virginia. These projects progressed according to schedule despite the COVID pandemic, and as of the middle of February 2021, have all received final licensure approval and are moving in new residents.

These expansions will allow us to cater to the pent-up demand in these markets while increasing Invesque's overall private-pay exposure. The Commonwealth platform continues to be a bright spot in Invesque's portfolio, and we look forward to working with Earl Parker, the recently promoted CEO of Commonwealth, and the rest of the Commonwealth team on additional expansion projects across the portfolio in the coming years.

As we touched on last quarter, we continue to work closely with Bridgemoor, given the impact the pandemic has had on their operations. The Bridgemoor properties are transitional care assets that mostly serve patients immediately after a hospital stay. The pandemic and national weather disasters have significantly disrupted hospital operations in Texas. As a result, Bridgemoor's operations have suffered far more than others in our portfolio as they are sitting in the proverbial eye of the storm in many respects.

During the fourth quarter, we did not recognize revenue from Bridgemoor, and we previously reserved against the full amount of our working capital loan to Bridgemoor. We continue to explore all options as we strive to maximize the value of our assets within this portfolio.

Our acquisition and development pipeline has ticked up slightly in 2021, and we continue to be excited about future growth opportunities in our seniors housing and skilled nursing portfolio. With that said, we continue to focus on managing both sides of our balance sheet and will only invest with new partners or portfolios if we have access to appropriately priced capital.

We will continue to look for strategic opportunities within our existing portfolio to grow with our preferred operating partners via expansion projects while opportunistically divesting of noncore assets if we can achieve attractive pricing.

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

Q&A

Operator

At this time, I would like to advise everyone, in order to ask a question, please press *, then the number 1 on your telephone keypad. Again, that is *, then the number 1 on your telephone keypad. If you wish to withdraw your question, you may press the # key. We'll pause for just a moment to compile the Q&A roster.

Our first question comes from the line of Tal Woolley with National Bank Financial. Please go ahead. Your line is open.

Tal Woolley — National Bank

Hey. Good morning, everybody.

Scott White

Good morning, Tal.

Tal Woolley

I just maybe wanted to start a bit on the political front. Obviously, there's been this massive stimulus package passed in the US. You have a new president. I'm just curious. With respect to the stimulus, do you see money in there going to the right places to help your operators?

And then the other thing I was sort of wondering about longer term with the Biden administration is just what do you get a sense of the outlook for Medicare and Medicaid reimbursement spending?

Scott White

So thanks, Tal. Yes. There's no doubt that the government stimulus has been vitally important to our industry, like a number of the hard-hit industries in the US. There's no two ways about it. We were really impacted in a meaningful way as a result of the pandemic. And the dollars through various forms and various iterations, as we mentioned before, approximately $71 million has ended up so far with our operators, and it is our hope and expectation there will be more.

And really, I'm not sure I could put a magnitude on it in terms of it not being enough. There's no doubt in my mind that, as you look at the impact on occupancy, you look at the impact on expenses, you look at the impact on the overall holistic pandemic, it was very much needed, and I am hopeful and optimistic we will see more.

In terms of the Biden administration, I'm often careful, and I've been asked this question over the years, not only as it relates to a change in presidents but even as it changes as a result of mid-term elections, Republican versus Democrat, so on and so forth.

I often remind people that our investment thesis really is predicated on long-term ownership of real estate assets. And while the current administration might impact some segment of that, i.e., a four-year period or maybe eight-year period, everything that comes, goes and comes back again, it feels like has been my experience over the course of watching different administrations go. I'd say net-net, it is likely a positive as it relates to increased Medicare. But it's very hard to predict. And I am cautious about going out there and saying, yes, this type of administration is potentially better or worse.

I think, in general, the political landscape understands and appreciates the necessity for taking care of our older population. And I think one of the things that the pandemic did was put a spotlight, maybe I should say a magnifying glass, on the industry and remind people what an important part of the health care sector it is.

Tal Woolley

Okay. I just want to say thanks to you all for providing a lot more disclosure just around the individual operating segment. That's very helpful to us on the outside. And to that end, I wanted to talk a little bit about the medical office building. You've got a fairly significant leasing hill to climb over the next three years. I think over half the portfolio is up for renewal, and occupancy's been soft. So can you just talk about how you're thinking about that slice of the business over the next few years and what are the prospects for reclaiming back all that? Or being able to really sell that space?

Scott White

Yeah. So as you know, Tal, last year we made a transition from our predecessor operating partner to our current operating partner. Our predecessor operating partner did a very nice job with those assets. They knew those assets well. They knew the market well. They had very local relationships, which is very important.

We made the strategic decision to bring in a national—actually, I should say international, quite frankly—but an institutional-type asset manager or portfolio manager to, in part because of exactly what you identified. We knew that. Obviously, we look out a couple years. We project, and instead of a react, we're proactive. And part of the decision to bring in JLL was really focused in part on looking at this lease roll-off over the coming years and having access to a sophisticated global organization in JLL.

And we've seen some early signs. And it is pretty early. Remember JLL just took over I guess four or five months ago. But we're certainly seeing early signs of lease-up in the portfolio and some other tweaks to the portfolio outside of lease-up to enhance NOI.

Tal Woolley

Okay. And you mentioned you've got sort of very little debt to roll over the course of this year. I just had two specific pieces. The Magnetar facility, has that been refinanced yet?

Scott White

You're talking about the $10 million one?

Tal Woolley

The $10 million. Yeah.

Scott White

It has not. It has not. We know that's coming due in the next few months and have the expectation that cash flow from operations will likely pay off that debt.

Tal Woolley

Okay. And any thoughts to just planning for the 2015 debentures?

Scott White

Yeah. So we have, since the beginning of taking on those debentures, both sets of debentures—as you know, we have two sets of debentures, one coming due next year and one coming due the following year—we've always had a cash management plan to make sure we're in a position to pay those debentures off when they come due. And right now, based on our projections and based on hopefully everything lining up the way we expect it to, we do have sufficient cash flow in our projections to pay off those debentures that come due next year and then the debentures that come due in 2023.

Tal Woolley

Okay. But no intention—like I was just wondering if maybe the debenture market had moved in a way it might make sense to call them or anything like that. But nothing like that planned yet.

Scott White

Not at the moment. I mean we're always monitoring, and it is possible that we might start buying them in or calling them. But right now, that is not our plan.

Tal Woolley

Okay. And just lastly, from a tax perspective, I'm just wondering, like when do you think you might have to reconsider the distribution again because you sort of have to because of your taxable income growing? Or do you think you can still hold it as suspended for this period of time? Because it's great that keeping it suspended certainly helps on the balance sheet side. I'm just curious as to how your tax positioning is with respect to the distribution?

Scott White

So there are no tax requirements for us to distribute. As you may recall, Tal, we are not a REIT.

Tal Woolley

Oh, right. Right. Right. Pardon me. Sorry. Dumb question.

Scott White

Yeah. No problem. Not a problem. Other people have asked similar questions. You're not the first one and probably not the last one. But there are no tax implications to us making a distribution. We do assess that distribution on a monthly basis and would very much like to return it to our shareholders when we feel comfortable that we've gotten to the other side of this pandemic and we have sufficient financial flexibility to be able to do so.

Tal Woolley

Okay. That’s great. Thank you very much, Scott. Appreciate it.

Scott White

Thanks so much. Good talking to you, Tal. Be well.

Operator

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

Mark Rothschild — Canaccord

Thanks, and good morning, everyone. Maybe starting with the property that you bought in Rogers. If you could give some more information on the cap rate you bought at and what was interesting about it. Obviously, with everything that’s going on, you’re probably not running to do many acquisitions. So I assume there’s probably more to it.

Adlai Chester

Yeah. No. This is Adlai. Thanks for that question. We were just north of a seven cap on it. The thing that we liked about the Rogers is we already had seven buildings with Constant Care. This building was 100 percent occupied and stayed that way pretty much through COVID and is at that level again. So it enhanced the overall portfolio with Constant Care, and we continue to really like Constant Care.

So you’re exactly right. We’re not looking, with our current position, to acquire a bunch of assets right now. But when we see an opportunity to strengthen the portfolio through an acquisition, we’re going to try and act on it if we can.

Mark Rothschild

Okay. Great. And maybe just with the overall numbers, and if it's in the disclosure, I haven't seen it yet but, how does the NOI or the FFO that is reported differ from maybe actual cash received? Like were there any tenants that—specifically, any tenants, i.e., Symphony, that did not pay a portion of their rent in the quarter? And if so, how would that impact the numbers?

Scott White

Higgs, you want to take that one?

Scott Higgs

Yeah. Sure. So look, I think we do disclose in there, Mark, in terms of, while we don't disclose, specifically, about individual situations or tenants, there is disclosure in there around loan balances that go to that point. So I guess what I would say, to the extent that we've provided some working capital loans or what have you, that would be captured within that disclosure there. So other than that, like I said, we don't disclose specific information about individual tenants and so forth.

Mark Rothschild

Could you give the overall broad numbers then, if not an individual tenant basis? What would NOI or FFO have to be adjusted to on a cash basis if we back out money that wasn't paid as per leases?

Scott Higgs

Yeah. So, again, it's a number I can help you offline perhaps, Mark. But it's looking at the change in loan balances year over year and factoring that in. Really, it's how to contemplate that.

Mark Rothschild

It would just seem like—

Scott White

And I'd really just look at our—to be honest, I'd look at our AFFO disclosure because our AFFO disclosure really tracks cash flows.

Mark Rothschild

So you're saying that maybe I just didn't see it yet, but the numbers only came out this morning. But so in the AFFO you disclose, it shows exactly what was received in the quarter? And it would back out any contracted rent that wasn't received?

Scott White

Say that again.

Scott Higgs

No. The AFFO would include balances like, for example, if we provided a working capital loan to an operator for working capital purposes inclusive of any working capital fundings, there are certain stipulations. It's a separate transaction as between a loan program and rent collection. Right? So AFFO captures the rent that we've received, and. But what I was getting at—and apologies for if it's unclear—but what I'm getting at is, you can kind of correlate the two as between loans that we've provided, but it is captured in the FFO via cash received from operators. And I was just pointing out that there are loans that we've provided to certain operators for working capital as well.

Mark Rothschild

Right. And I'm just trying to make sure that I get that number. Because if we were to put a cap rate on the NOI reported, that's not the cash, and to the extent—and you guys even said that Symphony leases, for example, will be adjusted, and rent will go down this year.

Scott White

Correct.

Mark Rothschild

Putting a cap rate on the current NOI is not really the right number.

Scott White

Correct.

Mark Rothschild

So is there any way for you to disclose that number? If you want to give it to me offline, that's great, but it's probably valuable—

Scott White

Well, no. Absolutely. We wouldn't give you anything offline that we wouldn't disclose to the public. So I think what Higgs is saying, he can work you through the calculation of everything that we've already disclosed. We're not yet disclosing what the world looks like post the Symphony transaction because it's not final yet, so it would be premature.

We are indicating that we are getting close to finalizing. We're indicating roughly that part of it will be a sale of assets; part of it will be a transfer of operations to another operator; and part of it'll be a restructured lease. And we've acknowledged that it will be a reduction of FFO. In terms of magnitude, we don't want to do that yet until the deal is final. And I'm hopeful in the coming weeks, we'll be in a position to finalize that deal, and as soon as we do, we'll put out a press release.

Mark Rothschild

Okay. And not to belabour with this and I want to pass it on to others, but just to be clear and make sure I understand, if I look at the receivable balance in your financial statements notes, year-end compared to Q3, I will see the difference in what was not paid rent for the quarter?

Scott White

Higgs? I believe that’s right.

Scott Higgs

Yeah. On a growth basis, that’s right.

Scott White

Right. Not operator by operator.

Mark Rothschild

Okay. Thank you.

Scott White

Perfect. Thank you.

Operator

Our next question comes from the line of Jenny Ma with BMO Capital Markets. Please go ahead. Your line is open.

Jenny Ma — BMO Capital Markets

Thanks and good morning.

Scott White

Good morning, Jenny.

Adlai Chester

Good morning.

Jenny Ma

Morning. I’m wondering with the sort of increase in operating expenses associated with COVID, so things like staffing and PPE, when you look through the most acute impact of the pandemic, how much of that increase in cost do you expect to stick because there's just going to be a change in how properties are operated and sort of increased, I guess, precautionary measures and those sorts of things.

Scott White

So, hey. It's Scott. I'll take that. I think it is difficult to predict that right now. There is no doubt there will be enhanced costs associated with infectious disease control, which I consider to be a very positive thing for the industry. What I think will be more rational is there was a short period of time—I'm not sure how long I'd define that, whether it was two, three, four months—where there was excessive costs associated with a supply-demand imbalance.

So, for example, as you brought up PPE, will there be enhanced PPE over time? I actually think so. I think that you will continue to see, as we think about things like flu season and we think about other infectious diseases that our facilities need to manage, I think that's going to continue. But what I think will change is, you're not going to be paying 10 times, or we saw in some cases even more than that, the normal cost for things like masks or gloves or so on and so forth. But there's no doubt, Jenny, there will be enhanced costs as time continues associated with incremental infectious disease control.

Jenny Ma

So would you say in Q4 that the costs are more or less normalized as opposed to the inflated costs we saw earlier last year?

Scott White

Yeah. I think that's right. Yes. I think that's right.

Also, the other thing that's important as we think about enhanced costs, like so many other times in our industry, operators adjusted and found ways to be more efficient, whether it was through staffing, whether it was through operating procedures. So while on the one hand I think there were enhanced costs associated with masks and gloves and labour costs—let's not forget about labour costs, which is really a big part of this when you're at the depths of this—the industry really struggled to both recruit and retain staff. They were, quite frankly, just afraid or had other conflicting responsibilities.

However, we did see a lot of our operators find ways to become more efficient that I think will have a positive impact. There's no doubt there will be an incremental cost associated with it, but I'm optimistic that we'll see greater levels of efficiency going forward.

Jenny Ma

Okay. But the net-net, it'll be an increase in operating costs over—

Scott White

I believe so. Yes. I do believe so.

Jenny Ma

Okay. Okay. And then going back to the dividend. Maybe it's early days, but I'm wondering, between management and the board, what are the signals or the metrics that you're monitoring when you are doing your monthly evaluations as to whether or not you plan to reinstate the dividend? And also, by how much?

Scott White

Yeah. So it's pretty simply cash flows in and obligations coming due. It's really as simple as that. The harder part is trying to figure out exactly what those cash flows coming in will be on a forward basis. We model out for the next 36 months. So we have some semblance of here's what we think the world will look like.

But, and you may have even seen today, one of our large competitors put out a note about inability to collect rent, replacing operators, you should check the US competitive universe. This is an ongoing, developing—choose the word—I want to say saga. While we think we've put the worst of it behind us in terms of occupancy declines, it's not going to come back overnight.

And I caution everyone that the vaccine is massively helpful in returning this industry to some level of normalcy, but it's not going to happen overnight. There's going to be some lag period where you're going to take some time on occupancy regains. Then there'll be a question of, will there be any pressure on rates while you're building occupancy?

Look. I do fundamentally believe that the demographics are in our favour, and over time you project out years from now, there's no doubt that the demand will exceed the supply. And one of the net benefits is that I think supply is going to slow down considerably, particularly on the seniors housing side. You're really going to slow down new development, which will help with absorption.

With all that said, Jenny, it's not going to happen in March, and it's not going to happen in April, and it's not going to happen in May. And I want to be careful how far out I go on this spectrum because I'm optimistic that it's going to start happening soon. But it really is in the best interest of the Company and in the shareholders' best interests that we make sure that the model is stable, that the cash flows are sustainable before we start distributing out.

Once the cash leaves the enterprise it doesn't come back. The worst thing that I can do is distribute income that I need later on. The best thing I could do right now, which is exactly what we are doing, and hopefully investors understand it, is accumulating cash. And if we get to some period of time later in the year where we're like, wow, we've really sat on too much cash, we better get this out to shareholders, then I'd consider that a win and maybe we were overly conservative. But that's the path that we're focused on right now.

Jenny Ma

So I guess it's fair to say that all of us are going to see a return to normal life well before we see a reinstatement of the dividend.

Scott White

I think it depends on how you define a return to normal life. I really do. If you're suggesting we will all return to pre-pandemic life before return to the dividend, I'm not sure I would say that. I'm not sure I would say that. I think, just like I talk about our industry, I think it's a long way to go for society to return to full pre-pandemic life. I really do.

Jenny Ma

Okay. That's fair. Now when you think about use of capital, then, how would you balance reinstating the dividend versus buying back stock? I mean, I guess—

Scott White

So, right—

Jenny Ma

—that depends where the stock ends up being.

Scott White

Right.

Jenny Ma

But how do you balance those two priorities?

Scott White

Yeah. So right now, I'm not balancing them at all because right now I'm balancing cash flow, and our top priority is stabilizing the platform, making sure our operators have long-term sustainable operating plans and that they're financially stable to deliver.

And deleveraging. We've been very clear and I will emphasize that right now. We are going to continue to delever, as Tal focused on earlier in the call. We have $10 million of debt coming due to Magnetar in June or July, if I remember correctly. We have a convert coming due early next year and then a subsequent convert coming due in 2023. Those are our top priorities right now. And any excess cash that we have away from that we will use selectively to delever other parts of our balance sheet.

Once we feel like we're comfortably delevered and that we have vision and sustainability of cash flows and our operators are in a strong position, then we'll weigh, as you ask, the return of the dividend versus the share buyback. I'm not sure they're mutually exclusive. I think that both tools are helpful to us.

On the share buyback side, given our volume and given the constraints around how much we could actually buy back, I don't think that'll be a massive use of cash, just practically speaking, but it certainly is a tool that we can and will use to enhance shareholder value.

Jenny Ma

Okay. Great. I guess we'll cross that bridge when we get there. With regards to sort of more details on the SymCare transaction, if I heard you correctly, we should be expecting something in the coming weeks? So sort of at the end of March or early April? Is that fair to say?

Scott White

Yeah. It's hard. No. I don't want to make it that—I'm hopeful. So let me say that loud with a capital H. I'm hopeful. But I also want to be realistic. And if I say end of March or early April, then I know, Jenny, you're going to call me on April 6th and say, we just passed over early April into mid-April, what's up. So I don't want to put a fine line on it. And I was very deliberate in my remarks not to say this quarter, this month, the next three, six months. I'm hopeful, shortly. We are working on it. All parties are aligned to resolve it as quickly as possible. And as soon as we resolve it.

And we have a path too. When I say resolve, I think that's actually a poor choice of words, now that I think about it. That makes it sound like we're still trying to come up with a workable plan. That's done. Right now, it's about the blocking and tackling and dotting the i's and crossing the t's.

And as I previously mentioned, some of this is a transfer of operations. And in the United States, there is a regulatory process associated with transfer of operations. So you can imagine that that moves at the pace of governments, which isn't always as fast as we'd like to move.

So all these things are just gating items to getting the transaction done and announced. But I do want to be clear. There is a plan, and it's not like we're still working on the plan.

Jenny Ma

So are you progressing? Or are you trying to work through certain roadblocks?

Scott White

Yeah. We're progressing very rapidly. We've made meaningful progress since our last earnings call, and I am optimistic and hopeful it'll be coming soon.

Jenny Ma

Okay. Great. Thank you very much.

Scott White

Awesome. Thanks so much, Jenny.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.