Invesque Inc.

Second Quarter 2023 Conference Call

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CORPORATE PARTICIPANTS

Scott White
Invesque Inc. — Chief Executive Officer

Adlai Chester
Invesque Inc. — Chief Financial Officer & EVP, Investments

CONFERENCE CALL PARTICIPANTS

Tal Woolley
National Bank — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Invesque's Second Quarter 2023 Conference Call.

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

Scott White — Chief Executive Officer, Invesque Inc.

Thank you, Operator, and thank you, all, for joining our second quarter 2023 conference call. I'm joined today by Adlai Chester, our Chief Financial Officer and Executive Vice President of Investments.

The second quarter earnings release, financial statements, and MD&A are available on our website, and a replay of this call will be available 12:45 p.m. Eastern Time today until 11:59 p.m. Eastern Time on August 28th.

As always, please remember 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'll turn to some of the highlights for the second quarter. Our team was very busy continuing to execute on our simplification strategy.

The highlight of the quarter was the completion of the SymCare portfolio sale for $121 million, which we previewed on our last call. Seven of the eight assets were sold on June 1st, with the final asset closing after the quarter-end in July. This transaction represents significant progress in the reduction of our skilled nursing exposure and was a major priority for the Company. Following the sale, Invesque no longer leases any assets to SymCare, and we've reduced our skilled nursing portfolio to just nine properties.

In addition to the SymCare sale and as announced on our earnings call in May, we sold one medical office building during the second quarter. The sale of the MetroWest Medical Centre in Orlando, Florida for $6.4 million occurred in April and represents another step in simplifying our portfolio and our balance sheet as we continue to look to exit our medical office portfolio.

We have two remaining medical office buildings and are actively marketing both of them for sale. I expect that they'll be sold within the next 12 months.

We touched on this briefly last quarter, but at the beginning of the second quarter, we added a new operator, Chapters Living, to our triple-net portfolio. The Chapters Living team signed a long-term lease for three memory-care communities located in Texas and Arkansas that were previously leased to another operator.

It has been more than 90 days since the transition, and we're pleased with the progress Chapters Living has made with implementing policies and processes that should result in improved operations and financial results. I'm excited about having Chapters Living as one of our operators and look forward to seeing continued progress from this portfolio.

The second quarter results for our SHOP operators were solid, including continued growth in occupancy and net operating income. Our Commonwealth and Heritage portfolios have both hit and maintained pre-pandemic occupancy levels, an achievement few operators in the industry have achieved to date. The Commonwealth portfolio has seen additional occupancy growth so far in the third quarter, and I’m hopeful that the steady growth we have seen over the last four quarters will continue for the rest of the year and into 2024.

Our operators have not only been successful growing census, but also revenue per resident. Specifically, Commonwealth grew year-over-year average revenue per resident day by 6 percent, and Heritage achieved growth of 5.2 percent.

Additionally, Commonwealth and Heritage continue to see improvements in the availability and retention of staffing, which has been an ongoing challenge for more than three years. We expect this will result in more modest operating expense growth going forward.

We remain bullish on the senior’s housing industry and believe that the efforts we have taken over the last two to three years, to focus our portfolio specifically on this asset type, will prove beneficial in the coming years as the demand for seniors housing reaches a level we have never seen before.

As we have highlighted a number of times recently, the Company strategically set out to simplify with a focus on pruning the portfolio and improving our balance sheet. We made significant progress on the portfolio front via dispositions and operator transitions and are now hyper-focused on the balance sheet.

I’ll now turn the call over to Adlai, who, as of August 1st, has assumed the role of Chief Financial Officer in addition to EVP of Investments. Adlai will review our financial results for the quarter and touch on a few noteworthy items relating to our KeyBank credit facility. Lastly, he’ll provide an update on transaction activity in our company.

Adlai Chester — Chief Financial Officer & EVP, Investments, Invesque Inc.

Thank you, Scott. For the three months ended June 30th, FFO and AFFO were each $0.10 per share. Consistent with theme (phon) from prior quarters, our priority is to delever and streamline our capital stack. Sales of SymCare assets have allowed us to do both of those things.

Between March 31st and June 30th, we paid down our corporate credit facility by over $122 million. Subsequent to the second quarter, we repaid an additional $19.4 million as part of the sale of the final SymCare asset. This brought the total pay-down to over $141 million.

We believe these transactions substantially de-risk the portfolio that supports our corporate credit facility and positions us to work collaboratively with the bank group to extend the pending maturity of our corporate credit facility.

On that note, we are currently working in earnest with KeyBank and the remainder of the bank group on an extension of the credit facility, which currently matures at the end of 2023.

As part of the negotiation, we have agreed to restrictions on the amount of September 30, 2023, convertible debentures that can be repaid. As an amendment to our current credit agreement, we agreed that no more than 10 percent of the outstanding principal balance of those debentures will be repaid later this quarter. This is a reduction in what had previously been agreed upon with debenture holders, but refinancing and extending the KeyBank credit facility is our highest priority. Our belief is that this was a necessary concession to lay the framework for finalizing a deal with Key.

We realize that this is disappointing news to debenture holders who have long supported Invesque but, as a management team, we believe that it is our highest priority to ensure that the Company is on solid financial footing, which starts with our senior lending partners. We will continue to work in good faith with all of our stakeholders, including the debenture holders, and will utilize all resources at our disposal to ensure that they are treated equitably as we continue to stabilize our capital structure.

I am pleased to report that late Friday of last week, we have executed a nonbinding term sheet from KeyBank and the other participating lenders. The term sheet contemplates extending the credit facility to March 31, 2025. We will be working diligently over the coming weeks to document and work towards the closing of the extension.

Moving on to our portfolio performance. Our stabilized portfolio EBITDARM coverage remained just below 1.0 times for the period ended March 31, 2023. As of March 31st, the trailing 12-month occupancy for the stabilized triple-net assets and stabilized SHOP portfolio was 76 percent and 81 percent respectively.

As Scott mentioned, our aggregate SHOP portfolio saw solid traction during the quarter, which translated into favourable operating results. Occupancy continued its steady gains with a sequential increase of 80 basis points. The combination of occupancy growth and rate growth, highlighted by Scott, led NOI to increase by 5.5 percent, sequentially.

Staffing in many markets has stabilized, and our SHOP operators feel good about where things are headed in the coming months.

Transactions highlighted earlier in the call and in our press release from this morning represent meaningful progress towards achieving our stated goal of becoming a predominantly private-pay senior housing company, but they don’t represent the culmination of that strategy.

You should expect to see us continue to proactively manage our remaining portfolio. This can and will include identifying noncore assets or those that we think may work against our goal of growing and stabilizing earnings. The process for identifying these assets is ongoing, and I anticipate we will have further transactions to tell you about in future earnings calls.

With that, I will turn it back to the Operator to open the line for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press *, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Tal Woolley with National Bank Financial. Please go ahead.

Tal Woolley — National Bank

Hey. Good morning.

Adlai Chester

Good morning, Tal.

Scott White

Good morning.

Tal Woolley

Just wondering, Adlai, if you can talk a little bit about the pending credit facility extension. Can you talk just sort of about what kind of amount is, in principle, you're discussing? And what sort of rates we should be expecting on the refinance?

Adlai Chester

Still negotiating on that piece, Tal. You should expect the amount that's outstanding at 6.30—we're not going to see any further substantial pay-down; maybe a little, slight one. But for the most part, in that, call it, $200 million range is a good number to use.

In terms of the interest—

Tal Woolley

Okay.

Adlai Chester

In terms of the interest rate, that's still in negotiation. That, we haven't landed on yet.

Tal Woolley

Okay. And the debenture modification, so you can proceed with, I believe the number was $5 million?

Adlai Chester

Yeah.

Tal Woolley

That's what you're able to do right now?

Adlai Chester

Yeah. Well, it's—yep. Yeah.

Tal Woolley

And is that—can you still use that approved plan by the debenture holders? Like, so if it's $5 million now, but then things free up in the future, like can you repay those? Or do you have to go back for approval?

Adlai Chester

Yeah.

Tal Woolley

I’m just trying to understand the mechanics here on how this works.

Adlai Chester

Yep. Yeah. So we’re in active conversations with the debenture holders at this point in time, trying to land on what that’s going to look like. But as far as the relationship to Key, they’re allowing the 10 percent pay-down now, nothing further. So if we were going to pay any more than that, we’d have to go back to Key.

Tal Woolley

Okay. I mean, worst-case scenario, like I guess you could just—once you’re in the clear with the lenders, you could just go to the market and buy down if you wanted to, as well?

Adlai Chester

Right.

Tal Woolley

But it’d be on the existing—

Adlai Chester

Right.

Tal Woolley

But it’d be on the existing terms of the debenture and not the modified terms?

Scott White

What do you mean by that?

Tal Woolley

Sorry. I guess I'm—like I guess what I'm trying to understand is, if you've got the $5 million pay-down now, you were planning to pay down, I think, $22 million or something like that?

Adlai Chester

Yep.

Scott White

Yep.

Tal Woolley

If you pay down $5 million now, can you do the other $17 million later, once you're in the clear with the debenture holders? Or do you have to go back to them to submit another plan?

Scott White

To the debenture holders? Or to KeyBank?

Tal Woolley

Yeah. To the debenture holders.

Scott White

So we're in current sessions with the debenture holders. I think it's too early to share where we end up with that.

Tal Woolley

Okay. So it's still something in process. Got it. All right. Yeah.

And then, I guess, with the disposition plan, are there—do you have like sort of a visibility to kind of like what your run rate NOI would be from the different segments of the business, once you're sort of done with the dispositions?

Adlai Chester

I think we have a pretty good eye on—

Scott White

We do—go ahead, Ad.

Adlai Chester

Sorry. No, no. Go ahead, Scott.

Scott White

Yeah. I was going to say, we do. I mean, we've had a cash projection plan and an NOI plan that we update each year for the last—as long as the business has been around. And we have a three and five-year projection that we've been executing on. And there haven't been big surprises in terms of—as you've noticed, probably, from our earnings release this quarter is there aren't big surprises in the ongoing run rate NOI. As we sell off assets, it's obviously reduced, but there aren't sort of meaningful peaks or valleys.

Tal Woolley

Okay. Where would you—

Adlai Chester

And—

Tal Woolley

—peg run rate NOI right now?

Adlai Chester

Yeah. Tal, and that's something I can help—

Scott White

I think we've—

Adlai Chester

—on your modelling—

Scott White

Go ahead.

Adlai Chester

Yeah. Tal, it—yeah. We haven't historically disclosed, specifically, forward-rated NOI, but with that said, I think I can help bridge you to what you're going to try and get to.

Tal Woolley

Okay. That's great. And then, just lastly, you've got like some other parts of your cap structure that are—like I'm thinking of like the preferred equity investment from Magnetar—that are costly. And I'm just wondering, is there a way to like refinance those? Or refinance them out at some point down the road?

Scott White

Sure. Yeah. Absolutely. I mean, as part of our overall strategy, we've been wanting to simplify our cap spec. I will tell you that costly is a relative concept, but as interest rates can creep up—

Tal Woolley

Yeah.

Scott White

—all of a sudden, a lot of our financing is like—

Tal Woolley

That's true.

Scott White

If you listen to our call from a year ago, I told you there were certain things we were chasing to eliminate because of their relative costs. Now as I look in the—

Tal Woolley

Yeah.

Scott White

—rearview mirror, I'm less anxious to eliminate those because they do have locked-in and—even what you just referred to, the Magnetar prefs, across all the classes of prefs—so yes, there's some that are more and less expensive, but we don't have the right to just take out a specific class. As you look at the average cost of those prefs, they're not very expensive relative to the cost of capital today.

Tal Woolley

Okay. And then, just the last thing on your seniors housing portfolio. How are you finding—like you said you've recovered to occupancy if—or sorry—pre-COVID occupancy.

Scott White

Yes.

Tal Woolley

Do you have an idea of like what sort of occupancy growth is sort of reasonable to expect from this point forward?

And also, just wanted to ask too about how you're finding staffing and things like that in the facilities.

Scott White

Okay. So on occupancy growth, I think it's going to be a bit more muted, relative to what we've seen over the last couple quarters, right, because you had a big valley, so then you worked yourself back to the peak. So on a quarter-over-quarter basis, I do think you're going to see more of a levelling-off, as opposed to the exponential growth we've seen over the last few quarters.

As it relates to staffing, it is definitely improving. It continues to be a challenge. There's no doubt about that. As you look across the US labour market, forget about our industry, staffing is still a challenge across all industries, and our industry has historically always had a challenge with staffing. With that said, as we mentioned in our remarks, the cost of attracting and retaining has levelled off, relative to the last few quarters, when it was really just skyrocketing quarter over quarter.

Tal Woolley

Okay. And in the triple-net portfolio, you've done so much work transitioning operators. Do you feel like, at this point in time, the operators that you've got, everyone's on steady ground now? And we're not expecting any more operator transitions going forward?

Scott White

I think that's fair to say. The only thing I would caveat is we continue to look at the portfolio for selective pruning. So I don't expect that you'll see big operator changes.

But as we announced at the beginning of our simplification strategy, not only were we looking to focus the portfolio on seniors housing, around the margin; there are some smaller relationships that we have and, as we try to focus our attention and our energy on the highest and best uses, I think there is an opportunity to continue to reduce the number of operator relationships and number of disparate portfolios we have.

Tal Woolley

Got it. Okay. That's great. Thanks, gentlemen. I appreciate it.

Adlai Chester

Okay.

Scott White

Wonderful. Thanks, Tal. Have a great day.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.