FINAL TRANSCRIPT

Invesque Inc.

Second Quarter 2022 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

Bryan Hickman
Invesque Inc. — Senior Vice President, Investments

CONFERENCE CALL PARTICIPANTS

Frank Liu
BMO Capital Markets — Analyst

Tal Woolley
National Bank — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Invesque Second Quarter 2022 Conference Call.

I would now like to turn the call over to Scott Higgs, Chief Financial Officer.

Mr. Higgs, you may begin.

And one more note, today's call is being recorded.

Mr. Higgs, please go ahead.

Scott Higgs — Chief Financial Officer, Invesque Inc.

Thank you, April. Good morning, and thank you for joining the call. On the phone with me today are Scott White, our Chairman and Chief Executive Officer; and Adlai Chester, our Chief Investment Officer.

Scott will get us started with a summary of some recent dispositions and touch on the positive occupancy and overall financial trends we are seeing with our Commonwealth and other SHOP portfolios, I will then discuss our financial results for the quarter, and Adlai will wrap things up with some specifics on operating trends and additional details on the Company's disposition activity over the last 12 months. We will then open the line for Q&A.

The second quarter 2022 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 August 17th.

Please be reminded that today's call may include forward-looking statements regarding 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, unless otherwise specified.

With that, I will turn the call over to our CEO, Scott White.

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

Good morning. Thank you for joining Invesque's second quarter 2022 earnings call.

As we are now more than halfway through 2022, I'm excited to provide you with an update on the execution of our strategy to simplify our portfolio, simplify our story, and simplify our balance sheet.

As part of this strategy, we continue to reposition the Company to primarily focus on private-pay seniors housing assets.

We'll also take a minute to highlight the positive occupancy and financial momentum that we continue to see from our captive management company, Commonwealth Senior Living. The Commonwealth portfolio continues to be one of the key areas of focus for our company, and I am pleased with the performance to date in 2022.

The highlight of our year-to-date results has been our disposition strategy. So far in 2022, we have sold 21 properties valued at over $190 million. These sale transactions have helped us make great strides for becoming a predominantly private-pay seniors housing-focused company, first, by reducing our skilled nursing exposure and, second, by reducing our medical office building investments.

The first step was reducing our investments in skilled nursing. On our last earnings call, we announced the sale of our Bridgemoor Transitional Care portfolio, effective April 1st. As a reminder, that sale included four assets in Texas and was sold for $52 million. This, coupled with the sale of our Ensign portfolio last fall, represents a large step in the reduction of our skilled nursing exposure.

The second step was reducing our investments in medical office buildings. Two weeks ago, we announced the sale of the majority of our medical office portfolio at very attractive pricing, which is a huge win for the Company and a large step toward the simplification effort I keep highlighting.

This included the sale of a single medical office property in Orlando, Florida, where the anchor tenant acquired the property from Invesque. The second sale was a larger transaction that included the sale of substantially all of our properties in Canada for C$94.3 million.

As a result of these transactions, we now have only four medical office buildings remaining, with approximately 190,000 rentable square feet. We're currently evaluating disposition options for these assets, and it is likely that we will fully exit the medical office sector within the next year.

Also in the second quarter, we closed on the sale of our interest in two 55-plus communities that were previously managed by Calamar. This transaction closed on June 15th, and we received net cash proceeds of $10 million at closing and utilized those proceeds to continue delevering and simplifying the balance sheet.

In most cases, we have used sale proceeds from these transactions to pay down debt or otherwise reduce company leverage. I think you should expect to see this trend continue in the coming quarters, as we remain diligently focused on creating a private-pay focused seniors housing portfolio with a handful of our preferred operating partners.

The team at Commonwealth continues to see strong progress, with occupancy reaching pre-pandemic occupancy levels in July for the first time in over two years.

The portfolio of 28 assets that Commonwealth manages on behalf of Invesque saw a 500 basis point increase in occupancy from January 1st to June 30th, and that momentum continued through July. The occupancy gains, coupled with resident rate increases that went into effect on March 1st, resulted in strong performance from the Commonwealth portfolio in the second quarter.

While I remain optimistic that we will see continued positive progress from the Commonwealth portfolio for the remainder of 2022 and into 2023, it is worth noting that staffing remains a significant challenge for Commonwealth and the rest of our operating partners.

Many operators are being forced to get creative on ways to attract and retain staff, as well as control expenses that continue to creep up. I'm optimistic about the future of the industry and believe that the demographic tailwinds we have all been discussing for the last 5, 10 years are really starting to come to fruition.

With that, I'll turn the call back to Scott to touch on our financial metrics for the quarter.

Scott Higgs

Thank you, Scott. For the three months ending June 30th, FFO was $0.11 per share and AFFO was $0.12 per share.

As Scott mentioned, we have been strategically disposing of assets in recent quarters to be more focused on the opportunity that we believe currently exists in private-pay seniors housing. With each disposition, our finance team has been strategically allocating sale proceeds to delever and streamline our capital stack.

Year to date, we have repaid over $104 million in consolidated indebtedness. This includes paying down a portion of our key bank revolver, as well as fully repaying the credit facility secured by our medical office building portfolio.

In addition, we have made a strategic decision to, as capital becomes available, retire portions of the preferred equity instrument that currently encumbers the Commonwealth portfolio.

Earlier this year, we retired $10 million of this preferred equity. This retirement is accretive to Invesque, as the preferred equity currently features a 6.5 percent interest rate and this rate escalates as we move into future periods.

In addition to utilizing dollars to repurchase shares and debentures under the NCIB, we feel that retiring this preferred equity instrument is a prudent use of the Company's excess capital.

Our team continues to monitor the changing interest rate environment. I'm pleased to report that we have only 3 percent of our consolidated debt maturing over the next 12 months and that 78 percent of our consolidated debt features a fixed interest rate. This positions us well as we continue to keep an eye on the changing macroeconomic environment.

As previously announced and highlighted on our last call, the Company announced that the Toronto Stock Exchange approved its Notices of Intention to make a normal course issuer bid for a portion of its common shares and a portion of its 6 percent convertible unsecured subordinated debentures, due September 30, 2023, as appropriate opportunities arise from time to time.

Through the end of July, we have redeemed approximately 414,000 common shares at an average price of $1.41 and approximately $70,000 of convertible debentures under the NCIB. This will continue to be part of our go-forward strategy, as we continue to believe that this nominal use of capital has great inherent value to the Company and its stakeholders.

I will now turn it over to Adlai.

Adlai Chester — Chief Investment Officer, Invesque Inc.

Thank you, Scott. As has been the case for the last few quarters, the operating results of our triple-net portfolio continue to struggle as operators attempt to rebuild census and manage costs during what is one of the most challenging staffing environments our industry has ever seen.

As Scott highlighted earlier, we are, however, seeing very positive occupancy trends in our Commonwealth portfolio, which are seeing positive census growth in the majority of our SHOP assets to date this year.

As always, a friendly reminder that we report the operating metrics of our triple-net lease portfolio a quarter in arrears due to the timing of receipt of operator financial statements.

Our stabilized portfolio, EBITDAR, and coverage remained slightly below 1.0 times for the period ended March 31, 2022. As of March 31st, the trailing twelve-month occupancy for the stabilized triple-net assets and stabilized SHOP portfolio remained flat at 74 percent and 76 percent, respectively.

Given the recent sale of the majority of our medical office portfolio, we will not be providing occupancy data on the four remaining assets, as they make up such a small portion of our portfolio going forward.

For the last couple of quarters, we have highlighted the rental rate increases of our SHOP portfolio, as we think this is an important number to highlight, as it shows the success our operators are having in driving revenue to help offset the increased costs of the current operating environment.

Outside of wage pressure and agency staffing costs, our operators have seen increases in food and supply costs, maintenance costs, and insurance costs. For the twelve-month period ended March 31, 2022, the average monthly rate paid by residents in our stabilized SHOP portfolio was up 4.3 percent versus the period ended March 31, 2021.

Many of our operators implement resident rate increases on an annual basis, and we expect that our operators and most in the industry will roll out significant rate increases again in the first quarter of 2023.

Next, I'd like to provide some additional commentary about the sale transactions that we consummated in second quarter and subsequent to quarter-end. The sale of our stake in the Calamar properties may seem like a departure from our goal of becoming a predominantly private-pay senior housing owner, but it is actually quite consistent.

The Calamar properties weren't entirely private pay, but are operated as age-restricted apartment complexes. This means that the communities do not provide care services, and residents are not able to age in place like in our other senior housing communities. This often means that demand for these communities is not need-driven like our other senior housing communities.

We believe that the operating results for these type of communities could be more volatile because they are dependent on the housing market and much less dependent on the demographic shift of aging seniors who need care services.

Additionally, the sale price that we achieved on these properties exceeded our expectations, which signalled to us that it was the right time to exit the investment.

The sale of the majority of our medical office properties advances our shift to private-pay senior housing significantly. When we initially acquired the medical office portfolio, our strategy was to grow that portfolio with bolt-on acquisitions in Canada and the US. Ultimately, that proved more challenging than anticipated, and we saw very few attractive opportunities to expand the portfolio, especially in Canada.

When we transitioned the management of our portfolio to JLL, our goal was to stabilize the portfolio and get it ready to market. We are proud of our joint efforts with the JLL team to stabilize the portfolio's results and attract a buyer for the portfolio at excellent pricing.

There are few logical buyers of the medical office portfolio that spans both countries, so taking different approaches for the two countries was the logical conclusion. The sale of our University Boulevard property to its anchor tenant was a highly efficient transaction that allowed us to jump-start the disposition process. The sale of the Canadian properties was the product of a competitive process orchestrated by BMO that resulted in a very strong pricing.

As a result of the two transactions, we have one remaining medical office building in Canada and three in the United States. We are in active discussions with multiple prospective buyers on the remaining assets and, with that, an exit of the remaining medical office properties in the next 12 months is highly likely. Again, these transactions are all part of our strategy to create a strong portfolio of private-pay senior housing assets.

As a result of the disposition transactions, over 60 percent of our pro forma NOI will be generated by our private-pay senior housing assets compared to over 75 percent of our NOI coming from skilled nursing five years ago. This proportion will continue to increase as we look to complete the disposition of our medical office assets and identify skilled nursing facilities that would achieve attractive valuations.

Finally, I'd like to touch on the continued recovery of the senior housing industry. We closely monitor the disclosures by other public companies invested in senior housing, along with the updates provided by industry data provider NIC.

We are encouraged by the continued increase in census and rent growth across the industry, but we are especially encouraged by our portfolio's performance relative to the average.

As Scott mentioned, the 28 properties managed by Commonwealth Senior Living saw occupancy growth of 500 basis points during the first six months of 2022. And if we look at our aggregate SHOP portfolio, it saw occupancy growth of 520 basis points during the same period. By comparison, the industry as a whole saw roughly 200 basis points of occupancy growth during the same period.

The occupancy gain generated by Commonwealth is just one of many metrics that tell us that Commonwealth is truly an industry-leading operator and we are thrilled to be partners with their executive team.

With that, we can go ahead and open the line for questions.

Q&A

Operator

Thank you. If you would like to ask a question, simply press the * key, followed by the digit 1 on your telephone keypad. Also, if you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Once again, it's *, 1 on your telephone keypad. And we'll pause for a moment.

Again, *, 1 to ask a question or make a comment.

And we'll first hear from Frank Liu of BMO Capital Markets.

Frank Liu — BMO Capital Markets

Good morning, everyone.

Scott White

Good morning, Frank.

Frank Liu

Good morning. Congratulations on another busy quarter on the portfolio transformation front.

Scott White

Thanks.

Frank Liu

Just want to follow up on the disposition of MOB. And I'm just curious, which three MOBs hasn't been sold in Canada? And is there a reason why it wasn't sold along with the disposition of other MOBs you sold earlier in July in Canada?

Scott White

So just to clarify what has or has not been sold, there are four properties that have not been sold. Three of them are in the US; only one remains in Canada. So there's one in Canada, three in the US.

As Adlai touched on, to a certain degree, there weren't logical buyers for both US and Canadian assets. So we bifurcated the process, ran them separately, and tried to maximize value specific to the assets.

So for example, we had properties across Canada. Then we had two in Florida and two in New York. One in Florida sold to the tenant. The tenant was a logical buyer for that property. They'd been in it for a long time and they were willing to pay what we believe was probably more than anyone else. So that one took care of that one.

Almost all the Canadian assets went to one single buyer, and then the three remaining US assets we are currently assessing options for. We're not in a hurry to sell those assets for prices that we don't think are fair. We're looking to maximize value.

And it is my expectation that in the next year we will likely be entirely out of the medical office building business.

Frank Liu

Okay. Appreciate the colour. That's great. Just want to switch in gears to IFRS cap rate. It's pretty encouraging to see the quarter-over-quarter compression. Just wondering, was the compression mostly driven by dispositions incurred during the quarter? Or is there some other adjustments directly on the valuation side?

Scott White

Higgs, you want to take that one?

Scott Higgs

Yeah. Hey, Frank. Yeah. For sure. And the answer is yes. It's primarily due to the disposed-of portfolios is driving the change.

Frank Liu

Okay. And then the loss on that is—the fair value loss of $18.6 million was just driven by the write-down of skilled nursing assets, right, to reflect the current market conditions?

Scott Higgs

That's correct.

Frank Liu

Okay. Great. Just last question from me. With respect to the SHOP portfolio and, I mean, definitely encouraged to see the improvements on the operational front, should we expect more occupancy gains and revenue per resident growth further down in the second half of 2022?

Scott White

We absolutely do. I want to be careful not to overplay, but the trend we're seeing across the industry—so let's start at a macro level—is increasing occupancy and increasing average daily rents.

As Adlai talked about, we've seen specifically in our Commonwealth portfolio that over the last six months Commonwealth has exceeded the occupancy gains more broadly in the industry, as well as the average daily revenue that we've seen more broadly in the industry.

So when you fast-forward, or you look ahead, I do believe we're going to continue to see increasing occupancy. And I do believe we're going to continue to see increasing average daily rent.

And I want to caution that we're also grappling with increasing expenses. There's no doubt that the rent increases are directly correlated to and, in part, driven by the increases in expenses. We're very thoughtful and careful about increasing rents. These are people's homes, and we need to respect the cost of living in our facilities. But we also need to make sure that we're delivering high-quality care.

And across both Commonwealth and our other partners, we're seeing increases in labour costs, increases in food costs, increases in general inflationary costs.

So right now, we are hoping that the revenues will continue to exceed expenses and we'll be able to expand margin. And I do believe that occupancy will continue to trend in a positive direction.

Frank Liu

Okay. Great. Sorry, I just want to ask one last question. The revenue per resident for SHOP, I see it's changing quite a bit from Q1 to Q2. Is that like more a resident—or is that like due to like new residents paying higher rent? Or is it more service offerings as we're exiting the pandemic, I mean, like tenants using more services on-site?

Scott White

So all of our tenants—all of our operators, including Commonwealth, have been raising rents. As I mentioned, as a result of increased expenses that we're seeing, we've been raising rents.

I think Adlai mentioned that we implemented a March 1st across the board rent increase in our Commonwealth portfolio and other operators are doing the same thing.

Frank Liu

Okay. Got it. Yeah. Thank you very much for your colour. Congrats on another busy quarter, and I'll turn it back.

Scott White

Thank you, Frank.

Operator

And as a reminder, it's *, 1 to ask a question or make a comment.

Next we'll hear from Tal Woolley of National Bank Financial.

Tal Woolley — National Bank

Hi. Good morning, everyone.

Scott White

Good morning, Tal.

Tal Woolley

On the triple-net side, I'm just wondering like what sort of needs to happen at the operator level when you're talking to your tenants to get the—sort of to improve the rent coverage on-site? Is it merely a question of eliminating COVID costs? Or bringing down staffing costs of the operator? Can you just give me a little colour around what they're trying to change?

Scott White

So I think it's a number of things. What you're looking at primarily is the skilled nursing portfolio. The skilled nursing has been much slower on occupancy recovery.

Skilled nursing is—and this is related to your triple-net question—has continued to grapple with the same increased expenses that I just talked about. And it's a little bit harder on the skilled nursing side to implement rent increases.

As you may recall, a lot of the skilled nursing side of the business, which is where most of our triple-net is, is government reimbursed. It's Medicare and Medicaid, which doesn't give the operator as much control to raise rents.

Tal Woolley

And what—it's CMS, I believe, right, is the agency in charge of controlling those reimbursement rates. Do you have a sense of what the outlook is for any sort of improvement there?

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

Yeah. Hey, Tal. This is Bryan Hickman. I'll take your question there. So when we look at our skilled nursing portfolio, there's really sort of two governing bodies.

CMS is responsible for setting Medicare payment policy. And that turned out to be a positive surprise in the recent final rule that was released just last week. So payment rates effective October 1st of this year will go up by 2.7 percent. And why I say that's a surprise, Tal, is because there were many in the industry who were expecting payment rates to decrease year over year.

So what I think you see there is Medicare recognizing that there is inflationary pressure associated with patient care that even though, all other things being equal, Medicare would prefer to hold rates or reduce them, they do need to pay the providers to make sure they're able to care for their residents.

The other sort of governing body is each individual state, which sets the Medicaid payment policy. And roughly half, if not more, of our patients in our skilled nursing portfolio are Medicaid patients. And so those payment policies are very important for us to monitor.

When we look at the states in which our skilled nursing assets are concentrated, we actually saw some outsized increases to Medicaid rates. For an example, Illinois recently passed a $700 million overhaul of the Medicaid program, which will result in sort of meaningful increases to Medicaid patient care we estimate somewhere in the 10 percent to 11 percent range.

All of that, again, is to say that the states would probably rather have flat or no increases. But they recognize that they need to pay the operators to ensure quality patient care.

And many of those rate increases are effective either July 1 or September 1, so we haven't seen those roll through our results yet.

Tal Woolley

So fingers crossed, hopefully, that we should expect to see some improvement in the coverage ratios maybe by the end of the year? Is that a reasonable assumption?

Bryan Hickman

I would expect those things—

Scott White

Yes.

Bryan Hickman

—to have a positive impact on coverage. Yeah.

Scott White

Yes.

Tal Woolley

Yeah. Okay. And then just a bigger picture. As you're sort of reformatting the portfolio here, is there a target amount of dispositions you're looking to achieve or a leverage target or a target asset mix? And how long do you think it will take to get there?

Scott White

So let me start with the last part of the question and work backwards. In terms of target asset mix, we are pushing to become a predominantly seniors housing portfolio. I emphasize the word predominantly because I want to be careful about not suggesting we're going to be exclusive.

And why do I do that? Because, as I've said a few times, we're not going to sell assets just for selling's sake. We're being very methodical, thoughtful, maybe even slow to a certain degree to make sure that we find the right buyers to maximize value.

If I had that proverbial magic wand, I'd love to be 100 percent seniors housing by year-end. But I don't have that magic wand, so I have to be realistic in saying that when we find the right opportunities, we're going to continue to dispose of non-seniors housing assets.

We've already eliminated a number of seniors housing assets that were just cash flow negative. So we've strengthened the seniors housing portfolio. We've eliminated non-seniors housing assets. And my goal, hope, expectation is that as we get to year-end and into the new year, we'll be substantially all seniors housing.

As it relates to leverage, we're continuing to chip away at it. As you can imagine, it's hard, right? When you started as a—I shouldn't say started. When earlier this year or last year you were levered at the levels you are, it takes a lot to chip away.

Higgs, what have we chipped away at from a leverage standpoint over the last 6, 12 months?

Scott Higgs

Well, the last 12 months it's about 400 basis points down.

Tal Woolley

Okay.

Scott White

So you've eliminated 400 basis points over the last 12 months, and you should expect to see that we're going to keep slowly chipping away at that. As you know, we have a convert coming due next year, so that's part of our thinking as we think about delevering.

What else was in your question? Did I miss anything? Oh, the target pace of dispositions. Yes. Target pace. So there isn't a—

Tal Woolley

Yeah.

Scott White

—specific target pace of I don't want to have—as you look back over the last, I guess it's year and a half, we're probably close to $400 million now. But I don't want to suggest, well, that was below $400 million, or that the forward goal is X hundred million. That's not the goal at all.

The goal is to maximize value, create incremental value for our shareholders, and reposition the portfolio as a simpler predominantly private-pay seniors housing portfolio.

Tal Woolley

And, Scott, I guess, like I just—to ask the question simply because of your prior experience with health lease and stuff like that, is it—like are we positioning this ultimately to try and sell Invesque? Or are we looking to have this be sort of like an ongoing—you want to continue to run this for the long term in the public markets?

Scott White

Yeah. Look, everyday we're looking to maximize value for shareholders. And any which way that can happen is what we're focused on. What exactly that looks like, I think it's hard to say.

It would be, I think, inappropriate to suggest that we run the Company either for sale or for some strategic option. We run the Company to create shareholder value. Whether that comes through some sort of strategic sale, or through some sort of other method, I think it's to be determined.

Tal Woolley

Okay. And then just lastly, the Magnetar preferreds. If I recall correctly, there's a ratchet in the liquidity preference and I can't remember when that starts to kick in, if it's coming soon.

And also, I just—like it's an expensive piece of capital, too. Like is there any thought to trying to refinance that out?

Scott White

Higgs, you want to take the—

Scott Higgs

Hey, Tal.

Scott White

—ratchet element?

Scott Higgs

Yeah. For sure. I can follow up with you in terms of the specifics of the elements of Magnetar. But in terms of current state, I think, in terms of priority and costs, right, I mean, we have the 2023 debenture due 13, 14 months from now, which we're focused on. And the end cap preferred equity actually has a higher coupon rate today and that one ratchet starting August 1st of '23.

So in terms of coupon rate, that one is a little bit more expensive. So I'd say that's where we're focused on.

Tal Woolley

Okay. And you're free to like take that out at any point? Or is there a—

Scott Higgs

That's correct.

Tal Woolley

Okay. And there's no like—

Scott Higgs

That's correct.

Tal Woolley

Got it. All right. Perfect. Thanks, gentlemen. Appreciate it.

Scott White

Thanks so much.

Operator

And that does conclude the question-and-answer session for today and it also concludes today's conference. Thank you, all, for your participation. You may now disconnect.