FINAL TRANSCRIPT

Invesque Inc.

Fourth Quarter and Year-End 2017 Earnings Conference Call

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Stephane Boire
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Troy MacLean
BMO Capital Markets — Analyst

Matt Kornack
National Bank Financial — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Invesque Fourth Quarter and Year-End 2017 Earnings Conference Call.

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

Scott Higgs — Chief Financial Officer, Invesque Inc.

Thank you, Denise. Good morning, everyone. With me today are Scott White, our CEO, and Adlai Chester, our CIO.

For today's call, Scott will discuss our activity for the quarter and highlight some of our key accomplishments. I will then cover our fourth quarter and year-end financial results, and Adlai will recap our recently announced investments. Then we will open up the line for your questions.

The fourth quarter and 2017 year-end earnings release, financial statements, and MD&A are available on our website, and a replay of this call will be available from 1:00 p.m. today until midnight on March 22nd.

Before we get started, please be reminded that today's call may include forward-looking statements regarding our future operations. Such statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied today. We have identified such factors in our news release and other public filings.

As we discuss our performance, please bear in mind that all amounts are in US dollars.

With that, I'll turn it over to Scott.

Scott White — Chief Executive Officer, Invesque Inc.

Good morning, good morning. It's amazing to think that we first launched only 22 months ago. 2017 was a blockbuster year for Invesque, and we are very excited about the platform we've been building.

In under two years, we have grown our portfolio to over 100 properties, and we are now one of the premier health care real estate companies in North America.

To kick things off, I'd like to start with our rebranding as Invesque. This is our first earnings call under the new name. Invesque is a brand that encompasses our larger strategic initiatives while further establishing us as a global real estate investment firm.

We're an investment firm at our core, but we do things differently. We have a unique approach to our business with an eye towards thinking and executing differently. An investment firm that is truly unique: Invesque.

The name change is just one of many accomplishments. In November, we announced the transformative acquisition of Care Investment Trust for $425 million, which we just closed last month. We also announced almost $120 million in other acquisitions during the quarter.

We funded these acquisitions through creative capital structuring by using our shares as currency, as well as executing on a preferred equity private placement. All of the investments announced in the fourth quarter have now closed.

As the year came to an end, we didn't take a break. There was no slowing down; there was no rest. Rather, we were energized.

We started 2018 very quickly by announcing the expansion of our platform into the medical office sector with the acquisition of Mohawk Medical Properties REIT. What a great opportunity for us and our shareholders to partner with this world-class team.

The acquisition of 14 medical office buildings in Canada and the US is just the beginning. We look to grow this platform, and further enhance our relationship with Mohawk.

In total, we have announced approximately $750 million in acquisitions over the last five months. By doing so, we have substantially increased the number of private pay assets, the number of operators, and the number of states we own properties in. We have diversified in a meaningful way, exactly as we told our investors we would do.

The Care Investment Trust transaction was a milestone for Invesque. We more than doubled our portfolio by property count, increased our private pay assets, expanded our geographic footprint to 19 states and one Canadian province, and grew our operator base to 19 high-quality partners. Notwithstanding the assumption of debt, the Care Investment Trust acquisition was an all-stock transaction.

In December, we announced a preferred equity private placement with one of our largest existing shareholders. The offering was actually upsized last month to $71.5 million. Scott Higgs will provide some additional details about the preferred equity offering later in the call.

On our last call, I mentioned the opportunities in the industry and our disciplined approach to growing the portfolio strategically. Our activity over the last 150 or so days demonstrates our ability to execute on this strategy, grow our asset base, strengthen our platform, and maintain discipline while focusing on creating value for our shareholders.

We're very pleased to have announced $750 million of accretive acquisitions, added 66 properties, and successfully raised over $70 million in a private placement in what has been challenging capital markets.

We aren't resting any time soon. We continue to remain disciplined in our approach to identifying and underwriting new investments, and capitalizing on the opportunity presented in a macro environment. Our platform is robust, and we are positioned to grow across our portfolio.

Adlai will talk a little more about our investment activity later in the call, but to discuss the financial results for the quarter, I'll now hand it over to Scott Higgs.

Scott Higgs

Thank you, Scott. I'm excited to announce performance for our first full year of operation.

For the year ending December 31st, FFO was $0.87 per share and AFFO was $0.96 per share.

Additionally, our payout ratio on an AFFO basis was 77 percent, which is consistent with our target payout ratio in the mid-70s. This conservative payout ratio provides us with high confidence in our dividend.

We also continued to maintain an attractive debt profile. At year-end, our credit facility had approximately 215 million drawn with approximately 24 million of capacity. Also at year-end, our debt was over 75 percent fixed rate.

Excluding debentures, our debt to total assets is below 50 percent, largely unchanged from previous quarters and in line with our targets.

As part of the acquisition of Care IT, we assumed 261 million in property-level debt, which has a weighted average cost of 4.7 percent. We believe that consolidating and refinancing some of this debt will provide additional opportunities for cost reductions and the ability to extend debt maturities. This is one of the many strategic benefits to our enhanced size and diversification.

During the fourth quarter, we had a unique onetime expense. We incurred costs associated with the Care IT transaction that are accounted for in the period in which they are experienced. These onetime costs totalled approximately $2 million and are not recurring in nature.

Operating partners continued to deliver solid performance at our facilities. At year-end across the stabilized portfolio, our occupancy is largely unchanged at 87 percent and our EBITDAR and EBITDARM coverage ratios remain largely unchanged at 1.2 and 1.5 times, respectively.

Finally, let me share some more details around the preferred equity private placement Scott referred to earlier. We are very pleased to have supportive existing investors. As previously mentioned, we received a commitment for $71.5 million into convertible preferred equity structure.

This capital commitment was spread across three tranches. The first tranche was for $26.5 million and funded in December. The second tranche was for 30 million and funded last month. We expect the third tranche to fund within the next 30 days.

We're very pleased with the terms, including the 5.65 percent coupon rate and the accreting of dividends into the conversion feature of the investment, which provides cash flow stability and does not affect the cash flow available to our common shareholders. Further, this preferred equity structure highlights our ability to creatively source capital, as well as enhance the balance sheet and liquidity of the Company.

As Scott mentioned, we accomplished a great deal in 2017 and the first part of 2018. I'll now turn it over to Adlai to talk a bit more about the investments that we've made.

Adlai Chester — Chief Investment Officer, Invesque Inc.

Thanks, Scott. Q4 and the beginning of 2018 have been a very active few months, and we're just getting started. Let me begin by recapping our recent acquisitions.

In the fourth quarter, we announced the acquisition of two transitional care facilities located in Lincoln, Nebraska and Round Rock, Texas. The facility in Lincoln is operated by Hillcrest, further expanding our partnership with Jolene Roberts and our team in Nebraska.

The second facility is in Round Rock, just outside of Austin, and operated by Rapid Recovery of Texas, which is led by Mark Fritz, a well-respected industry veteran. Mark is considered a pioneer in the short-term post-acute industry, and he cofounded both Harden Healthcare and Remington Medical Resorts.

After year-end, we also closed on the acquisition of three memory care communities operated by Constant Care. Constant Care is a highly respected and very qualified team. We are lucky to have Chad Anderson as a partner, and we foresee several opportunities to grow with Constant Care.

Our biggest activity was closing the acquisition of Care Investment Trust. This portfolio is comprised of 42 properties with more than 37,000 beds across 11 states. The Care transaction was key to executing on our broader strategy to create a diversified investment platform.

The Care properties are almost entirely private pay senior living. Additionally, we added eight new operators in eight new states to continue diversifying among operators and geography. As a result of the transaction the seller, Tiptree, became our largest investor after taking back 16.6 million shares.

And of course, we didn't slow down after the Care acquisition. We jumped at the opportunity to expand our platform in a big, big way by adding medical office buildings into the portfolio.

As we mentioned, our strategy is to build a highly diversified portfolio of income-generating health care real estate assets. The recently announced acquisition of Mohawk Medical REIT is a great complement to our already growing platform.

The Mohawk portfolio is 14 multi-tenant medical office buildings with 11 in Canada and three in the US, all of which are managed by industry veterans Andy Shapack and Sean Nakamoto. The Mohawk transaction adds additional private pay assets to our portfolio while giving us a head start with a solid platform built for future growth.

The macro environment is strong, providing ample opportunities for future growth. The aging population continues to generate long-term need, validating our investment thesis. We remain focused and disciplined on investing in quality facilities in key markets with high-quality operating partners.

Our operators are our key to success. There is truly nothing more important than partnering with the right operators.

You will note that I mentioned some of our operators by their individual names. This is very deliberate. We need to be on a first-name basis with all of our operators to continue to succeed in this market.

We have more than doubled the number of operating partners within our portfolio, and those partnerships have and will continue to bear fruit for expansion possibilities. We will continue to diversify the portfolio with new investments in private pay senior living, medical office, and select skilled nursing opportunities.

We very much believe in the long-term viability of all sectors of our business. There will be changes, no doubt. There will be an evolution, as you find in every single business. We are building a forever platform, and remain focused on creating long-term shareholder value.

Before we wrap it up, let me just comment on one additional initiative we are proud to announce. We will be focusing more time and resources on building additional development partnerships. As we look ahead, we believe there will be ample opportunities to deploy capital in development projects with the right to acquire those projects upon completion. This is an excellent way for us to build our pipeline, and have a consistent flow of Class A acquisition opportunities.

With that, I'd like to thank everyone for joining the call, and I will now open the line for questions.

Q&A

Operator

Ladies and gentlemen, to ask a question, please press *, 1 on your telephone keypad. We'll pause for a moment as questions come into queue.

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

Stephane Boire — Echelon Wealth Partners

Hi. Thanks. Good morning.

Scott White

Good morning, Stephane.

Stephane Boire

I was wondering what does your mezz loan pipeline look like at this point? And do you see opportunities with other developers before year-end?

Scott White

Good morning, Stephane. Thanks for joining the call.

Stephane Boire

Thank you.

Scott White

So as Adlai highlighted toward the end of the call, we have a meaningful focus on development this year. We think there is substantial opportunity across the industry and across all the asset classes to do development. We love the structure of investing mezzanine or preferred equity into a development transaction or opportunity so that we could ultimately own the property.

We're not in the business of doing mezz loans for mezz loans' sake. We use mezz loans as an opportunity to build out our pipeline. You should expect to see a good amount of activity on that this year. There's lots of opportunities, and it's one of our strategic initiatives. I would say that in the coming months you should expect to see announcements around future development partnerships.

Stephane Boire

Okay. That's good. Thank you. And regarding your acquisition pipeline, are you primarily focused on CON states? Or are you purely opportunity-driven right now?

Scott White

Stephane, we are purely opportunistic. And you talk about CON states, and CON states matter in one of our verticals, call it skilled nursing, but remember we're building a highly diversified portfolio. So we're looking at medical office building opportunities, as Adlai mentioned before and I'll just repeat. We're really excited about the Mohawk acquisition, and Andy and Sean who joined us are industry veterans. We expect to grow that platform with them, so there'll be opportunity there. We expect to grow in seniors housing. You should expect to see us even diversifying into other types of medical-oriented real estate.

With that said, now let me get back to kind of the CON and skilled nursing. We'll be opportunistic where there's opportunities. I think you are right in that in the skilled nursing realm it is more likely that you would expect to see us invest in CON states. I think it would be a lower probability that we would acquire skilled nursing in non-CON states.

But again, as you ended your question, we're highly opportunistic. And for the right operator and the right transaction, we're very open.

Stephane Boire

Okay. That's good. And from a modelling perspective now, where should we expect G&A to stand as percentage of revenues for Q1, given the, I would say, very active quarter so far?

Scott Higgs

Yeah. So on a run rate basis, I think 90 to 100 basis points of assets is how I would look at the modelling.

Stephane Boire

Okay. Good. And last question, I was wondering if you might have any views or opinions on the upcoming Illinois state elections in November and on the ongoing budget issues? And on that same subject, do you see any additional risk in regards to your exposure to Symphony?

Adlai Chester

Yeah. So this is Adlai. Hi. Obviously from the political standpoint, I don't have any opinion necessarily on the election. I will say Illinois continues to struggle in terms of their financial wherewithal, and it has affected Symphony in terms of their ability to collect the Medicaid portion of their buildings. But we keep a close eye on it.

We still like Symphony. We still obviously love that the assets are in a CON state like Illinois. But we monitor it very closely. But yeah, there's no question that it's been some headwinds in the State of Illinois in terms of getting paid for the operator.

Stephane Boire

Okay. That's good. All right. So that's it for me. I don't have any other questions and congratulations on all the acquisitions, by the way.

Scott White

Thanks so much.

Scott Higgs

Thank you.

Operator

Your next question comes from Mark Rothschild with Canaccord Genuity. Your line is open.

Mark Rothschild — Canaccord Genuity

Good morning. Maybe starting with the Mohawk acquisition, you mentioned management joining you. Can you just talk about how that is structured as far as are they going to become employees working with you? How is that set up? And then also just continuing on that theme, you mentioned how you like the MOB sector. What is the target for you as far as how large you'd like or be comfortable with medical office becoming as part of the Company? Obviously, it's very different than a skilled nursing or an independent living facility.

Adlai Chester

Yeah. No, great question and the reason we like this transaction so much, so Andy and Sean and their team will not be employees. So that is an outsourced partnership, joint venture so to speak.

So we own the real estate; they're going to be managing it. And with their expertise, we feel very comfortable continuing to add to the platform. So I would expect to see us continue to add.

From a size standpoint, once again we've often said a third, a third, a third in these different buckets, and it's not saying that it's going to be exactly a third, but you can expect MOB to be a substantial part. We have a lot of faith in the Mohawk team.

Mark Rothschild

Okay. Great. And then my only other question is when you look at your coverage ratios with the tenants, do you focus more on the EBITDAR or the EBITDARM? And what is a target, a reasonable target for you to expect or where you'd be comfortable operating?

Scott Higgs

That's a good question. So we focus on both, but I'd say our predominate focus is on EBITDARM. And the reason for that is a lot of our leases we contain some claw-back features on management fees. So to get a full picture of what our actual coverage and what the cushion, so to speak, is within those rent payments to their operations, I think that's the most effective measure. And in terms of a run rate, I think 1.5 to 1.7 we're comfortable in that range, given the current makeup of our portfolio.

Mark Rothschild

Okay. Great. Thank you very much.

Scott White

Thanks for joining the call, and thanks for initiating coverage on us, Mark. Appreciate it.

Mark Rothschild

My pleasure.

Operator

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

Troy MacLean — BMO Capital Markets

Good morning.

Scott Higgs

Morning, Troy.

Scott White

Morning, Troy.

Troy MacLean

So you've gotten a percentage of the portfolio that's private pay now at or above 50. I'm assuming the target's to take that higher over time. So do you have any targets for like where you'd like to be in like two years?

Scott White

Yes. So, Troy, our goal always has been to build a highly diversified portfolio, and we have three broadly defined buckets. And the three broadly defined buckets are skilled nursing, bucket number one; seniors housing and i.e. private pay, bucket number two; and other strategic health care inclusive of MOB and other assets, quite frankly, that we're not in right now, bucket number three.

As Adlai alluded to before, our goal on a long-term basis to be approximately a third, a third, and a third, so by definition once we reach those goals—and I want to be careful because we don't manage tightly to buckets—but once we reach those goals that would mean at least two-thirds of the portfolio would be private pay.

Troy MacLean

But I guess another way to look at it, you wouldn't dip below 50 percent now that you've reached that target, so you wouldn't see a lot of SNF assets acquired here that would bring it down? Would that be fair?

Adlai Chester

Yeah. So I would say that you could see some ebb and flow from once in time (phon) so you could see it maybe pop up with a single transaction, but the goal back to what Scott said would be to push that down.

Troy MacLean

And then on the Omaha property you acquired in Q4, you received development lease payments. Are they going to continue in 2018? Or is that going to become rent-paying in Q1?

Scott Higgs

Rent-paying in Q1. You won't see it at all in '18 on that property.

Troy MacLean

And then on the onetime transaction costs that were expensed in Q4, since the transaction closed in Q1, can I—will there be any more that are going to come through in Q1?

Scott Higgs

There will be more in Q1, but I would expect substantially all of them roll through in Q1, and then we'll be done.

Troy MacLean

Perfect. That's it for me. Thank you very much.

Scott Higgs

Thanks, Troy.

Scott White

Thanks, Troy.

Operator

Again, to ask a question, please press *, 1 on your telephone keypad.

Your next question comes from Matt Kornack with National Bank Financial. Your line is open.

Matt Kornack — National Bank Financial

Good morning, guys.

Scott Higgs

Hey, Matt.

Matt Kornack

Quick question with regards to the development side. Would this be the type of development where you've de-risked it and you have a tenant in place in advance, and it's going to be a triple-net lease-type structure on the end? Or are you going to take some lease-up risk on these assets?

Adlai Chester

Yeah. Good question. Yeah. So we're not planning on taking any lease-up risk on assets, so it would be the same structure that you're used to seeing where we're investing with a developer who has a lease in place, or with an operator that's doing a development that we're supporting.

Matt Kornack

Okay. And in terms of type, it's not all transitional care-type product? It would potentially be assisted living and other as well?

Adlai Chester

Yeah. I would not say we would never do skilled nursing development, but I would say predominantly you're going to see more focus on the private-pay development.

Matt Kornack

Okay. With regards to diversification and where you ultimately go on the risk curve, medical office shorter-term leases you can generate a bit more growth in the near term, but there's obviously more risk in that model. Would you foresee moving at all towards the operations side in any of these properties? I know you've taken on a little bit of exposure here and there, but would that become a more meaningful component of the overall entity? Or are you going to stay with the triple-net lease structure?

Adlai Chester

I think you're still going to see us focusing more on the triple-net-lease structure. And within that MOB, once again, we don't mind adding to the platform with our partnership with Mohawk, but I don't think you see us going into operations.

Matt Kornack

Okay. And outside of MOB, are you currently in discussions on any of those alternative asset types that wouldn't be sort of seniors housing or MOB at this point? Or is that theoretical?

Scott White

Probably somewhere in between. I wouldn't say we're currently in discussions, but we have had a number of people on our team researching various subsectors for us since we started. I mean, this has always been our plan. And there's a broad range of other health care assets out there.

I think you should expect that we will enter that asset class, but as of today we are not in discussions with anyone.

Matt Kornack

Okay. And last question on the G&A side. The 90 to 100 basis points of assets, at some point do you expect that to come down as you generate synergies and spread G&A across a broader platform? Or what would be the incremental variable costs that are added there?

Scott Higgs

It's a great question. Yeah. I would. So the 90 to 100 basis points I think is fair for '18. But as we continue to grow and scale the platform, as Adlai talked about, especially with triple-net leases being able to onboard into the platform pretty easily, I think that's fair, Matt.

But I think the guidance is more for 2018.

Matt Kornack

Okay. No, that's great. Thank you.

Operator

There are no further questions queued up at this time. I turn the call back over to the presenters.

Scott Higgs

So thank you all very much, and we'll look forward to talking to you next quarter.

Operator

This concludes today's conference call. You may now disconnect.

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