Akumin Inc.

EDITED TRANSCRIPT

2019 Second Quarter Results

Analysts Conference Call

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Corporate Participants

Riadh Zine-El-Abidine, *Akumin Inc.* — President, Chief Executive Officer & Director

Mohammad Saleem, *Akumin Inc.* — Chief Financial Officer & Corporate Secretary

Conference Call Participants

Noel Atkinson, *Clarus Securities* — Analyst

Endri Leno, *National Bank of Canada — Analyst*

Tania Gonsalves, *Cormark Securities — Analyst*

Presentation

Operator

Good morning. My name is James, and I will be your conference Operator today. At this time, I'd like to welcome everyone to the Akumin Inc.'s 2019 Second Quarter Results Research Analyst Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you'd like to ask a question during this time, simply press *, and then the number 1 on your telephone keypad. If you'd like to withdraw your question, please press the # key. Thank you.

Mr. Zine, you may begin your conference.

Riadh Zine-El-Abidine — President, Chief Executive Officer & Director, Akumin Inc.

Good morning, ladies and gentlemen, and thank you for joining us for Akumin's earning call for the quarter ended June 30, 2019.

Before we begin, let me remind you that certain matters discussed in today's conference call or answers that may be given to questions asked could constitute forward-looking statements that are subject to risks or uncertainties relating to Akumin's future financial and business performance. Actual results could differ materially from those anticipated in these forward-looking statements.

The risk factors that may affect results are detailed in Akumin's periodic results and public disclosure. These documents can be accessed under Akumin's profile on sedar.com. Akumin is under no obligation to update any forward-looking statements discussed today, and investors are cautioned not to place undue reliance on these statements.

We may also make reference to certain non-IFRS measures during this conference call such as EBITDA, adjusted EBITDA, adjusted EBITDA margin, or adjusted net income attributable to shareholders of Akumin. Our definitions for these terms are included in our public disclosure. Our use of these non-IFRS measures is intended to complement IFRS measures by providing additional information and further understanding of our results of operations.

On today's call, our Chief Financial Officer and I plan to provide you with highlights from our operations and financial results for the quarter ended June 30, 2019. After our prepared remarks, we will open the call to questions from industry research analysts.

Overall, our results for the quarter were in line with management's expectations and represents a good start to the 2019 fiscal year. Our RVU volume for the quarter increased by approximately 50 percent relative to Q2 2018. Organic growth for the quarter measured by same-centre RVU volume was approximately 5 percent when compared to Q2 2018. We recorded revenue of $54 million for the quarter. Adjusted EBITDA for the quarter was $12.3 million. And adjusted earnings per share was $0.06.

Three acquisitions were completed during the quarter. We acquired a single center in Davie, Florida on April 1, 2019, and on May 31, 2019, we also acquired a single center in Deltona, Florida.

Also, on May 31, 2019, we completed the transaction to acquire Advanced Diagnostics Group and Imaging Centers of West Palm Beach, and their 21 centers in Florida, as well as exclusive management rights over Elite Radiology of Georgia and the six centres it operates. These businesses have a significant focus on personal injury services, which will complement the business we acquired in mid-Florida in 2017, which have a similar focus on such services.

During Q2 2019, we also secured committed financing from a syndicate of lenders led by BBVA USA to fund these acquisitions. The loan is for a total of $382 million, of which $332 million comprises of a term loan including $16 million subject to a delayed draw and a revolver of $50 million. The proceeds of the term loan were used to refinance Akumin's existing debt and to also finance the acquisitions completed in the second quarter of 2019. The revolver is expected to be used to fund future tuck-in acquisitions and investments as well as general working capital purposes.

As we've talked about in our past earnings calls, we measure our ability to scale our business by increasing revenue and adjusted EBITDA, and we measure the profitability and the health by looking at adjusted margin and adjusted earnings per share on a diluted basis. Our financial discipline in terms of capital deployment continue to be measured by a return on capital to all stakeholders and a return on equity to shareholders. However, in the current quarter, these metrics are not meaningful given the large ADG acquisition closed on May 31, 2019. As such, the results of these acquisitions were only included from the date of the acquisition, which is May 31, 2019.

Akumin's acquisition growth largely remains to build density in our core existing geographic markets. In the current stage of our growth, we continue to focus on developing the size of our network, which we believe will provide an alternative to hospitals for insurance and other third-party payers. This strategy is apparent from the ADG acquisition, which has significantly increased our density in Florida. It has also launched a new geographic focus for us with our entering to Georgia, which is under-penetrated from an outpatient imaging perspective.

As our EBITDA continues to grow and we realize synergies from our acquisitions, we believe Akumin will continue to have significant access to debt markets in order to execute on our acquisition growth strategy, and we may also use our currency from time to time as a potential form of consideration to potential large operators to join the Akumin platform, as we've done with the rollover equity issued at the closing to the Advanced Diagnostics Group.

We also remain focused on our existing business operations. We are continuing our efforts to integrate operations and to streamline our revenue cycle management for the entire enterprise. We expect these operational integrations to have a direct impact on our bottom line in the second half of this year.

With the closing of the ADG acquisition on May 31st, we are also executing on our plan to achieve potential revenue synergies by converting some of our existing Akumin centres that are suitable for ADG's business model. The converted centres would become personally injury-focused centres under the ADG banner, run by the ADG management team.

The conversion of two Florida centres was completed early in Q3, and we are already seeing volume increase at those two centres. Two additional Akumin centres are expected to be converted to ADG personal injury centres later this month.

In addition to our internal focus, a lot of changes are going in the diagnostic imaging industry and the US health care industry generally speaking.

We have previously talked about the increase in high-deductible plans, which means every day, we are collecting more directly from our patients. And we believe this trend will continue in the future and will force our industry to become more customer and consumer-centred service offering.

In 2018, Akumin performance and their MIPS, which is a Merit-Based Incentive Payment System under Medicare, has not resulted in any penalties for the company. In 2019, our reporting and performance continue to improve under the same system, the MIPS system. And we may experience, in 2019, a bonus payment under this system.

We believe Akumin, with its defined strategy, operating philosophy, and record of execution integration is well positioned to continue to take advantage of the opportunities and the changes resulting from these industry trends.

At this time, I would like to hand the call over to Mohammad Saleem, Chief Financial Officer of Akumin, to discuss the financial results.

Mohammad Saleem — Chief Financial Officer & Corporate Secretary, Akumin Inc.

Thank you, Riadh. Good morning, everyone. I will provide a summary of Akumin's results for the quarter ended June 30, 2019.

As I discuss our results, I will use certain non-IFRS measures, which are defined and reconciled in Akumin's MD&A. I will define these terms now.

Adjusted EBITDA means EBITDA adjusted for noncash items such as stock-based compensation, impairment of assets, gains or losses in the period, nonoperating cash items such as settlement costs and public offering and acquisition-related costs, onetime adjustments, and the impact of IFRS 16.

Adjusted net income to shareholders of Akumin means adjusted EBITDA less depreciation and interest expense, excluding IFRS 16 impact on depreciation and interest expense, taxed at Akumin's estimated effective tax rate, which is a blend of US federal and state statutory tax rates for Akumin for the period.

In terms of volume performance, Akumin measures volume of procedures performed in its diagnostic imaging centres based on relative value units, or RVUs, instead of the number of procedures. RVUs are a standardized measure of value used in the US Medicare reimbursement formula for physician services, which provides a weighting to different procedures based on their complexity.

Akumin's volume in Q2 2019 was approximately 1.2 million RVUs compared to approximately 756,000 RVUs in Q1 2018. This increase is mainly due to the acquisitions in 2018 and 2019. Excluding the 2018 acquisitions and 2019 acquisitions, on a same-centre basis, RVUs were approximately 791,000 in Q2 2019 compared to approximately 752,000 in Q2 2018. This represents an increase of approximately 5 percent, mainly due to improved performance in Florida.

With respect to the income statement, the company reported the following results as compared to the same quarter of last year. Revenue was $54 million, up from $36.8 million in 2018. Adjusted EBITDA was $12.3 million versus $8.3 million in 2018. Adjusted EBITDA margin was 23 percent versus 22 percent for the same quarter last year.

The improvement in revenue and adjusted EBITDA was mainly due to the acquisitions in 2018 and 2019, and the adjusted EBITDA margin was broadly similar to the comparable period.

Adjusted diluted EPS was $0.06, which was in line with the same quarter last year. The higher adjusted net income in Q2 2019 was driven by higher adjusted EBITDA and was partly offset by the increased share count in Q2 2019 versus Q2 2018.

With respect to our balance sheet, cash balance was $22 million at June 30, 2019, versus $18.9 million at March 31, 2019. Accounts receivable were $66.5 million versus $42.3 million at March 31, 2019. This increase of approximately $24 million was mainly due to two items. First, approximately $6 million increase in revenue in Q2 2019 versus Q1 2019, mainly due to the acquisitions made in Q2 2019. And second, increase in business with auto and attorney payers was about $19 million, mainly due to the ADG acquisitions in Q2 2019. This business has a longer collection cycle, and it represented about 22 percent of Akumin's revenue in Q2 2019 versus about 8 percent in Q2 2018.

As at June 30, 2019, based on pro forma annual revenue, including the 2019 acquisitions, the company's days of sale outstanding were approximately 92 days. Excluding auto and attorney payers, those days of sales outstanding were approximately 69 days.

Fixed assets, excluding IFRS 16 impact at June 30, 2019, were $66.6 million versus $54.8 million at March 31, 2019. Most of this increase was due to the acquisitions in Q2 2019.

The debt of the company excluding the operating leases on the balance sheet was $313.7 million at June 30, 2019, versus $117.3 million at March 31, 2019. This increase was mainly due to the acquisitions in Q2 2019.

The key liabilities of the company are our five-year senior term loan of $316 million at face value. In addition, this debt facility includes a $50 million revolving facility, of which $6.6 million was drawn as of June 30, 2019, mainly to finance debt issuance and acquisition-related costs.

I will stop here and hand it back to Riadh for closing remarks.

Riadh Zine

Thank you, Mohammad. This concludes our prepared remarks, and we would ask the Operator to start the question-and-answer period.