

**Invesque Inc.**

**Third Quarter 2022 Conference Call**

Event Date/Time: November 9, 2022 — 10:00 a.m. E.T.

Length: 12 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommages ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

## **CORPORATE PARTICIPANTS**

### **Scott Higgs**

*Invesque Inc. — Chief Financial Officer*

### **Scott White**

*Invesque Inc. — Chairman and Chief Executive Officer*

### **Adlai Chester**

*Invesque Inc. — Chief Investment Officer*

## PRESENTATION

### Operator

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

This call is being recorded.

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

### Scott Higgs — Chief Financial Officer, Invesque Inc.

Thank you. Good morning, and thank you for joining our third quarter earnings conference call.

Here with me today are Scott White, our Chairman and Chief Executive Officer, and Adlai Chester, our Chief Investment Officer.

Scott will kick things off by providing an update on recent dispositions and trends we are seeing in the industry and our portfolio specifically. I'll then discuss our financial results for the quarter, and Adlai will wrap things up with a few specifics on operating trends and additional details on the continued portfolio optimization that is in process. We will then open the line for any questions.

Third 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 November 16.

Please be reminded 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.

I will now turn the call over to our Chief Executive Officer, Scott White.

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

Good morning, all, and thank you for joining us. As I've done over the last few quarters, I will highlight recent progress made on our strategy to simplify the Company's portfolio, balance sheet, and overall story. I plan to then touch on the positive trends we continue to see in our SHOP portfolio, specifically at our wholly owned management company, Commonwealth Senior Living.

In the third quarter, we sold 13 assets totalling \$108 million. On our last earnings call, I announced the sale of the majority of our medical office portfolio. As a quick recap, this included the sale of a single medical office property in Orlando, Florida, where the anchor tenant acquired the property from Invesque, and a larger transaction that included the sale of substantially all of our properties in Canada. Following those transactions, our remaining medical office portfolio consists of four assets with approximately 190,000 rentable square feet.

To date in 2022, Invesque has sold 23 properties for \$218 million. Each of these dispositions were strategic and helped move the needle towards becoming a predominantly private-pay seniors housing company, which is what we set out to accomplish starting in 2021. Currently, 74 percent of our asset count is made up of seniors housing communities, which is up significantly from where we stood this time last year.

I'm pleased to report that we have made further progress on reducing our medical office footprint over the last 30 days and have entered into an agreement to sell the Brantford Medical Centre in Brantford, Ontario. We expect this transaction will close in the next 30 days, and potential purchasers for the three remaining medical office buildings in the United States are currently being identified. I believe that sale transactions are likely to occur during the first half of 2023.

In addition to the medical office building sales in the third quarter, we also closed on the sale of two skilled nursing facilities in Nebraska. These facilities were sold to our former tenant, Hillcrest Health Services, for \$25 million, representing a strong per-bed price of \$168,000. This is considerably above the industry average for skilled nursing assets.

This transaction came together and was executed efficiently as the buyer was extremely familiar with the properties, having managed them via an absolute triple-net lease for the last few years. The sale of these assets in Omaha and Lincoln ended our relationship with the team at Hillcrest, and we wish them nothing but the best in the future.

As was the case last quarter, the team at Commonwealth continues to see positive occupancy momentum, reaching pre-pandemic occupancy levels in July and hitting 80 percent occupancy for the first time in over two-and-a-half years at the end of September. The portfolio of 28 assets that Commonwealth manages on behalf of Invesque saw a 670-basis-point increase in occupancy from January 1 to September 30.

I remain optimistic about continued occupancy and rate growth across our SHOP portfolio, and I'm hopeful that the significant labour challenges our industry has experienced over the last 18 months will begin to lessen in 2023. I look forward to wrapping up 2022 with strong performance, and I'm confident that Invesque heads into 2023 as a simplified company that continues to look for ways to create shareholder value and support our operating partners.

With that, I'll turn the call back to Scott to touch on our financial performance for the quarter.

### **Scott Higgs**

Thank you, Scott. For the three months ending September 30th, FFO was \$0.12 per share, and AFFO was \$0.11 per share. Consistent with Scott's comments at the top, our strategic disposition strategy

continued into the third quarter. To reiterate, we see real opportunity for organic growth within our private-pay seniors housing portfolio, and we are focused on positioning ourselves and our operating partners to succeed within this subset of our portfolio.

As we have disposed of noncore assets, our finance team has been strategically allocating sale proceeds to delever and streamline our capital stack. Year to date, we have repaid \$134 million in consolidated indebtedness and \$54 million in JV indebtedness. This includes completely repaying the credit facility that encumbered our medical office building portfolio, several individual property-level mortgages, and repaying amounts outstanding on our revolving corporate credit facility, led by KeyBank. Additionally, we have utilized available funds to retire approximately \$10 million of the preferred equity that encumbers Commonwealth Senior Living portfolio.

As highlighted in previous quarters, we continue to retire both common equity and convertible debentures through our normal course issuer bid. We continue to believe that this is among the best uses of excess capital. Since the inception of our normal course issuer bid through the week of October 31st, we've retired nearly 514,000 common equity shares at an average price of \$1.75 per share and 314,000 convertible debenture units averaging 85 percent of face value.

Finally, our team continues to keep a close eye on the ever-changing interest rate environment. I'm pleased to report that less than 10 percent of our debt is maturing over the next 12 months. I'm also happy to report that the fixed-rate debt encompasses 84 percent of our consolidated debt portfolio and over 90 percent of our joint venture debt portfolio. Our work to actively manage interest rate risk exposure has proven to be effective in the current rising interest rate environment.

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

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

Thank you, Scott. Due to the timing of receipt of operator financial statements, we report the operating metrics of our triple-net lease portfolio a quarter in arrears. Our stabilized portfolio EBITDARM coverage remained just below 1.0 times for the period ended June 30, 2022.

As of June 30th, the trailing 12-month occupancy for the stabilized triple-net assets and stabilized SHOP portfolio was 78 percent and 75 percent, respectively. We expect to see further occupancy improvement next quarter based on third quarter financial data received to date. As noted last quarter, we will not be providing financial metrics on the four remaining medical office assets, as they are designated as held for sale and make up such a small portion of our portfolio going forward.

We continue to see positive trends from our Commonwealth portfolio and other SHOP operators as we head into the fourth quarter of 2022. The lingering impacts of COVID-19 remain at a minimum, and many of our communities are seeing occupancy at or near pre-pandemic levels. Our SHOP operating partners continue to see growth in resident rents following a rate increase in the 5 percent to 10 percent range earlier this year. We expect that many of our partners will increase rates in 2023 by at least 4 percent to 5 percent in an effort to help offset increased operating expenses.

Next, I'd like to provide some additional commentary about the sale transactions that we consummated in this quarter and, also, what we expect to accomplish over the next several months.

We continue to make incremental progress toward our stated goal of becoming a predominantly private-pay seniors housing owner. This past quarter included two transactions that are vital toward achieving that goal.

First, we sold 10 of our 14 medical office properties. This occurred through two transactions. We sold a stand-alone medical office building in Orlando, Florida, to the anchor tenant that operated a surgery centre within the building. The anchor tenant is a large operator of hospitals and surgery centres

nationwide that has decided to increase ownership of the real estate in which it operates. This led to a highly efficient transaction that came together quickly and preempted a drawn-out marketing process.

We then sold 9 of our 10 medical office properties in Canada. The buyer was a group that we initially met several years ago when we contemplated transferring property management to a new company. We believe that the sale, at over \$200 per square foot, compares favourably to replacement costs in light of tenant improvements that will be needed to enhance occupancy. We also think that the 5 percent transaction cap rate is very favourable in light of the escalating interest rate environment.

Ultimately, the sale of our medical office portfolio simplifies the Invesque story and allows our team to focus on our seniors housing investments. Managing medical office properties is labour intensive, and I'm very happy that our team can focus more of its efforts on our core investments.

Second, we sold a portfolio of two skilled nursing properties in Nebraska. This represented another meaningful step towards transitioning to a predominantly private-pay seniors housing portfolio. This was another highly efficient transaction, as the current operator was the purchaser, which substantially reduced due diligence and execution risk, along with transaction costs.

The pricing we achieved in this transaction was very favourable at \$168,000 per bed. The average price per bed for skilled nursing facilities nationwide is less than \$100,000 per bed. This transaction further illustrates that real estate quality matters, and our portfolio is one of the youngest in the industry, based on effective age. With this transaction completed, we now have only four operator relationships across our 17 skilled nursing properties, which represents a meaningful decrease from two years ago.

Finally, I'd like to touch on the continued recovery of the senior housing industry. We closely monitor the disclosures by other public companies invested in seniors housing, along with the updates provided by our industry data provider, NIC. We are encouraged by the continued increase in census and

rent growth across the industry, but we are especially encouraged by our portfolio's performance relative to average.

As Scott mentioned, the 28 properties managed by Commonwealth Senior Living saw occupancy growth of 670 basis points during the first nine months of 2022. If we look at our aggregate SHOP portfolio, it saw occupancy growth of over 600 basis points during the same period. By comparison, the industry as a whole saw roughly 300 basis points of occupancy growth during the same period. The occupancy gained, generated by Commonwealth, is just one of many metrics that tell us that Commonwealth is truly an industry-leading operator, and we are thrilled to be partners with their executive team.

**Adlai Chester**

That concludes our prepared remarks for today's call. Thank you for joining, and have a great day.

**Operator**

And this does conclude today's conference. Once again, thanks, everyone, for joining us. You may now disconnect.