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Invesque Inc.

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Invesque's first quarter 2022 conference call.

Today's conference 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. Good morning and thank you for joining the call.

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 Invesque's transaction activity so far this year, as well as a quick update on operational improvements we are seeing in the portfolio. I will then discuss our financial results for the quarter, and Adlai will close things out with some colour on portfolio trends and further details on the Company's disposition activity. We will then open the line for questions.

The first 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 May 19th.

As always, 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 will turn the call over to Scott.

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

Hello, all, and good morning. Thank you for joining Invesque's first quarter 2022 earnings call.

Following an extremely busy third and fourth quarters last year, our team has not slowed down in 2022. We opened the year with a flurry of transactions that further our strategic focus to streamline our portfolio and our balance sheet.

Between March 1st and April 1st, we closed on four separate deals to sell eight assets for a gross sales price of nearly $80 million. The March 2 transaction was the sale of our Bridgemoor portfolio, which included four transitional care facilities in Texas that sold for approximately $52 million. Adlai will touch on the specifics of that transaction later in the call, but the sale of this portfolio was a big win for Invesque.

In addition to the sale of Bridgemoor, we sold a handful of nonstrategic, underperforming seniors housing assets. As mentioned on our last call, on March 1st, we sold an assisted living and memory care community in Harrisburg, Pennsylvania, to a regional operator in the Northeast who is looking to grow their assisted living platform. And this community was previously managed by our wholly owned operator, Commonwealth Senior Living.

After much consideration, we concluded with Commonwealth that the community would be better suited for a group that is more local to the Harrisburg market. Then, 30 days later, we sold two seniors housing assets in New York to the same Northeast-based operator. The gross sales price of those two communities of $19.2 million generated proceeds which were used to pay down the Company's corporate credit facility and delever the balance sheet.

Lastly, we sold a vacant community in Port Royal, South Carolina, for $3.5 million. This community was previously operated as a stand-alone memory care community, managed by Phoenix

Senior Living, and was determined to be nonstrategic and ceased operations in 2021. The buyer of this community plans to repurpose the community as a drug-and-alcohol rehab facility.

In total, we consummated almost $300 million of asset sales in the last 10 months, which marked significant progress improving the portfolio.

As Scott Higgs will describe further, we have used proceeds from these transactions to reduce leverage and shore up the balance sheet. But we're not done yet.

We continue to actively manage our remaining portfolio, identify opportunities to sell properties for attractive values, and network with potential buyers. You will likely see us continue to explore property sales for the remainder of 2022.

However, it is important to note that we're not in a rush to sell properties at discounted pricing. Our strategy is to sell noncore assets when we believe there's an opportunity to maximize value for our shareholders and strengthen our balance sheet.

Separately, I'm happy to report the current impact of COVID-19 continues to decrease across our portfolio, as positive cases remain relatively low among residents and staff. I remain optimistic that the pandemic is mostly in the rear-view mirror, and now our operators can refocus their efforts on growing census and improving overall financial performance.

On that note, our Commonwealth portfolio continues to be a bright spot in our overall portfolio. The communities operated by Commonwealth have begun to show some really positive trends thus far in 2022.

Despite lower movements in January and February, as the Omicron variant of COVID-19 impacted a large number of Commonwealth communities, census rebounded in March to end the quarter with solid growth.

We are pleased to see that growth continues into April. The occupancy of the 20-asset portfolio acquired in 2019 ended April 120 basis points higher than they started the year.

In addition to census growth, Commonwealth increased resident rental rates by 6.5 percent on March 1 to offset increased labour and operating costs. That rate increase excludes additional rate growth from care charges.

It's not easy to raise rates, but we felt it necessary to maintain the quality of care we expect in our buildings. This rate increase, along with the improving census, resulted in the 28-asset portfolio that Commonwealth manages on behalf of Invesque achieving the highest monthly NOI to date since we acquired the Commonwealth platform in mid-2019.

This success comes in spite of ongoing challenges that Commonwealth and our operating partners are facing. Staffing continues to be the number-one challenge facing our operating partners, and the team at CSL has done a tremendous job reducing their reliance on agency staff across the portfolio over the last 90 days.

Labour will continue to be a stressor on operations. But the positive movement on census and rental rates prove that demand for our product is there and, I believe, will increase in the coming years.

As you've all heard me say time and time again, I'm a firm believer that culture is a key component of Invesque. We invest significantly in our team and in our culture and, therefore, proud to highlight that Invesque was once again included as one of the Best Places to Work in Indiana.

The Commonwealth team takes a similar approach in culture. Founder Richard Brewer, CEO Earl Parker, and the entire Commonwealth team recently celebrated their 20-year anniversary. Wow. Twenty years of serving seniors. This is a challenging business with a lot of ups and downs, and the team at Commonwealth has positioned themselves as one of the best regional operators in the country.

In addition to their 20-year celebration, I'm extremely pleased to highlight that a majority of the 33 communities managed by Commonwealth have earned the highest possible rating from U.S. News & World Report's inaugural Best Senior Living ratings. These ratings were just announced earlier this month. The new consumer guide is aimed at providing seniors with transparent data to help them and their families identify high-quality providers that meet their senior living needs and preferences. I could not be prouder of the Commonwealth team and look forward to continuing to celebrate their success for many years to come.

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 quarter ending March 31st, FFO was $0.07 per share, and AFFO was $0.06 per share. We anticipate that the impact of the transactions discussed by Scott previously will have a positive impact on our AFFO per share of approximately $0.11 to $0.12, on an annual basis, relative to first quarter performance.

Consistent with the strategy to streamline our portfolio, our finance team has been busy streamlining our capital structure. As noted on our year-end call, in January, we completed a partial redemption of the 2022 convertible debentures by repaying $20 million of the outstanding principal. The remaining outstanding debentures were amended to change the interest rate to 7 percent, effective January 31, 2022, and extend the maturity date to January 31, 2025.

Also in January, we redeemed $10 million of the preferred equity that encumbers our Commonwealth portfolio. This redemption reduces our carry cost and fixed charges by $650,000 per year. These moves are aligned with our strategy to strengthen and de-risk our balance sheet.

Further, the Company utilized available committed capacity on the KeyBank credit facility to refinance assets that were previously encumbered by property-level mortgages. During the first quarter, we refinanced three assets operated by Commonwealth Senior Living, utilizing the KeyBank credit facility. Subsequent to quarter-end, we also refinanced the skilled nursing facility operated by the Providence Group.

These moves not only streamline our capital stack, but also provide nearly $1.2 million in annual debt service savings compared to the structures that were previously in place. Moving forward, we will continue to look for ways to create similar efficiencies within our debt capital stack.

As previously disclosed, the Company announced the Toronto Stock Exchange approved its notice of intention to make a normal course issuer bid for a portion of its common shares and a portion of its 6 percent (phon) convertible unsecured subordinated debentures, due September 30, 2023, as appropriate opportunities arise from time to time.

Through the end of April, we have redeemed 258,100 common shares, at an average price of $1.57 per share, and approximately $50,000 of convertible debentures under the NCIBs. This will continue to be part of our go-forward strategy, as we believe this nominal use of capital has great inherent value to the Company and its stakeholders, as we were able to capitalize on the undervaluation of our outstanding securities.

As we progress through the remainder of 2022, our finance team will continue to look for ways to streamline our capital structure and create additional efficiencies when and as opportunities arise.

I will now turn it over to Adlai Chester, our Chief Investment Officer.

Adlai Chester — Chief Investment Officer, Invesque Inc.

Thank you, Scott. The operating results of our triple-net portfolio continues to struggle as operators attempt to rebuild census and manage costs coming out of the pandemic. As Scott noted earlier, we are seeing some very positive trends in our Commonwealth portfolio, and those trends are also being seen in some of our other SHOP operators.

As a reminder, 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 EBITDARM coverage remained below 1.0 times for the period ended December 31, 2021.

As of December 31st, our trailing 12-month occupancy for the stabilized triple-net assets and stabilized SHOP portfolio was 74 percent and 76 percent respectively, while our medical office portfolio stabilized occupancy remained flat at 81 percent.

As noted last quarter, we think it is important to highlight that our SHOP operators have been successful in increasing residential rates over the last 18 months, with most of them rolling out larger-than-normal increases in Q1 2022.

For the 12-month period ended December 31, 2021, the average monthly rate paid by residents in our statewide SHOP portfolio was up 4.4 percent versus the period ended December 31, 2020.

While our operators note a minimal pushback from residents and families, I do want to highlight those operating costs, primarily related to staffing, food, and insurance, have also increased substantially over the last two years, offsetting all or most of the incremental revenue. We expect margins to continue to be compressed for the foreseeable future.

As Scott touched on early in the call, we successfully exited our relationship with Bridgemoor on April 1st. The Bridgemoor portfolio has been challenging for us during the course of the pandemic, as their operations were frequently interrupted by COVID-19 outbreaks. Bridgemoor, like other operators, was not eligible for certain tranches of the CARES Act funding because operators needed to establish years of revenue and expense data to qualify, and Bridgemoor was a relatively new operation with most of the facilities being in operation for less than 24 months prior to the pandemic.

In spite of these factors, we sold the portfolio for a price per bed of approximately $152,000. Due to a lack of certificate of need in Texas, price per bed tends to be lower.

Since the start of the pandemic in 2020, skilled nursing facilities in the largest Texas markets trade at roughly $70,000 per bed, on average, with a low of $44,000 per bed. The pricing we achieved with the Bridgemoor portfolio was comparable to the Ensign properties that we sold for $160,000 per bed in the fourth quarter of 2021. I believe this highlights that our portfolio can achieve very attractive pricing, in part, because we own some of the newest real estate in the industry.

I want to once again reiterate that we are focused on creating a strong portfolio of private-pay senior housing assets. With the dispositions announced over the last three quarters, our portfolio continues to pivot towards private pay, with almost 60 percent of our pro forma NOI coming from senior housing versus over 75 percent of our NOI coming from skilled nursing five years ago. I expect that the seniors housing number will continue to increase in the coming months as we deliver on our outlined strategy.

During the last quarter, I described that, thus far in 2022, there's been a greater emphasis on investors restructuring relationships with triple-net tenants in seniors housing and skilled nursing. This is the reality of how the industry is grappling with the headwinds, and I see that trend continuing. We believe the direct impacts of COVID-19 on our portfolio are waning, but there are lingering effects that will continue for months and years.

The most important one, staffing, will continue to place unprecedented pressure on wages and salaries. Other input costs, ranging from food to energy to building supplies, are all experiencing inflationary pressures unlike those we've seen in decades. These factors combine to create a difficult environment to control costs and building back revenue has also been a challenge.

While we have been very encouraged by the census growth and rate increases observed in our Commonwealth and other SHOP portfolios, we know that challenges remain across the industry. Much of the industry saw census growth slow or reverse during the first quarter.

As operators continue to rev up the sales engine, the normal course move-outs that happen across our industry have not slowed. This has created a challenging environment for many owners and operators to navigate.

However, as we have executed on our strategy, we are very well positioned to weather these challenges with a streamlined and much stronger portfolio. We expect the positive momentum to continue as the year progresses.

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

Q&A

Operator

Yes, sir. Thank you. And if you would like to ask a question, please signal by pressing *, 1 on your telephone keypads. 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, that is *, 1 if you would like to ask a question

And we'll pause for just a moment. And again, that is *, 1 if you would like to ask a question.

And we'll now take a question from Frank Liu with BMO Capital Markets.

Frank Liu — BMO Capital Markets

Good morning, everyone.

Scott White

Good morning, Frank.

Frank Liu

Congrats on another busy quarter and—

Scott White

Thank you.

Frank Liu

—I can tell that you guys have been working very hard on the capital recycling front. But just my first question, just wondering, with the rising interest rate in mind (phon), have you seen any changes in the market in terms of the investor demand?

And second part is, do you think the rate hikes will have an impact on your portfolio transformation plan?

Scott White

Frank, that's a great question. So to the first question, no, we have not seen any meaningful change in terms of asset values, which is what I think you're asking about, or demand for the assets in the market, as a direct result of interest rate hikes. I think it is something we're monitoring, and it is possible that it could have implications across the real estate asset class, which would also mean in our industry.

I think our industry is somewhat unique in that there are unique buyers for certain assets. Where we've sold off our assets to date, they've been very specific to unique buyers. For example, we talk about the assets we sold off this last quarter, and they were specifically focused on someone to wanted to grow in the Northeast region.

So while I do think interest rates are something we're going to have to monitor, we have not seen it have implications on asset values to date. And I'm not convinced it's going to have an immediate impact on our strategy over the coming quarters.

Frank Liu

Thanks. Appreciate the colour. Yeah. That's pretty fair.

And like, I mean, you guys are very different territory versus other players. So following on that, with respect to the decline of redeployment of the proceeds from dispositions, would you still focus on debt reduction in the long term?

And do you see any attractive opportunities on the acquisition front at this point?

Scott White

So we do, Frank. We see opportunities to deploy capital. Our end strategy, which we've been very clear about, is to simplify our portfolio, simplify our story, and simplify our balance sheet. It's all about simplicity right now. And step one is simplifying the story and the portfolio, and you saw that through the asset sales. And as I've indicated, we will continue to look for, as when appropriate, asset sales.

Redeploying that capital will predominantly be focused right now on delevering, as well as just cleaning up various pieces of capital on our balance sheet. If you look at our balance sheet, you know we have two different tranches of converts. We have a couple of different tranches of pref. So you should expect to see us primarily focused on that.

There will be opportunities—though I have to be very realistic, going to be small—to grow with our preferred operating partners. We're constantly out there, looking for opportunities to grow with the operating partners in our portfolio, not only with additional acquisitions, but even with additions or major CapEx projects around existing assets, so that we can enhance NOI with our preferred operating partners.

Frank Liu

Yeah. I totally agree. That's fair. And thanks for the colour.

I guess, like, in terms of—sorry, just going back to the rising interest rates, it's a very popular topic these days. I guess you guys don't have like much exposure to that. Right? I'm looking at your debt schedule; you have like small principal maturing at this year. And for next year, you have like, I mean, 59.2 percent maturing. But I see those—the majority of those—I think 60 percent of that are fixed-rate debt, and the interest rate is ranging from like 4 percent to 6 percent.

So I guess, like I just want to confirm like the rising interest rates doesn't have like much impact on your interest expenses. Right?

Scott Higgs

Yeah. Frank, this is Scott Higgs. And I think that's a very fair assessment, certainly, in the very near term, over the next 12 to 24 months. Approximately 80 percent of the debt's fixed rate today, and we don't have a lot of rolling debt over that period as well. So I think that's a fair assessment, no material impact, but certainly something we're going to continue to monitor and look for efficiencies and try to continue that trend.

Frank Liu

Okay. Thanks, Scott. Appreciate the confirmation. One last question from me, so. And with respect to your comment that the disposition of communities thus far in 2022 will have like a positive impact on AFFO per share, relatively, to Q1 results. Could you elaborate more on like how the dispositions drive the AFFO growth? I just wanted to make sure like I get the right point.

Scott White

Yeah. So one of the things that we've been focused on is disposing of assets that are noncore to our portfolio and where we're going. Nothing could be more noncore than assets that are generating negative NOI. We had a handful of buildings that were actually costing us money to keep open or to maintain, or that we shut down and had small costs associated with keeping the building secure, so on and so forth.

So by eliminating those assets, if we do nothing else—which, by the way, we are going to do other things—but if we do nothing else, there's \$0.11 to \$0.12 of AFFO, on an annualized basis, that was bleeding out of the system, based on facilities that we've eliminated.

So when you take that and just extrapolate it—and I'm just going to round here for ease of math—you take the \$0.12 over the next three quarters, plus or minus, and you have about \$0.04 of AFFO that sort of worked their way back into the system because they're not bleeding out. That assumes no growth in occupancy, assumes no growth in rate, assumes no other changes in our portfolio. So you should expect to see a reasonable increase in AFFO per share, if we do nothing else.

Frank Liu

That's great. And I guess like with those pro fees, you can actually pay down debt. Then you're saving on the interest expenses. Right? Okay. So that—

Scott White

That's correct. That's exactly the strategy. You got it.

Frank Liu

Yeah. Exactly.

So I guess the saving on interest expenses is not included in this guidance, like that you have into $0.12?

Scott White

Yeah. So—

Frank Liu

Or—

Scott White

—I would say that—no. So that is not built into that $0.11 to $0.12. I think it's to be determined where we're going to allocate that capital because, remember, you refer to it as interest expense. In some cases, we may pay down pref, we may do other things in our capital stack, but your observation, broadly, is correct.

Frank Liu

Okay. Perfect. And sorry, just one last question from me. Should we expect like similar growth on FFO? I guess like is that fair to say like FFO will go like more sort of like $0.10 for the rest of the year?

Scott White

Yeah. So I'm not giving specific guidance on a quarterly basis. But again, if you take where we are this quarter, right, $0.06, and you take the $0.12—and I don't want to pin it just to $0.12 because we said $0.11 to $0.12, but you take $0.12 just to make the math easy for me. You take the $0.12, divide it by three-quarters, that's $0.04. You take the $0.06 from this quarter, you add $0.04—that gets you to $0.10. Again, I am not putting out any guidance on the $0.10, but I think your math is reasonable.

Frank Liu

Okay. Sounds great. That's great colour. Thank you very much. I totally understand. I'll turn it back now. Thank you.

Scott White

Thanks so much for the questions. Take care.

Operator

And it appears there are no further telephone questions. This will conclude today's presentation for today. We thank you all for your participation. You may now disconnect.