



Akumin Inc.

## **EDITED TRANSCRIPT**

### **Q4 2019 and Year-End Financial Results Analysts Conference Call**

**Event Date/Time: April 1, 2020 – 8:00 am ET**

**Length: 49 Minutes**





## Corporate participants

**Riadh Zine**, *Akumin Inc.* — President, Chief Executive Officer

**Mohammad Saleem**, *Akumin Inc.* — Chief Financial Officer

## Conference Call Participants

**Noel Atkinson**, *Clarus Securities* — Analyst

**Tania Gonsalves**, *Canaccord Genuity* — Analyst

**Endri Leno**, *National Bank Financial* — Analyst

## Presentation

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### Operator

Good morning. My name is Carol, and I will be your conference Operator today. At this time, I would like to welcome everyone to Akumin Inc.'s 2019 fourth quarter and year-end 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 would like to ask a question during this time, simply press \*, then the number 1 on your telephone keypad. If you would 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, Akumin Inc.**

Thank you. Good morning, ladies and gentlemen, and thank you for joining us for Akumin's earnings call for the year and the quarter ended December 31, 2019.

Please note a visual presentation is meant to complement our presentation today. A copy is available on the Investor Relations section of our website at akumin.com and through the URL link in our earnings press release.

My name is Riadh Zine, and I'm the President and Chief Executive Officer of Akumin.

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 at [sedar.com](http://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 we've intended to complement IFRS measures by providing additional information and further understanding of our results of operations.

Starting on Slide 3. While we know COVID-19 is at the top of everyone's mind, we wanted to first share with you some good news, and so we will start our call today with a report on our financial results for the 2019 fiscal year. After that, we will discuss the impact of COVID-19 pandemic on our business, Akumin's response to the pandemic, and what we are expecting over the coming days and weeks before ending with a question-and-answer session where we will respond to questions from industry research analysts.

First, our financial report. Over the next few slides, Mohammad Saleem, our Chief Financial Officer, and I will provide you with highlights from our fiscal year ended December 31, 2019.

Management is very pleased with the results. As you can see in our summary slide, RVUs were near 5.3 million for the year as compared to 3.3 million for 2018, representing a 59% increase. Q4 alone saw an increase of 55% over the prior year.

Revenue is up also 59% year over year with a total of \$247 million for the year. Adjusted EBITDA was \$60 million for the year, almost double 2018. Adjusted earnings per share were \$0.26.

As we've discussed before, we measure our volume in RVUs, or relative value units, which gives a weighting to the different complexities of different procedures.

Our RVUs, as outlined on Slide 6, increased each quarter over the year.

In Q4, we also experienced 5% growth in same-centre sales volume, which ignores the impact of our acquisitions completed in 2019. For the year as a whole, same-centre growth was approximately 6%.

As far as revenue is concerned, on Slide 7, the growth over the year is attributable mainly to acquisitions we completed in 2018 and 2019, including the large acquisition of ADG, which closed on May 31, 2019. As a result of the ADG transaction, the mix of our service revenue attributable to attorney/auto business increased to 25% as opposed to 10% for the prior year.

The revenue per RVU is at \$49 for the quarter, which is consistent with the third quarter, and any small changes are mainly a result of changes in payer mix.

Moving to Slide 8. Adjusted EBITDA for the quarter was over \$20 million, more than double the same quarter last year, with an adjusted EBITDA margin of 26% as compared to 20% for the prior year. The higher margin profile of the Company is a result of organic growth and operational synergies successfully implemented



in our acquired businesses over the course of 2019 as well as higher percentage of revenues from attorney/auto business.

At this time, I would like to hand the call over to Mohammad Saleem to discuss the balance sheet.

**Mohammad Saleem — Chief Financial Officer, Akumin Inc.**

Thank you, Riadh. Good morning, everyone. As of December 31, 2019, Akumin's accounts receivable were \$82.9 million versus \$77.2 million at September 30<sup>th</sup>. The related days of sales outstanding as at December 31, 2019 were approximately 98 days versus 98 days at September 30, 2019. Excluding the attorney/auto payers, the days of sales outstanding were approximately 66 days versus 77 days at September 30, 2019.

The stability in total days of sales outstanding and the improvement in the days of sales outstanding excluding attorney/auto payers at December 31, 2019, versus September 30, 2019, is mainly due to improved collections in a strong quarter as the Company continues to focus on integrating previously announced acquisitions onto its revenue cycle platform.

The stability in the total days of sales outstanding has occurred despite contribution from the following items during Q4 2019. There was higher revenue contribution, mainly due to the El Paso acquisition and the West Palm Beach acquisition. We also had increase in accounts receivable acquired due to the West Palm Beach acquisition and the higher proportion of revenue mix from attorney/auto payers, which has a longer collection cycle. Attorney/auto payers represented approximately 29% of the service fee revenue in Q4 2019 versus about 13% in Q4 2018.

Moving on to net debt, Akumin's net debt at December 31, 2019, was approximately \$327 million, and the net debt to annualized Q4 2019 adjusted EBITDA ratio was about 4 times.

With respect to capital expenditure, the annual capital expenditure of the Company during 2019 was approximately \$12.4 million, which implies a CapEx to revenue ratio of approximately 5%, which is in line with expectations.

At this time, I'll pass it back to Riadh. Thank you.

**Riadh Zine-El-Abidine**

Thank you, Mohammad. On the strategic side of the business, early in the fourth quarter, we completed an acquisition of three imaging centres in West Palm Beach, Florida. These centres add density to our medical imaging business in an existing market, which is very consistent with our strategy of building density in multiple regions.

After the quarter-end, we also completed two single-centre acquisitions, again, in existing markets. One in Florida and one in Chicago.



I'm also pleased to report that we have completed the design of our new operating enterprise solution, and we are in the midst of developing multiple interfaces between all the technical components of our new platform, which we anticipate to be tested further this year and to be rolled out over the course of 2020.

This completes our financial results update. And I'm sure now we're moving to what probably everyone is waiting to hear more on, is COVID-19. It's very unfortunate, but this is what we have to deal with. But at least we are still very pleased with what this platform is capable of producing, as we witnessed in 2019 towards the fourth quarter.

So now, on the COVID-19 impact, as the whole world is actually aware, we're dealing with a global pandemic, the scale of which very few of us alive today have seen in the past. Novel coronavirus causing a disease known as COVID-19 has broken out across the United States since early 2020 and now affects all 50 states.

National Emergency has been declared, and the President recently extended US national coronavirus guidelines for social distancing until, at least, the end of the month of April. At the state and the local level, governors, mayors, and counties have issued orders in various jurisdictions requiring residents to shelter-in-place or stay at home, requiring all nonessential businesses to cease operations, requiring out-of-state travellers to self-quarantine, or requiring medical centres to stop performing nonurgent procedures.

As a healthcare facility, Akumin is considered an essential business. The orders do not require us to close, and in most cases, expressly encourage us to remain open and continue operations and allow our employees to travel so that we can provide essential healthcare services.

If we close, in many cases our patients will have no option for their essential imaging procedures other than to attend a hospital at a time when hospital resources in most of our markets are strained with COVID-19.

Even though patients are permitted to obtain necessary medical procedures, these orders influence personal actions, and we believe patients seeking to minimize the spread of the virus may choose voluntarily to forego even essential imaging procedures, which can provide an immediate benefit to their treatment and their quality of life.

As of yesterday, almost 85% of our imaging centres are in regions whose populations are affected by "shelter-in-place" or similar orders, and it's likely that the remainder of our centres not presently subject to such orders, like some locations in the suburbs of Tampa, Orlando, or Atlanta, could become subject to such orders in coming days.

We also expect physician orders for procedures and patient fulfillment of those orders will be significantly impacted, particularly over the next few months, as this pandemic continues.

Further, some of the services we perform, like annual check-up, X-rays, and some bone density are preventative of nature and can usually be deferred without harm to our patients. We have implemented protocols through our clinical committee to work with the referring physician to identify those procedures so that to support public health efforts to encourage social distancing and minimize the use of personal protective equipment, patients can be informed these procedures will be deferred to a later date.



As we announced on March 23, 2020, Akumin is also trying to do its part to help with public health efforts in this time of crisis. While we continue to encourage those who need treatment or care to attend a hospital, we have designated centres in some of our key markets, as available, to perform imaging procedures for COVID-19 patients. This service would allow those patients with appropriate orders or prescriptions from their primary care physician to receive services, which may be helpful to the assessment or treatment of COVID-19 such as chest CT, X-ray, or ultrasound, and also such that those patients can receive other essential imaging services such as MRI or other procedures that may be needed to address conditions not related to COVID-19.

All of our centres, both designated centres and others, continue to follow CDC and local health guidelines, including those relating to the use of personal protective equipment, decontamination, and social distancing. Having these designated centres will allow us to have our other imaging centres in those regions focus on non-COVID patients and further protect those centres, the patients, and our employees as well.

As hospital systems become more strained dealing with the outbreak, we expect our imaging centres will be able to provide an important, cost-effective support for hospital imaging services so hospital resources can remain focused on battling this pandemic.

The coming weeks and months will present an incredible challenge for most industries and the economy, generally speaking. We are closely monitoring the impact of COVID-19 on our volumes. The volumes for the first half of March appear not to have been severely impacted. However, stay-at-home orders, which started mid-March, and the most significant government actions had not yet been implemented by that time. We expect a more significant impact the longer the outbreak continues.

If volumes decline, as it appears they will, we will need to implement cost-containment measures. Operating costs may be limited by reducing clinic hours and consolidating volume of clinics with nearby geographies. Staff furloughs or layoffs are required as are cuts to salaries for corporate and back-office personnel. Several of our variable costs are tied to volume and are expected to decline in proportion with any decline of volume. We also anticipate negotiations with our vendors, landlords, and other partners for the deferral of certain things.

At the end of 2019, we had \$23 million of cash on hand. We are also in discussions with our lending syndicate relating to potential relief measures and additional facilities to ease liquidity concerns. We are also continuing to investigate all possible government aid options including federal stimulus.

While we expect turbulent times ahead, management remains confident that the company will have the resources and the liquidity to survive the present crisis and to emerge as a stronger dominant player in outpatient imaging.

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