FINAL TRANSCRIPT

Invesque Inc.

Second Quarter 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Scott Higgs
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Scott White
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Adlai Chester
Invesque Inc. — Director and Chief Investment Officer

CONFERENCE CALL PARTICIPANTS

Joanne Chen
BMO Capital Markets — Analyst

PRESENTATION

Operator

Good morning ladies, and gentlemen, and welcome to the Invesque Second Quarter 2021 Earnings Conference Call.

Today's call is being recorded.

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

Scott Higgs — Chief Financial Officer, Invesque Inc.

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

Scott will kick things off with an industry update and highlight some of the transactions our team completed over the last few months. I will then cover our second quarter financial results, and Adlai will provide additional details on some of our strategic transaction activity and portfolio management efforts before opening the line for Q&A.

Second quarter 2021 earnings release, financial statements, and MD&A are available on our website, and a replay of this call will be available from 12:45 p.m. Eastern Time today until 11:59 p.m. Eastern Time on August 19th.

As always, please be reminded that today's call may include forward-looking statements regarding our future operation. 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. Thank you for joining our second quarter 2021 earnings call. I hope everyone is safe and healthy as we all continue to manage through these extraordinary times.

The last 18 months have been extremely challenging for our industry. Our operators navigated one of the most challenging operating environments we have ever seen, and I'm happy that we continue to see positive trends within the portfolio.

Once again, I'd like to acknowledge the frontline health care workers and all of our operating partners. They play the most critical role in our communities as they serve our residents and families throughout this ongoing global health pandemic.

I want to start the call by welcoming Michael Faber and Gail Steinel to the Invesque Board of Directors. As we noted in our last quarter press release, we engaged Ferguson Partners, a market-leading executive and board recruiting firm, to assist us in the search for two new board members.

After a broad and robust search, we are fortunate to add Michael and Gail to our board. Both Michael and Gail bring a wealth of experience in the public company arena, including expertise with real estate, capital markets, financial reporting, and corporate strategy. I am confident that they will be fantastic additions to the Invesque board, and we will leverage their skill sets as we navigate the rapidly changing marketplace to create long-term shareholder value.

Our team has been very busy over the last couple of months, executing and closing on some previously announced dispositions and transitions as we continue to focus on portfolio management.

Streamlining and strengthening our relationship with Symphony has been one of our main focus areas over the last few years. As we announced on our earnings call in May, we completed the transition of four skilled nursing facilities, previously leased to Symphony, to Cascade Capital Group on April 30th.

We also sold one property in Chesterton, Indiana to Symphony for $20 million, netting $5.5 million in cash proceeds for the Company.

A few weeks later, we completed the final series of transactions underlying the Invesque and Symphony relationship. This final phase included the sale of three additional facilities with Symphony for $55.5 million, netting $10.5 million of cash proceeds.

Symphony also posted a nonrefundable deposit into escrow to purchase one additional asset, Symphony of Chicago West, for $30.5 million. Symphony is obligated to purchase the Chicago West asset on or before May 1, 2024.

Concurrent with these asset sale closings, we entered into a 15-year amended and restated master lease with Symphony for the remaining assets in the portfolio, restructured the outstanding loan agreements with Symphony, and amended Invesque's warrant interest in Symphony to make it exercisable at anytime.

This is a complex, thoughtful, and collaborative process between both the Invesque and Symphony teams, and I'm thankful for all the hard work both sides put in to execute this new framework.

Symphony represented over 75 percent of NOI at the time of our IPO a little over five years ago. Today, Symphony represents less than 15 percent of our pro forma NOI. Achieving diversification of our portfolio has been a long-standing goal, and we believe that both Invesque and Symphony are set up for long-term success under this new framework.

To kick off the third quarter, we sold four seniors housing communities to our former tenant, Inspirit Senior Living. The Inspirit transaction closed on July 1st, and resulted in approximately $15 million of net cash proceeds, inclusive of deposits held in escrow released at closing. We use the net proceeds to continue de-levering our balance sheet. And I will touch on more specifics on this transaction later in the call.

Before I turn the call over to Scott to discuss our financials, I'd like to briefly touch on COVID-19 and its ongoing impact on our portfolio performance. We continue to see minimal COVID-19 positive cases within our portfolio as the vast majority of residents and a good majority of our associates have received the COVID-19 vaccine.

The limited number of one-off positive cases we've observed over the last month have mostly been with unvaccinated associates. In these cases, our operating partners have continued to follow state and local guidelines, ensuring resident health and safety remains their top priority.

The teams have done a tremendous job working to return to a more normal operating environment over the last several months, and we're starting to see some positive trends in occupancy. We continue to monitor our portfolio carefully and remain cautiously optimistic that the industry and our portfolio will return to and eventually exceed pre-pandemic levels.

As I've done in previous quarters, I'll touch on some key metrics we're seeing at our subsidiary management company, Commonwealth Senior Living, which provides unique day-to-day insight into a world-class operator seniors housing.

Commonwealth continues to see strong long-term move-in numbers following March, which saw the highest number of move-ins in the Company's almost-20-year history.

Occupancy at Commonwealth continued to trend positively throughout the second quarter and in July. Spot occupancy in the 20-community Commonwealth portfolio that we acquired in August 2019 was 50 basis points higher on June 30th versus March 31st. Spot occupancy was over 120 basis points higher on July 31st versus June 30th on the same 20-asset portfolio.

While census gains may be slower than everyone in the industry would like, I continue to be optimistic that demand fundamentals will remain strong for the seniors housing over medium and long term.

With that said, the global pandemic has provided new challenges for our operators across the industry, including those within the Invesque family. Labour shortages for frontline caregivers continue to be a major issue, and these challenges are unlike anything that have been seen in our industry in the past. Together with our operators, we are working collaboratively to find creative solutions to address these unprecedented staffing issues.

The bottom line is the pandemic transformed our industry and continues to impact our portfolio. I believe the worst is behind us and I'm confident we'll come out stronger as an industry.

We continue to work through occupancy and staffing challenges but remain committed to our investment thesis and strategy. The industry is not going away. The demographic trends remain strongly in our favour. As I said many times in the past, real estate investing is a long-term strategy that requires vision and patience. With one of the youngest portfolios in the industry and exceptional operating partners, I'm very optimistic about our business and our portfolio.

With that said, I'll hand it over to Scott to touch on some of our key financial metrics for the quarter.

Scott Higgs

Thank you, Scott. For the quarter ending June 30th, FFO was $0.18 per share and AFFO was $0.16 per share. During the second quarter, we executed a series of financing transactions that reduced overall company leverage by approximately 150 basis points relative to last quarter.

You all know that this is an ongoing trend as we focus on continuing to reduce leverage and strengthen our balance sheet.

We utilized our corporate credit facility, led by KeyBank, to refinance portfolio debt of approximately $47 million. This refinancing transaction alone will provide for $2.5 million of annual cash flow savings and approximately $1 million of annual accretion to AFFO.

This refinancing transaction represented the debt underlying our portfolio currently operated by Constant Care and provided the additional benefit of allowing us the option to consolidate the two existing leases we currently have with Constant Care into a single master lease.

As a reminder, currently 94 percent of our triple-net tenants are either subject to a master lease or Invesque has the ability to consolidate into a master lease. This provides Invesque, as a landlord, with enhanced credit protection and cash flow stability.

We also utilized the proceeds from the asset sale Scott mentioned earlier to repay in full the $10 million of outstanding debt on the Magnetar credit facility. The Magnetar credit facility was set to mature in July of 2021 and represented the highest-priced debt in Invesque's capital stack. The payout provides for go-forward annual cash savings and accretion of approximately $900,000. In aggregate, these transactions provide for annual cash flow savings of approximately $3.4 million.

Inclusive of the Inspirit transaction, which closed on July 1st, we have reduced our covenant leverage by nearly 250 basis points since March 31st, and we are now standing at approximately 58.3 percent leverage. This reduction in covenant leverage provides Invesque, pursuant to its credit agreement with KeyBank, savings of 40 basis points on interest rate spread compared to Q4 and Q1. This spread reduction equates to an additional $1.5 million in go-forward annual interest cost savings.

As of June 30th, we have less than 6 percent of our total debt maturing over the next 12 months. Our finance team continues to be busy exploring opportunities to take advantage of the current capital markets with a renewed focus on consolidating debt to further ladder our maturity.

The debt market continues to remain attractive, and we are actively looking up and down our capital structure to maximize cash flow savings and value for all of our stakeholders.

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

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

Thank you, Scott. As expected, we saw a continued decline in the performance of our stabilized portfolio as of March 31st due to the ongoing impacts of COVID-19. It is important to note that we report the operating metrics of our triple-net lease portfolio and quarter in arrears due to the timing of receipt of operator financial statements.

On a trailing 12-month basis, our portfolio-wide EBITDAR and EDITDARM coverage ratios were 1.0 times and 1.2 times respectively.

As of March 31st, our trailing-12-month occupancy for the stabilized triple-net assets and stabilized SHOP portfolio was 78 percent and 81 percent respectively, while our medical office portfolio stabilized occupancy declined to 83 percent.

While we do not have full second quarter data for most of our triple-net tenants at this time, we did see some positive gains from our SHOP portfolio in the second quarter, and those census increases continued through the month of July.

As Scott mentioned earlier in the call, the Commonwealth portfolio saw an uptick in census in July, and even recorded 100 basis-point occupancy gain during the last week of the month. We are certain there will continue to be ups and downs throughout our communities in the coming months, and the census rebound will be positively or negatively impacted by local market dynamics. But we believe that our portfolio reached its low point from an occupancy standpoint in the first half of the year and will continue to trend positively throughout the remainder of 2021 and into 2022.

As Scott noted at the top of the call, we closed on the sale of four communities to Inspirit on July 1st. Inspirit operated these assets as part of a triple-net lease joint venture with Invesque for the last several years. Inspirit proposed the acquisition of our majority interest in the real estate as they look to grow their real estate holdings. The sale was a win-win situation as we achieved attractive pricing on older assets at approximately $125,000 per unit and improved our liquidity while allowing Inspirit to grow their own portfolio as part of their own strategic plan.

The sale netted Invesque over $15 million, including deposits and escrows that were held by the lenders, which were released to us at closing. We enjoyed our relationship with the Inspirit team and we wish them nothing but the best of luck going forward.

Moving onto the investment front, we are excited to announce that, in partnership with Ellipsis and Health Dimensions Group, we broke ground on the development of a 100-unit assisted living memory care facility in Parker, Colorado. The project is expected to be completed by the end of 2022 and will feature a total project cost of approximately $32 million.

The real estate is owned by a joint venture between us, Ellipsis, and Health Dimensions Group. For our 70 percent ownership stake, we contributed the land and approximately 2$ million in cash. Invesque has owned the land for this project since 2018, and we are excited to get the project launched.

Our exclusive development relationship with Ellipsis has been a key differentiator for Invesque in growing our private-pay portfolio with brand-new class A development projects.

Ellipsis developed the majority of our Constant Care portfolio over the last few years, and Constant Care now represents almost 5 percent of our pro forma NOI.

We're excited to expand the Ellipsis relationship to include Health Dimensions Group with the Parker transaction. Health Dimensions Group is an extremely well-respected premier operator of senior housing in the United States and is a partner that we are excited to add to our tight-knit group of preferred operators.

I'll now comment briefly on the transaction activity in senior housing and skilled nursing. In spite of the challenges the COVID-19 pandemic has presented to both asset classes, transaction activity has started to increase. Several companies have recently announced intentions to or have deployed in excess of $2 billion. The transactions have been closed at future cap rates that are well below historic norms for our industry, and many have featured attractive per-unit prices which we estimate to average around $200,000 per unit.

These valuations compel us to continue to diligently manage our portfolio and look for opportunities to dispose of noncore assets at attractive pricing where such opportunities present themselves.

This could lead to additional dispositions during the second half of 2021. Similarly, we may find opportunities to recycle capital from dispositions as we look to grow with our preferred operating partners.

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

Q&A

Operator

Thank you. If you would like to ask a question today, please press *, followed by the digit 1. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again *, 1 and we'll pause for just a moment. And as a reminder, it's *, 1 to ask your question.

And at this time, I would like to—we just had a question come in from Joanne Chen with BMO Capital Markets.

Joanne Chen — BMO Capital Markets

Sorry, can—hello? Hello?

Scott Higgs

Thank you, Joanne.

Joanne Chen

Oh, hi. Sorry about that.

Scott Higgs

Hey, how are you?

Joanne Chen

Good, good. How are you? Yeah. I just wanted to check in and see just, I was wondering, are there any more capital recycling opportunities over the near term that you guys have identified for the portfolio?

Scott White

So we continue to review our overall portfolio and look for opportunities to recycle capital to eliminate noncore assets, to redeploy capital, to de-lever. There's nothing immediately on the horizon of things that we're working on, but I'd say, Joanne, that that's an ongoing process. As we mentioned in the last couple quarters, asset management is first and foremost for us and that is part of our strategy.

Joanne Chen

Okay. Great. And I guess just, obviously no one has a crystal ball, but just with the Delta variant now, are you seeing so far after quarter-end any changes with some of the operations, given what's going on with the Delta variant?

Scott White

Yeah. I think it is a tough day to answer that because I feel like over the last two, three, four days we've seen some changes globally. I wouldn't say just within our industry or our portfolio. But if you think about that question last week versus today, I think it's a different question with a potentially different answer. As of today, we haven't seen any meaningful changes immediately in our portfolio or in the industry. However, I think people are more aware and more focused on the fact that the Delta variant is presenting issues globally.

As I mentioned in our remarks, substantially all of the residents in our portfolio have been vaccinated and a vast majority of our associates in the portfolio have been vaccinated. So that helps considerably when you think about the Delta variant and you think about the populations that are impacted by it, it does help that within our portfolio and I'd say broadly within the industry, that vaccinations have been widely accepted.

Joanne Chen

Yeah. That's good to hear. Okay. Really, no. That's it really from me. Thanks. I'll turn it back.

Scott Higgs

Great.

Scott White

Thanks so much.

Operator

And that will conclude today's call, everyone. We thank you for your participation and have a good day.