

Invesque Inc.

First Quarter 2023 Conference Call

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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 first quarter 2023 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. Good morning, and thank you for joining our first quarter 2023 conference call.

I'm joined here today by Scott White, our Chairman and Chief Executive Officer; and Adlai Chester, our Chief Investment Officer.

Following our prepared comments, we will open the line for questions.

The first quarter 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 18th.

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

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

I will now turn the call over to our CEO, Scott White.

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

Good morning, all, and thank you for joining the call. As I highlighted last quarter, 2021 and 2022 were transformational years for Invesque.

We sold 43 assets for more than \$435 million, drastically changing the makeup of our portfolio composition.

With 80 percent of our pro forma NOI coming from seniors housing investments, we are now a predominantly private-pay seniors housing company that has been successful in our efforts to simplify the portfolio.

We remained focused on ensuring that each one of our seniors housing assets is operated by one of our preferred seniors housing operating partners.

Since our last earnings call almost 60 days ago, we have further executed on that strategy.

I am happy to report that we closed on a sale of the MetroWest medical office building in Orlando, Florida, which we previewed during our call in March. The asset sold in April for \$6.4 million, and a portion of the proceeds were used to pay down property-level debt.

We continue to market the two medical office buildings and have ongoing discussions with a potential buyer, but at this time have not entered into any definitive agreements.

On April 1st, we added a new operator to our roster of partners when we transitioned the day-to-day operations of three memory care communities to Chapters Living.

The Chapters team took over under our operations under an interim management structure as they awaited final regulatory approvals. As of May 1st, the licences have been received and the new master lease between Chapters and Invesque has fully commenced.

This portfolio was previously managed by a small, regional operator that struggled to achieve the financial success with these assets over the last couple years.

Adlai will touch a bit more on the specifics of our new lease with Chapters and the Chapters leadership team later on in the call.

I look forward to a long and successful relationship with the Chapters team and am proud to have them on our team.

We briefly touched on this last quarter, but on December 5, 2022, Invesque acquired a loan encumbering a 34-unit memory care community located in Carrollton, Texas.

On April 10th, we closed on the acquisition of property as a part of a deed in lieu of foreclosure agreement with the borrower of the note.

Simultaneous to closing, we leased the community of Constant Care Management Company. This community will ultimately be rolled into our master lease with Constant Care, and brings the total number of communities owned by Invesque and managed by Constant Care to 10.

Lastly, I want to provide an update on the sale of our SymCare portfolio that was announced as part of our March earnings release and conference call.

The due diligence period has expired, and the buyer continues to move forward toward closing. We still anticipate the transaction will close prior to the end of the second quarter.

As we highlighted on our last call, Invesque will have only nine skilled nursing facilities remaining in the portfolio following this sale.

Our SHOP operators are off to a good start in 2023, with occupancy continuing to tick up and NOI increasing, primarily due to annual resident rate increases that went into effect during the first quarter. Staffing, while better than it was this time last year, continues to be a challenge for many of our partners.

Commonwealth, specifically, is hyper focused on hiring additional home office support resources to provide their communities with high-range support, as well as training and development programs, with the goal of hiring the right staff and working extremely hard to retain them.

We expect to see continued NOI improvement from our larger SHOP relationships throughout 2023 and think additional upside remains for the longer term.

Our industry provides an incredible service. We have proven the portfolio to take advantage of the upcoming seniors housing demand.

Scott, I'll now turn it back to you to review our financial results.

Scott Higgs

Thank you, Scott. For the three months ending March 31st, FFO was \$0.12 per share and AFFO was \$0.12 per share.

We continued to use proceeds from sale transactions to delever and de-risk our balance sheet and plan to use organic cash flow to ensure the Company is best positioned for the long term.

Our finance team is actively addressing near-term maturities and managing the rising interest rate environment.

As of March 31st, approximately 74 percent of consolidated indebtedness features a fixed interest rate and approximately 83 percent of JV indebtedness features a fixed interest rate.

Consistent with our strategy and as previously outlined, on April 10th, we announced proposed enhancements to the terms of the 6 percent 2018 convertible debentures that are due in September 2023.

The proposed enhancements increase the interest rate from 6 percent to 8.75 percent, decrease the conversion price from \$10.70 per share to \$2.75 per share, and extend the maturity date by three years.

Additionally, the proposed enhancements include the redemption on a pro rata basis of \$22 million of the outstanding principal.

The Company, including the Board of Directors, unanimously recommends such enhancements and feel that the updated terms are in the best interest of all Invesque stakeholders.

These terms will allow us to continue executing on our strategy, which we believe will create significant value for all stakeholders.

As previously discussed, we believe using our normal course issuer bid to buy back common equity and convertible debentures is among our best uses of capital.

Since the inception of our normal course issuer bid, through April 30th, we have retired nearly 701,000 common equity shares at an average price of \$1.61 per share and \$1.73 million of convertible debenture units averaging 81 percent of face value.

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

Adlai Chester — Chief Investment Officer, Invesque Inc.

Thank you, Scott. Our stabilized portfolio EBITDARM coverage remained just under 1.0 times for the period ended December 31, 2022.

As of December 31st, the trailing 12-month occupancy for the stabilized triple-net assets and stabilized SHOP portfolio was 77 percent and 79 percent, respectively.

As we mentioned last quarter, most of our seniors housing operators increased resident rates by 5 percent to 10 percent during the first quarter. We have started to see the impact of this increase through improved NOI for several operators and expect even further increases to average rates and NOI in Q2.

We expect that because one of our largest operators rolled out their annual rate increase to in-house residents on March 1st.

The increases in rental rates have been an important tool used by our operators to offset continued increases in expenses, including staff. While certain markets remain challenging, our SHOP operators are feeling better about staffing availability and reduction in agency staff than they were 12 months ago.

Scott touched briefly on the transition of our portfolio of memory care assets previously managed by a small, regional operator. We transitioned the communities to a new operator, Chapters Living, about 45 days ago.

Invesque and Chapters have entered into a 15-year master lease, 2.5 percent annual escalators beginning in lease year four.

Chapters Living, run by Danny Stricker, is a relatively new operator based in St. Louis, Missouri, that is focused on improving the lives of seniors and with a passion for memory care. Danny has a track record of success in this industry, and we are really excited to add him and the team to our list of preferred operating partners.

The portfolio, which includes two assets in San Antonio, Texas, and one in Little Rock, Arkansas, fits perfectly with what Chapters set out to do when they were formed in 2022.

We are happy to report that in just 45 days we've already seen positive traction on occupancy and rental rates and look for overall NOI growth in communities as the staffing is stabilized and expenses are better managed. We look forward to a long, successful relationship with the Chapters team.

As Scott described earlier, we successfully completed the acquisition of a 34-unit memory care facility in Carrollton, Texas, on April 10th. At closing, we entered into a new 15-year lease with Constant Care Management Company, one of our preferred operating partners, to operate the community.

This acquisition was unique, as we were able to leverage a relationship with one of our lenders to acquire the property on a very attractive basis. Including the purchase price and additional capital to bring the facility up to the Constant Care standard, Invesque's spaces will be less than \$90,000 per unit, which is a substantial discount to replacement cost.

Because we have relationships with many lenders in our industry, we may see more similar opportunities to acquire underperforming properties and partner with our best in-class operator relationships to improve the performance of those communities.

Finally, I'd like to comment on our pending transactions. We are very encouraged that the due diligence period has expired for the Symphony portfolio and that we are working toward closing this transaction. The financing environment remains very challenging, and bringing a transaction to close is no small feat.

When choosing a transaction partner, we consider a number of factors beyond the purchase price. Working with credible groups that have a track record of successfully completing deals is an important consideration for all of us.

As we continue to work to bring these transactions to closing, we will continue to proactively evaluate our portfolio and identify assets which may be right for additional investment or disposition.

That wraps up our prepared remarks for the first quarter conference call.

Operator

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

Have a great day.