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EDITED TRANSCRIPT

Q2 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

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Presentation

Operator

Good morning. My name is James, and I will be your conference Operator today. At this time, I would like to welcome everyone to Akumin Inc.'s 2020 Second Quarter Results Research Analyst Call.

All lines have been placed on mute to prevent any background noise, and 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 and Chief Executive Officer, Akumin Inc.

Good morning, everyone, and thank you for joining us for Akumin's results call for the quarter ended June 30, 2020.

My name is Riadh Zine. I'm the President, and Chief Executive Officer of Akumin. Please note a visual presentation is meant to accompany our presentation today. A copy is available on the Investors 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.

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.

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 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.

Before we begin, I would like to start by thanking the entire Akumin team, and particularly those working on the front lines in our clinical facilities for all of their efforts and contributions during this very challenging period. Without all of them, we would not have been able to achieve the results that we announced last evening and that we will elaborate on today.

So let's start with our financial report that begins on Slide 3. As you can see, during the quarter that ended June 30, 2020, we generated revenue of $53.6 million, which obviously exceeded the consensus expectations and also our own expectations, given the rebound we've seen late in the quarter.

Although our RVU volume during the quarter declined by almost 28 percent relative to Q1 of 2020, and obviously that's a result of COVID-19 impact, by effectively implementing our cost-containment strategies, which we've discussed in a number of previous press releases, and with the help and dedication of our employees, we were able to generate adjusted EBITDA of $13.7 million, as you can see on the slide.

And just to be clear—I know this is probably a question on your mind, unless you had the time to review the financial statements—to be clear that EBITDA, when we say adjusted EBITDA, it is adjusted EBITDA. Just like when we adjust to make it better, we also don't adjust to make it worse.

So the number is clean of any government support. All of the $4 million, the more than $4 million, we saw from the CARES Act are not in the $13.7 million of EBITDA. That's a clean number. Of the $4 million, $1 million is below the line and it should be below the line when you do adjusted EBITDA, and the other $3 million is on the balance sheet as cash and as a liability, as it's an advance payment.

Despite the impact of the pandemic, as you can also see on the slide, volume in the second quarter was over 1 million in RVUs compared to 1.1 million RVUs in the second quarter of 2019.

Moving to the discussion on volume on Slide 4. As you can see, the quarterly volume trends. This is the first time we've seen such a dip and the first time we obviously see a significant impact on the same-store sales. But all of that is explained by the COVID-19 impact.

And also for further clarity, just like we didn't add anything to the adjusted EBITDA, we also did not adjust anything in same-store sales; meaning, we didn't adjust for any clinics that were temporarily fully or partially closed. So that decline is a true decline of every store that was open. Even it was open for one hour in the quarter, it was accounted for in that 30 percent decline. There was no adjustment made.

The number of the clinics closed during the quarter varied, but as you recall, at the height of the lockdowns we closed as many as 14 fully closed; meaning, not even reduced hours. But I think, as you recall, almost at some point all the other clinics have seen reduced hours in some way to respond to the lower demand.

COVID-19 impacted our volume not just in the second quarter, but as you recall, started in March and continued through the second quarter, which is why you see that dip in Q1 2020 in the volume trend as well.

Moving to Slide 5 to discuss what does that mean to revenues. So as you can see, we benefit from a broadly stable pricing environment. You probably see a small difference here. Just to be clear when you calculate revenue per RVU, although it is small today, the other revenue, you should look at service fee revenue for RVU, which we label properly this time relative to other presentations.

As you can see, the service fee revenue per RVU it's very stable. And the 25 percent decline of revenue compared to Q1 it's, again, it's all COVID-19.

There is a dip in the service fee revenue per RVU in the first quarter, as you probably recall, that resulted from the incremental bad debt provision that we recorded last quarter to be very conservative as we account for potential COVID-19 impacts going forward.

Moving to Slide 6 and looking at the adjusted EBITDA now for the quarter. As I discussed, it was almost $14 million, only modestly below Q1 adjusted EBITDA. And this is obviously despite having the COVID-19 impact across the entire quarter which led to significant declined revenues, as we discussed.

The margin of 21 percent, just like I discussed, the dip in the revenue per RVU, the margin of 21 percent in the first quarter, the same way the incremental bad debt provision impacted the service fee revenue per RVU, it had the same impact on the margin in that quarter, which took it down to 20 percent.

I know that no one expected these type of margins, so the return to almost normal levels it really shows how effective was the cost-containment strategies inside this quarter and how it was managed also as volumes have ramped up inside the same quarter, which we will discuss later on in the presentation as well.

I'll stop here. At this time, I would like to hand the call over to Mohammad Saleem, our Chief Financial Officer, to discuss the free cash flow generation and the balance sheet in the second quarter of 2020.

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

Thank you, Riadh. Good morning, everyone. During the June 2020 quarter, Akumin generated free cash flow of $4.9 million, driven by adjusted EBITDA of $13.7 million. We expect this to improve gradually with business volume growth.

The capital expenditure during Q2 2020 was approximately $2.2 million, which implies a capital expenditure to revenue ratio of approximately 4 percent, which was lower than our typical expectation of between 5 percent to 6 percent of normalized revenue.

With respect to accounts receivable, as of June 30, 2020, Akumin's accounts receivable were $91.9 million versus $91.7 million at March 31, 2020. The relatively stable accounts receivable is mainly due to four factors. First, higher proportion of accounts receivable from attorney/auto payers with a longer collection cycle, which made up approximately 31 percent of service fee revenue in the quarter; secondly, billing disruption resulting from our efforts to consolidate the attorney/auto-billing team across the Company; third, continued rationalization of our billing systems and processes; and lastly, the impact of COVID-19 in the quarter.

The accounts receivable was also stable because of additional efforts required to collect pre-acquisition accounts receivable for acquisitions completed during the past 12 months.

In our opinion, in the current business environment the days of sales outstanding calculation is not really meaningful. However, assuming pre-COVID-19 revenue levels, the related days of sales outstanding at June 30, 2020, were approximately 108 days, which was in line with that at March 31, 2020. Excluding attorney/auto payers, the days of sales outstanding were approximately 70 days versus approximately 74 days at March 31, 2020.

With respect to cash, the cash balance at June 30 was $28.1 million versus $16.6 million at March 31, 2020. The increase was because of free cash flow generation of approximately $5 million: $3 million in advance payments from Medicare and a $1 million grant from US Health and Human Services, both of which were made available under the CARES Act. And the remaining improvement in cash was coming from deferred payments and other accounts payable management.

Since the COVID-19 pandemic started to have an impact in March 2020, no draw has been made on Akumin's credit facility for working capital purposes.

Moving on to liabilities. The key liability of the Company is the senior debt with a face value of approximately $368 million. Akumin's net debt at June 30, 2020, was approximately $339 million.

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

Riadh Zine-El-Abidine

Thank you, Mohammad. Moving to Slide 8, this is obviously not something that we typically share with you. But I think unless you're really kind of inside the business—and I know we did give you a few data points—it's really hard for you guys to have a better understanding of what really happened for the quarter. This was the best we thought we could come up with illustrate what we had to deal with.

Unlike a recession or a restructuring where you typically see a gradual decline in your business and you start to basically manage around that new level of business, if you will, this is not the case. This is actually a decline that you cannot predict. You don't know how deep it's going to be. And also, you don't know when it's going to recover and how fast and how flat, or how deep—or how steep, sorry, is that recovery. We couldn't find a better way than what you're looking at Slide 8 to illustrate it.

So what are you looking at here? You're looking at the daily average volume measured in RVUs, as always. We did want to show you March—although it's not in the quarter—we did want to show you March because that's really when COVID hit the business.

And what you're looking at is the high and the low in each month relative to a base week. And obviously, there's no better base week than the first week of March because that's when kind of life was still somewhat normal relative to what we've experienced in the last couple months and where we are today.

Looking at that graph and just actually a few other dates at the bottom of the graph just to help you understand what also is driving some of what's happening, we've shown some key dates. Now keep in mind that all these dates were somewhat different depending on the city you're in and the county you're in. But these are certain state government orders that were imposed in our major markets like Florida and Texas. These dates provide a rough measure of the state in terms of lockdown procedures at that time.

You could see when they ordered stay at home, when they lift them, when they actually suspended elective procedures, when they allowed them again. So that's what we've tried to illustrate. We have a little bit an understanding of the other dimension, which is kind of the—which is not something we were used to—it's state orders that impact your business.

You could see the average volume in March varied widely. From the base measure of the week of March 6, we've seen the decline of 40 percent off of that base week.

In the entire month of April, you probably recall the only number you recall is we told the low was 55 percent, but we lived the worst month in the history of this business in April, where the volume was down between 45 percent and 55 percent the whole month off of that base week.

Once the stay-at-home orders started easing in late April, volumes started to return, and as you could see in May we were in the 25 percent to 38 percent range off of that base week.

For June, our volumes were about 12 percent to 24 percent below that base week. As you all recall, by late June Texas has ordered hospital in several counties to stop providing elective procedures, a different kind of restriction on elective procedures than what was imposed in the early days of the pandemic. In Florida, they didn't make a similar order. They left it to the hospitals to basically impose any rules they want without government orders.

I mean, there is no good news in the kind of new state we live in, but everything is relative, of course. So the good news on a relative basis is despite all these restrictions—and I know just like we are as a management team and a lot of you as shareholders and investors in the business start to worry about the sudden rise in cases in the markets where we actually operate, Texas and Florida—so the good news is despite that is happening, the July volume continued to stabilize and we're in that 10 percent to 15 percent off of that base week.

So obviously, I think the stay-at-home orders being lifted and the general understanding of the pandemic in the general public and also not really just the general public because this was something new government health organizations and the general public had to kind of get their head around it and understand what is happening and how we're going to adjust our lives, so I think as that is behind us, there is still an impact on the business. But I think the good news, there is some stability. We're not back to normal levels, but we're not far from normal levels. And there is some stability back, despite what you see in the media every day more and more cases.

Moving to the last slide, Slide 9, we want to elaborate on what Mohammad has touched on earlier when discussing Akumin's cash position and balance sheet. This table highlights the cost-containment and other measures that enabled us to achieve the EBITDA margin of 26 percent. As you could see, the reading fees is a variable component. A lot of the other costs are variable inside the NCI with some fixed.

Rent and utilities, other than a little bit of component of utilities that is actually variable, most of it, as illustrated, is obviously fixed of nature.

We've done the best we can is actually managing the employee compensation. I think also in managing that compensation, we had the benefit of some of the restructuring in terms of optimizing our clinics and closing underperforming ones that we probably would have done regardless of pandemic or no pandemic, so that's really what helped.

But at the end of the day, another thing that is on the mind of every shareholder, and including obviously the management team, is leverage. The way we look at leverage, if this is what we were able to do in the worst quarter in the history of the company, going forward to expect leverage will benefit from improving volumes, savings from many initiatives in the business. You know we've been talking about the new service delivery platform for a year and, yes, it's not an easy task. It will take a long time to be built and deployed. It will be deployed, and when it's deployed it will have significant benefit on the business.

Closing underperforming clinics, that's not the only thing we have in our toolbox as a business initiative to improve revenues and bring new business and optimizing the network that we've assembled in the last couple years. We feel very confident about our ability to continue to improve margins and revenues, increase revenues, improve margins, and as a result continue to reduce the leverage going forward.

I just want to obviously conclude my remarks at this point and ask the Operator if there are any questions at this time.