

**Invesque Inc.**

**Second Quarter 2019 Earnings Conference Call**

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### **Brad Sturges**

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### **Chris Couprie**

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### **Tal Woolley**

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Welcome to Invesque's second quarter 2019 earnings conference call.

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, Cheryl. Good morning, everyone, and 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 discussing our activity for the quarter, colour around our portfolio, and some overall industry news and trends. I will then cover our second quarter financial results, and Adlai will recap our portfolio performance, recently announced investments, and strategic efforts before starting the Q&A portion of the call.

The second quarter 2019 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 August 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've 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.

And with that, I'll hand it over to Scott.

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

Good morning. Thank you, all, for joining our second quarter earnings call. Since our last call just 90 days ago, we have dramatically strengthened the look, makeup, and portfolio mix of Invesque with the acquisition of Commonwealth Senior Living.

The Commonwealth acquisition is comprised of 20 communities with over 1,400 private pay independent living, assisted living, and memory care units located in Virginia and Pennsylvania.

We're acquiring the Commonwealth portfolio at approximately \$236,000 per unit, which represents a 20 percent discount to our estimate of replacement cost. We have long believed our basis to replacement cost is one of the more important considerations when we acquire assets.

Along with the communities, we acquired the Commonwealth management company as part of the initial closing earlier this month. Richard Brewer, CEO of Commonwealth Senior Living, along with his senior management team and all current employees, will remain with Commonwealth and continue to manage the communities.

The Commonwealth transaction now positions Invesque as a predominantly private pay health care real estate investment company, with approximately 55 percent of our pro forma NOI coming from seniors housing by the end of 2019.

The Commonwealth transaction also allows for us to provide a very differentiated, vertically integrated operating and property management model. We have added in-house operational expertise with Richard and his team's nearly 20 years of experience. We expect they will work closely with some of our other best-in-class operators to share insights and best practices. We believe this collaboration will drive performance and maximize profitability across our nearly \$1 billion seniors housing portfolio.

We'll also look to utilize Commonwealth to reposition certain assets that are a better strategic fit for the Commonwealth team, such as the Greenfield transition we just announced. After the

completion of the Greenfield transition, Commonwealth will become the largest operator of seniors housing in Virginia and one of the largest operators in the Mid-Atlantic region. Commonwealth will also become our largest source of NOI, representing approximately 26 percent of pro forma NOI at the end of the year.

Adlai will touch on the Greenfield transition later in the call. However, I want to highlight this is an important transaction for us for so many reasons. The ability to strengthen our existing portfolio by transitioning operators was a key strategic reason for the acquisition of an operating and management company.

As I mentioned last quarter, one of our areas of focus for the remainder of 2019 will be managing and maximizing our existing portfolio. We have grown our portfolio over fourfold since our IPO a little over three years ago. As we grow, we constantly monitor our portfolio to ensure we are achieving our long-term goal of building a world-class portfolio with operators who can scale.

One important aspect of this asset management initiative is to opportunistically divest assets and redeploy capital. The Magnetar JV we announced during the second quarter is an example of capitalizing on the opportunity to raise attractively priced capital through a partial disposition to continue our growth.

Now that I have discussed initiatives in our portfolio, let me comment on some of the important industry themes. Supply continues to be a hot topic in the seniors housing industry. As we noted last quarter, we have observed a recent drop-off in new construction starts. The recently published second quarter NIC MAP data supports our observation with total construction as a percent of existing inventory dropping 100 basis points from its peak at the end of 2017.

Additionally, we are encouraged by the decline in development starts. The developers broke ground on just 2.6 percent of product on an annualized basis in the first half of 2019, down from as high as 5 percent between 2014 and 2018.

Development continues to be more heavily weighted to the top MSAs. While we will very carefully consider unique opportunities in the top MSAs, we continue to be much more focused on midsized markets. By focusing our efforts on midsized markets, we continue to source sizable, scalable, and high-quality opportunities at a discount to replacement cost, just like we did with the Commonwealth transaction.

Our regional focus has allowed us to avoid exposure to elevated supply and capitalize on the arbitrage of buying existing stabilized assets for cheaper than it would cost to build them. We'll still invest in development like you've seen us do with Ellipsis, but we'll be very selective in the opportunities we choose.

While we do not believe supply concerns are a thing of the past, we continue to believe the outlook is improving and should improve in 2021 and onwards. Demand should continue to trend higher due to increased penetration from demographic tailwinds. This demand will trend consistently higher through the next decade with the growing fraction of the 80-plus population.

On the skilled nursing front, we remain cautiously optimistic about our portfolio of post-acute-focused skilled nursing facilities. The Centers for Medicare and Medicaid services recently finalized the net Medicare SNF rate update for the 2020 fiscal year beginning October 1, 2019. Under the terms of the 2020 final rule, CMS will increase Medicare payments by over \$850 million, or 2.4 percent, to skilled nursing facilities. We believe this market rate update will be an important step in improving the environment for SNF operators. Skilled nursing facilities remain the lowest-cost setting of care for a large

subset of patients, and the final rule strengthens the Medicare program by better aligning payment rates with the cost of providing care.

We're also encouraged by a recent announcement that Illinois will increase Medicaid funding to skilled nursing facilities by \$240 million in the next fiscal year. Of this \$240 million, \$170 million of the increased funding will go toward updating Medicaid reimbursements for a variety of support services from food to maintenance. Given that some of these reimbursements have not been revised since 1999, we view this as a very favourable outcome for Symphony, our largest skilled nursing operator.

Finally, we believe the upcoming implementation of the new case mix model, PDPM, this October should help drive profitability for sophisticated operators that are focused on high-acuity patients. PDPM will shift payment incentives away from the volume of therapy provided and more toward patient acuity. Skilled nursing providers, particularly those in our portfolio who focus on group therapy, will be able to capitalize on both cost savings and improved patient outcomes.

We believe the increased CMS market rates, the increased Medicaid funding in Illinois, and the implementation of PDPM provide for a favourable backdrop for increased profitability over the next few years.

I'm very excited about what we have accomplished year to date. We have executed on our robust pipeline, and now are turning our focus toward enhancing the value of our current portfolio.

With that, I'll pass it to Scott Higgs to talk about our second quarter performance and recent capital markets activity.

**Scott Higgs**

Thanks, Scott. Adjusting for deal costs for the quarter ending June 30th, FFO was \$0.20 per share and AFFO was \$0.19 per share. Our effective dividend cash payout ratio when adjusted for DRIP participation was approximately 81 percent for the three-month period.

During the second quarter, we recognized fair value changes to investment property on both the consolidated and joint venture portfolio. The changes were the result of two primary factors. First, we continually assess the value of our portfolio. We analyze changes in the cap rate environment used to value assets that are comparable to our portfolio, we update our projections for net operating income, then we evaluate other factors that impact the value of our investment property.

Second, we recognize the tenant inducement asset primarily associated with loans issued and committed to at below-market rates to select operators. However, we do not anticipate any impact to FFO or AFFO for this change on a go-forward basis.

On the debt front, our average debt maturity remained consistent at approximately 4.7 years as of the end of the quarter, with only 14 percent of our debt rolling over the next three years.

With volatility in interest rates providing for an extremely favourable debt market, we were very active over the last few months in refinancing debt at lower rates and to further extend our maturities. Also, we implemented a series of interest rate swaps to use the yield curve in our favour to generate interest and cash flow savings and to help lower our effective interest rate by 20 basis points from the first quarter.

One example of capitalizing on market pricing, including locking in the interest rate at our new credit facility underlying the Commonwealth transaction at a very attractive 3.84 percent throughout its initial five-year term, which will also help to blend down our overall average borrowing rate.



We will continue to refresh our debt stack strategically and enhance the profile for both Invesque and our partners to strengthen our platform over the long term.

Let me expand on the balance sheet side of the Commonwealth transaction. Upon closing of the second tranche, the Commonwealth transaction consideration will consist of the new \$176 million facility I mentioned earlier, the assumption of approximately 44 million of mortgage debt, the issuance of approximately 65 million of convertible preferred shares, and the remainder funded with cash.

The convertible preferred shares have a conversion price of 9.75, thus allowing us to effectuate the transaction at a better cost of capital than our current stock price would imply. The structure of the transaction, combined with a favourable debt market pricing, will allow us to consummate the transaction at an excess of 200 basis point spread to our blended cost of capital on the deal. We anticipate that the Commonwealth transaction will be 0.10 to \$0.12 per share accretive to 2020 FFO and 0.06 to \$0.08 per share accretive to 2020 AFFO.

More importantly, the assets that we are buying are high-quality private pay assets, which will enhance the quality of our cash flow and portfolio. Although our leverage is increasing with this transaction, we are comfortable at this level for the interim period. We're focused on balancing growth and diversification with the appropriate leverage, and we have a bias to reduce leverage over time. We have significantly lowered the risk profile of the Company, which will allow us to delever organically.

On the capital front, we recently announced that we raised \$15 million through a private placement with Magnetar. Preferred shares carry similar terms to prior raises of convertible preferred we have done with them as a counterparty, except for the terms noted in the press release from July 23rd. Combining this recent raise with prior convertible preferred issuances to Magnetar, the total convertible

preferred outstanding with them is roughly \$86 million, with a 9.75 per share conversion price and a blended dividend rate of approximately 6.3 percent.

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

**Adlai Chester** — Chief Investment Officer, Invesque Inc.

Thank you, Scott. The performance of our stabilized triple-net portfolio remain consistent with previous quarters.

On a trailing 12-month basis as of March 31st, our EBITDAR and EBITDARM coverage ratios were 1.2 times and 1.5 times, respectively. Our trailing 12-month occupancy as of March 31st stood at 85 percent for our triple-net assets and 89 percent for our stabilized JV assets. For the MOB portfolio, stabilized occupancy stood at 91 percent.

As Scott noted earlier, yesterday we announced that we have entered into an agreement to transition 13 assets currently operated by Greenfield to a group of existing operators where we already have significant relationships. We are confident in their ability to drive performance in the former Greenfield portfolio by implementing their operational expertise and creating synergies with the Invesque assets they currently operate.

The Greenfield transition showcases our relationship-driven approach to investing and our objective to streamline our portfolio relationships with the right operator for each asset and each submarket.

As part of the transition, 10 of the communities operated by Greenfield will be transferred to Commonwealth and will be owned, operated, and managed by Invesque affiliates. The first asset under the transition was moved to Commonwealth on August 2nd, and we anticipate the entire portfolio will be

transitioned by year-end, pending regulatory approval and the satisfaction of other customary closing conditions.

We will also expand our relationship with Heritage by transitioning two Greenfield assets in Pennsylvania and New Jersey to them. The assets are in markets where Heritage already successfully operates buildings in partnership with Invesque. Accordingly, we expect additional market density as a result of these transitions to create pricing power and operating synergies with our existing senior housing portfolio. We are thrilled to expand our portfolio with another best-in-class operator.

We inherited the relationship with Greenfield as part of the Care Investment Trust transaction last year and have enjoyed our partnership with them. We held constructive dialogue with Greenfield over the past year to come to a mutually beneficial conclusion for everyone involved.

The value creation of the transition should flow through very quickly, as we expect to collect up to 2.5 million of additional annual NOI. The payback period on our investment should be less than two years. The transition is anticipated to be 0.03 to \$0.04 accretive to 2020 AFFO per share. Combining the accretion of the Greenfield transition and the Commonwealth transaction, we anticipate 0.09 to \$0.12 of accretion to 2020 AFFO per share.

The transition also allows us to immediately expand and scale our Commonwealth portfolio to create the largest senior housing operator in Virginia and a premier operator in the Mid-Atlantic. After the transitions are complete, Commonwealth will become our largest source of NOI at approximately 26 percent on a pro forma basis.

Heritage will become our third-largest operator and represent approximately 8 percent of our NOI on a pro forma basis. Symphony will represent roughly 24 percent of NOI by the end of 2019, down from approximately 70 percent at the time of our IPO a little over three years ago.

Our pipeline of growth opportunities continues to be very significant, particularly in the private pay space. We have also seen an uptick in potential MOB transactions in both Canada and the US through our partnership with Mohawk. With our incredible growth over the last several years, we will be very selective on acquisitions over the short term.

I'd like to thank everyone for joining the call, and we'll now open the line for questions.

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## Q&A

### Operator

Thank you. If you would like to ask a question, please press \*, 1 on your telephone handset.

Our first question comes from Brad Sturges, IA Securities. Your line is open.

### Brad Sturges — IA Securities

Hi. Good morning.

### Scott White

Good morning, Brad.

### Scott Higgs

Morning.

### Brad Sturges

Just on the Greenfield transition, what would be the cost to Invesque for the acquisition, I guess, of the properties?

### Adlai Chester

Yeah. So for all of their various interests in the 13 properties, we paid a \$4.5 million payment.

### Brad Sturges

Okay. And so how many properties would have been transitioned over in August? And then what's the timeline for the—or how should we think about the timeline for the rest of the properties to transition over, I guess, by the end of the year?

**Adlai Chester**

Yeah. So the first one happened in August, and that was the only one in August. We would expect the majority of them to start transitioning, call it, Q4, with them all to be complete by the end of the year.

**Brad Sturges**

Okay. And with Heritage, would that lease just be assumed? Or is there potential changes to the leases?

**Adlai Chester**

Yeah. The thought would be we're probably going to be shifting that more to a joint venture with Heritage.

**Brad Sturges**

Got it. In terms of the acquisition costs that were abandoned, the due diligence costs, any colour on why that deal wasn't pursued or why the write-off right now?

**Scott White**

Yeah. So, Brad, given the pace that we've grown, we obviously have to look at an awful lot of things to be able to grow to almost \$2 billion in three years. And we have to make a strategic decision about how far and how much cost to incur before pulling the plug. This is something that I think has gone on for, I'd say, 9 to 12 months, quite frankly. And as in every deal, you have a great deal of negotiation twists and turns. And we, as a management team, have decided that as we stand right now, we're not

sure that this deal makes sense for us, the one that's on the table. And as a result, we took the appropriate conservative accounting treatment and wrote off all of the costs associated with it.

It doesn't mean that that deal or something similar to it couldn't come back at some point in the future. But right now, given what we know about the transaction, it just doesn't seem like it's going to happen.

**Brad Sturges**

Got it. And I guess you talked about and have executed, I guess, a few asset sales. Is there more being considered right now that could be redeployed in other acquisitions? Or how should we think about that?

**Scott White**

Yeah. Absolutely. One of the key things that I mentioned in the last quarterly call, and I highlighted again today and I'm going to highlight even with greater emphasis right now, when you reflect back on growing as fast as we have, again, three years, almost \$2 billion—I just recently had someone do the calculation and we've grown at a 53 percent annualized CAGR, which is the fastest-growing real estate company relative to any of the US comps and probably number 1 or maybe number 2 relative to any of the Canadian comps—when you grow that fast, it's now time to step back and say, okay, we've assembled a portfolio. We've accomplished our goal of diversification. We've accomplished our goal of scale. Now you really emphasize the energy and the focus around maximizing the value of those assets.

So the Greenfield transition is one of those. The sale of the one asset is another of those. We are very carefully going building by building, operator by operator and saying, what's part of our long-term strategy now. Now that you've assembled a sizable portfolio, what doesn't belong longer term?

And when we think about that, we think about which operators do we have the ability to grow with. We think about strategically what fits into the portfolio. You should expect to see a few sales in the coming quarters, fairly small, one-off buildings that just don't make sense. We obviously continue to be in growth mode, so you shouldn't expect massive dispositions. It's hard to be in growth mode while you're selling. But you also need to be smart about maximizing value. And right now, there are certain assets in our portfolio that we think don't make sense long term in terms of maximizing value and creating value for our shareholders.

**Brad Sturges**

All right. And in terms of the leverage, where is leverage today on a pro forma basis with the latest round of preferred equity being issued to Magnetar? And then how do you see that trending over the next 12 months?

**Scott Higgs**

Yeah. So pro forma it's right around 60 percent. And as we kind of mentioned, I think we'll ... we have a bias to reduce it, but the markets are favourable right now, right? So I think we're going to be opportunistic on refinancings. And I think, over the long term, I still do think the 50 to 55 percent of the long term for this vehicle makes sense.

But in the interim, we're comfortable with where we're at.

**Brad Sturges**

For triple-net leased assets, where would be the financing cost today?

**Scott Higgs**

In terms of the cost of it?

**Brad Sturges**

In terms of like what you would be able to borrow at today, I guess, in the market.

**Scott Higgs**

Yeah. So the most recent transaction is the Commonwealth deal that we just priced at a five-year fixed at 3.84. So blended today on the portfolio, it's right around 4.5, but I think that you'll see that trend down a bit as we go.

**Brad Sturges**

All right. Okay. Thank you.

**Scott White**

Yeah. Brad, given the current state of the net markets and the cost of that, remember, at its very core a lot of what we do is spread investing. And our ability to create opportunities, like the Commonwealth opportunity where we can get in at a reasonable price and then spread invest—as we said, in that case, it was north of 200 basis points—we're not afraid of leverage. We understand that the equity markets have sort of set an expectation and a pseudo cap in terms of where we could be. Plus our lenders have set a very clear legal cap of where we can be. But we're not in a rush to delever.

I think, as Scott Higgs said, 50, 55 percent is the right metric for us. But where we are right now, we're very comfortable. We consider our growth trajectory, taking advantage of very favourable leverage markets, is part of our continued growth and strategy.

**Brad Sturges**

Okay. Great. Thank you.

**Scott White**

Thanks, Brad.

**Operator**



And again, if you would like to ask a question, please press \*, 1 on your telephone handset.

Our next question comes from Chris Couprie from CIBC. Your line is opened.

**Chris Couprie** — CIBC

Morning, gentlemen. I wanted to just turn back to this Greenfield transaction. So what's happening to Greenfield then? Because it looks like these assets were a large percentage of what they already were operating. So are you taking it back from that? Like what's the rationale, I guess, for them to exit?

**Scott White**

Yeah. So, Chris, this has been as part of our constant monitoring of the portfolio, and as I said before in terms of maximizing value, we talk to all of our operators on a regular basis. We have a dedicated team of professionals, a portfolio management team, that meets with and talks to our operators at least monthly, if not more. This is something that's been in the works for at least six to nine months where we know what some of their strategic goals are. And it's hard for me to speak on their behalf in terms of what their strategic goals are. But I think as a general proposition as a company, they were looking to reduce their exposure in certain areas. We as a company were looking to grow.

Commonwealth was an opportunity that was in our sights, and it really just lined up quite perfectly, to be honest with you. Sometimes it's better to be lucky than good. And we're really proud of the fact that things lined up in terms of Commonwealth is a great opportunity. It was a great opportunity for us to vertically integrate and get into operations. We had a Greenfield portfolio that the Commonwealth team was very familiar with. It's right in their backyard. And when you put the sum of the parts together, it was a massive, massive value-creation opportunity.

As we mentioned in the script, you could see on an AFFO basis there's a real opportunity, both in terms of the acquisition of Commonwealth and then secondly the integration or transition of the Greenfield assets, to create north of \$0.10 per share on an AFFO basis. And that sort of everything lined up and just worked.

**Chris Couprie**

So like had this Commonwealth transaction not been in the equation, was there still a plan to transition the operator?

**Scott White**

Not necessarily. Again, both have gone on now for I'm saying six months, but now that I think about it, it's probably closer to nine months. And it's an iterative process. You meet with operators. You look at performance. You see what their goals are. You assess. Is it possible we might have sold some of those assets? Yeah, it's possible. Is it possible we might have replaced operators in some of those buildings? Yeah, it's possible.

But it wasn't, Chris, where a year ago we needed to find a replacement operator for 13 assets, and we went out to find Commonwealth. That is not how it worked. It was truly Commonwealth was a great opportunity. We were acquiring.

So as you know, historically a lot of our business and a lot of our models acquire real estate, right? So if you look at everything we've done, there could very well have been an opportunity to acquire the Commonwealth real estate only. When everything sort of lined up in terms of, wait a second, it's a phenomenal operating business; we'd like to have operational expertise in-house; we're looking to expand the offering and the streams of income to our business; and oh, we have a great portfolio of

spectacular buildings that happen to be in Commonwealth's backyard, it all sort of just lined up. And that was why we went down this path.

**Chris Couprie**

What's occupancy like in that Greenfield portfolio?

**Scott Higgs**

Low. Call it low 80s, about 83, 82, 83 percent. So we see some upside in several of those buildings, especially with Commonwealth coming in to the portfolio.

**Chris Couprie**

Okay. And then just on that point, so you've increased your exposure to, I guess, more operating type of business. Can you just remind us what that is as a percentage of NOI on a pro forma basis and where you think that could get to?

**Scott Higgs**

So pro forma with the Greenfield transition, we're about 26 percent of NOI. And what it could grow to, I'd say that's probably a relatively good run rate on a scaling basis.

**Chris Couprie**

So does it include some of the—

**Scott White**

Yeah. I think it's important, Chris, to emphasize we are a real estate company. We continue to be a real estate company. You should not expect over the course of the next couple of years we'll become a predominantly an operating company. That is not in our strategic plan.

So I think, as Higgs said, in that 25 percent plus or minus a few is probably where you should expect us to be. Would we be comfortable increasing? Yes. Should you expect us to become a predominantly operating company? No.

**Chris Couprie**

Right. So you have some existing JV's where you can participate in the upside, if I'm not mistaken, on the—

**Scott Higgs**

Correct.

**Chris Couprie**

So if you—

**Scott Higgs**

Right.

**Chris Couprie**

—include—so that 26 percent includes all of that?

**Scott Higgs**

It doesn't. Sorry, that was just direct wholly-owned 100 percent Greenfield and Commonwealth.

**Chris Couprie**

Right. So if you were—

**Scott Higgs**

So—

**Chris Couprie**

—to add—

**Scott Higgs**

Including the JVs, it's closer to 35 percent, 35 to 40 percent probably over the long run, including some of the other transitions here. But 35 to 40 percent.

**Chris Couprie**

Okay. Great. And are there any other operators that you're looking to—that could transition into the Commonwealth platform, whether it makes sense or because there's just some type of issue that lends itself to that?

**Adlai Chester**

Not issues. What I will say is when we acquired it, one of the first questions we asked the team was what was their ability to scale. And we feel confident this management team could scale to about 50 buildings. Currently, post the Greenfield transaction, they'll be around 33. So there is the ability to scale up this platform. With that said, we don't have anything in our existing portfolio that we plan to additionally transition to them.

**Chris Couprie**

Okay. Got it. And then the reason that those handful were over to Heritage, was it just the markets they were in?

**Adlai Chester**

Yeah. As you—we have to manage relationships. And one of the things we wouldn't want to do is necessarily create a situation where we're bringing in a new operator to a market. So the ability to combine it with Heritage, who's already there, it just strategically made much more sense for us.

**Chris Couprie**

Okay. Cool. And then the AFFO accretion that you talked to 2020, is the assumption that you'd run it at 60 percent leverage over that time period?

**Scott Higgs**

Yes.

**Chris Couprie**

Okay. Great. I'll get back in line.

**Scott White**

Okay. Great.

**Adlai Chester**

Thank you.

**Scott White**

Thank you so much.

**Operator**

Thank you. And our next question comes from Tal Woolley from National Bank Finance. Please go ahead. Your line is opened.

**Tal Woolley — National Bank Finance**

Hi. Good morning, everybody.

**Scott White**

Good morning, Tal.

**Tal Woolley**

I apologize if this was asked earlier. And if it has, just let me know, and I'll check the transcript. But the new CMS schedules came out for the—under PBPM and what the payment schedules would look

like. Was there anything in there in talking to your operators that was surprising? And do you have any better sense of what your risk is on the transition to this new system?

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

Hey, Tal. This is Bryan. I'll take this one. What I'll say is that especially as we compare our portfolio to the broader skilled nursing industry, we feel pretty well positioned to benefit under PDPM. I say that because our facilities tend to be more Medicare-focused with clinically complex patients that aren't exclusively rehab. And that's fundamentally what the PDPM model is created to incentivize from a care perspective.

I'd say the increase to the Medicare rate was also generally favourably received. The big surprise for us is separate from the Medicare issues, and that was the Medicaid Illinois rate increase of \$240 million. It's something the provider space has been lobbying for for quite some time. But Illinois has been reluctant to sort of meet the needs of the providers there. So we were very positively surprised that that was announced last month.

**Tal Woolley**

Okay. That's great. Thank you very much.

**Scott Higgs**

Thanks, Tal.

**Scott White**

Thanks, Tal.

**Operator**

Thank you. And our next question comes from Chris Couprie from CIBC. Please go ahead. Your line is open.

**Chris Couprie**

Hi, guys. Sorry, just one follow-up. You kind of alluded to it in your opening remarks with respect to Magnetar and a new series of prefs. Number one, how should we think about the potential timing of that subscription taking place? And number two, noticed that they're also extending or they have extended a loan to you guys subsequent to quarter-end. Just maybe can you just talk to the rationale for that?

**Scott Higgs**

Sure. So on your first question with respect to the closing, I expect it to close within the next 30 days from today on the pref. And then with respect to the debt, it's just the short-term capital. I wouldn't expect that to be a long-term loan outstanding with them.

**Chris Couprie**

Okay. Thanks.

**Operator**

Thank you. And our next question comes from Brad Sturges from IA Securities. Please go ahead. Your line is open.

**Brad Sturges**

Just one question on the accretion provided. Is that based on in-place occupancy right now? Or are you assuming some further improvements?

**Scott Higgs**

It's including a modest improvement, but it's basically in-place NOI. But one thing important to comment on there is it does include full-boat CapEx on those portfolios—or on the Commonwealth portfolio that we'll have. So that reduction is included in that AFFO number.



**Brad Sturges**

Okay. Great. Thank you.

**Scott Higgs**

Yeah, Brad.

**Operator**

Thank you. And there are no further questions in the queue at this time. I'll turn the call back to the presenters for closing remarks.

**Scott White**

Well, thank you, everybody, for joining us. Appreciate the continued interest. And we'll talk to you next quarter. Take care.

**Operator**

Thank you, ladies and gentlemen. This concludes our call. You may now disconnect.