



Akumin Inc.

EDITED TRANSCRIPT

Q1 2020 Financial Results

Analysts Conference Call

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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

Operator

Good morning. My name is Marcella, and I will be your conference Operator today. At this time, I'd like to welcome everyone to the Akumin Inc. 2020 First Quarter Results Research Analyst Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, we'll have a question-and-answer session. If you'd like to ask a question during that time, simply press *, and the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

Mr. Zine, you may begin your conference.

Riadh Zine-EI-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 quarter ended March 31, 2020. My name is Riadh Zine, and I'm the President and Chief Executive Officer of Akumin.

Please note, a visual presentation is meant to accompany our presentation today, and a copy is available on the Investor Relations section of our website at akumin.com.

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 disclosures. These documents can be accessed under Akumin's profile on SEDAR at www.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 refer to certain non-IFRS measures during this conference call such as EBITDA, adjusted EBITDA, adjusted EBITDA margin, and adjusted net income or loss 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.

Today's agenda is shown on Slide 3. We will start with a discussion of our earnings for the quarter ended March 31, 2020, then move on to a summary of the credit agreement amendment that closed earlier this week, and close with an update of business status as it relates to COVID-19 before ending with a question-and-answer session where we will respond to questions from industry analysts.

Our financial report begins on Slide 4. Over the next few slides, Mohammad Saleem, our Chief Financial Officer, and I will provide you with highlights for Q1 2020.

Management is pleased with the results even after taking into account the impact of the COVID-19 pandemic, which started to have an effect on our business in early March. As you can see in our summary slide, RVUs were over 1.5 million for the quarter as compared to over 1 million for Q1 2019, representing a 43% increase.

Revenue is up 49% compared to the same quarter last year for a total of \$71 million. Adjusted EBITDA was near \$15 million as compared to \$9.2 million last year, and adjusted earnings per share were \$0.03 as compared to \$0.05 last year.

Turning to Slide 5. As we've discussed before, we measure our volume in RVUs, or relative value units, which gives a weighting to the different complexities of the different procedures. While the quarter is down compared to Q4 2019, we still saw a 43% increase in RVUs year over year, mainly due to our acquisitions in 2019.

On a same-centre basis, volume declined by 1% compared to the same quarter last year. That said, if we exclude March from the calculation to disregard the impact of COVID-19, same-centre growth for the months of January and February was 7% up from last year.

Our revenue is shown on Slide 6. We have continued to experience a relatively stable pricing environment and a 50% growth of revenue year over year. The decline as compared to Q4 2019 is attributable to a number of factors, including seasonality, the impact of the pandemic on March revenue, and a precautionary incremental bad debt provision made to account for the potential impact of the COVID-19 pandemic which was booked in the quarter.

On Slide 7, you will see our adjusted EBITDA for the quarter, which was almost \$15 million. The reduced EBITDA margin of 21% is also due to the lower revenue for the quarter. We anticipate our cost containment strategies, implemented in response to COVID-19 pandemic, and the integration of acquired businesses will improve our margin profile going forward.



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

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

Thank you, Riadh. Good morning, everyone. As of March 31, 2020, Akumin's accounts receivable were \$91.7 million versus \$82.9 million at December 31, 2019. In our opinion, in the current business environment, the days of sales outstanding calculation is not very meaningful. However, assuming pre-COVID-19 revenue levels, the related days of sales outstanding at March 31st were approximately 108 days as compared to 98 days at December 31st. Excluding attorney/auto payers, the days of sales outstanding were approximately 74 days versus approximately 66 at December 31st.

This increase in the days of sales outstanding is mainly due to seasonally lower collections, disruption from billing integration of recent acquisitions, 2020 acquisitions, and the impact of COVID-19 in the quarter, as well as higher accounts receivable from attorney/auto payors with a longer collection cycle. As you know, attorney/auto payors represented approximately 32% of the service fee revenue in Q1 2020 versus about 29% in Q4 2019.

Moving on to net debt, the cash balance at March 31st was \$16.6 million versus \$23.4 million at December 31st. Since the COVID-19 pandemic in March 2020, no draw has been made on Akumin's credit facility for working capital purposes. Akumin's net debt at March 31st was \$344 million. Riadh will shortly comment about the recent amendment to Akumin's credit agreement.

The capital expenditure of the company during Q1 was approximately \$2.6 million, which implies a capital expenditure to revenue ratio of about 4%, which was lower than our typical expectation of between 5 to 6% of normalized revenue.

I will now pass it back to Riadh. Thank you.

Riadh Zine-EI-Abidine

Thank you, Mohammad. On Slide 9, there is a high-level summary of the changes to our syndicated senior secured credit agreement. As announced in our press release, the amendment closed on June 2, 2020. As part of the amendment, the banks have committed a further \$19 million to our revolving credit facility, increasing the facility from \$50 million to \$69 million. We currently have \$28.4 million drawn on the revolver, and will require consents from the lending groups for draws beyond \$50 million.

Since the pandemic started, we have not yet needed to draw upon the revolver for working capital purposes. The amendment also increases our total leverage covenant ratios for the next four quarters and reduces our fixed-charge covenant, providing us with significant flexibility to respond to the loss of revenue caused by the pandemic.

The call premium on our Term Loan B facility has also been extended with any prepayment within the next 12 months requiring a premium of 2% and a premium of 1% for the 12 months after that.



Lastly, on Slide 10, we've summarized the current status of the business as regards to COVID-19.

Government stay-at-home and similar orders in most of our major markets, including Florida and Texas, have lapsed, and most businesses are able to return to usual operations, subject to limited restrictions. We expect lockdown orders in other counties in Pennsylvania to lift today. Restrictions on surgeries and nonemergent procedures, which affected many of our referring physicians, have also been lifted.

As we previously announced, our average daily volume declined by mid-April by about 55% as compared to the first week of March. Volume has been returning since that time, and while there is a lag in the calculation of RVUs, we estimate average daily volume by late May to be down about 25% compared to the first week of March.

While we remain an essential healthcare service throughout the stay-at-home order period, in order to help manage costs given reduced demand, we've temporarily closed 17 of our clinics and consolidated the volume from those clinics to nearby facilities. We also reduced the operating hours at many of the rest of our clinics. We have already started increasing the operating hours in a number of our clinics as demand justifies.

We were also able to manage our payroll costs. We furloughed or laid off 29% of our staff and some have begun to return as demand requires. The rest of our staff has had their hours reduced or their pay decreased by up to 20%.

Our variable costs, including professional reading fees and medical and other supplies, are also closely tied to volume. Because of the reduction in volume, these costs were also reduced.

We have also successfully negotiated with various stakeholders to manage fixed costs, which have included deferred lease payments on real estate and equipment leases and other similar arrangements. We believe these cost-containment and deferral initiatives will help in partly offsetting the reduction of revenue seen as a result of COVID-19 to help support our EBITDA margin and liquidity.

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