Akumin Inc.

# EDITED TRANSCRIPT

## Q3 2020 Financial Results
## Analysts Conference Call

Event Date/Time: November 12, 2020 – 8:30 am ET

Length: 43 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

**Stephen Kwai,** *National Bank Financial* — Analyst

## Presentation

**Operator**

Good morning. My name is TaMia, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Akumin Inc.'s 2020 third 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 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 — 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 September 30, 2020. My name is Riadh Zine, and I am the President and Chief Executive Officer of Akumin.

Please note the visual presentation is meant to complement our presentation today. A copy is available on the Investor 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 access under Akumin's profile on SEDAR or EDGAR.

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. Our definitions for these terms are included in our public disclosure. Our use of these non-IFRS measures is intended to complement IFRS measures provided and additional information and further understanding of our results of operations.

Please also note that our financial statements are produced in US dollar currency.

Before getting into the financial details of the quarter, I wanted to mention a few recent highlights. The COVID-19 pandemic continues to impact all sectors of the economy, including our sector of outpatient imaging. As we will discuss later, our volume of the quarter is within 94 percent of pre-COVID levels. And I want to take this opportunity to thank all our stakeholders, especially those on the front line as employees, as well as our radiologists for all their efforts as we continue to manage through these difficult times.

Also on September 3, 2020, our shares started trading on the NASDAQ under the symbol “AKU”. Our shares will continue to trade on the Toronto Stock Exchange also under the same symbol “AKU”, but now only in the Canadian dollar currency. Since the NASDAQ listing, we have seen trading volume in the US at over 4 times the trading volume on the TSX for the September through November 10th period.

I would also like to highlight that after the quarter, we entered the U.S. debt capital markets with a $400 million offering of secured notes, which refinanced all our debt. I will talk about this later in our presentation. Now with common shares and bonds in the US capital markets, we have executed on major parts of our capital market strategy.

Lastly, we had two earnouts outstanding in connection with prior acquisitions which have now been settled. One which arose in connection with an acquisition in West Florida completed in 2018 was settled last month for $200,000 prior to the end of the measurement period in exchange for a release from the operating restrictions applicable under the terms of the earnout.

The second was an earnout arising in connection with the acquisition of our ADG Georgia business in 2019. The estimates for that earnout liability had ranged between $6 million and $15 million and was settled in accordance with the terms of the purchase agreement at $9.4 million. Half of the amount was paid on November 9, 2020, and the balance is due in May 2021.

Our financial report begins on Slide 3. We are very pleased with the results of Q3. We generated revenue of $67 million, an increase of 25 percent on a sequential basis from the second quarter, which was severely impacted by the COVID crisis. Year-over-year volume and revenue were relatively flat for the quarter.

Moving to Slide 4. Quarterly volumes are shown on this slide. Although volumes have recovered significantly from second quarter of 2020, previous volume levels have not yet returned to pre-COVID levels, as illustrated by same-center decline of 8 percent, compared to the third quarter of 2019. Also, as compared to Q4 2019, which is the most recent quarter unaffected by COVID-19, volumes for Q3, as indicated earlier, were above 94 percent.

Revenue is shown on the next slide, Slide 5. Q3 revenues have mostly recovered. However, the change in payer mix has resulted in a lower service fee per RVU in the quarter. This change is due to a slight drop in the higher-value personal injury claims in the payer mix. Our pricing environment remains broadly stable.

We have had a number of inquiries relating to CMS's proposed rule changes to its 2021 reimbursement rates and its expected impact on our business. The proposed changes are planned to be budget-neutral to CMS by reallocating reimbursement rates among certain providers. Assuming we are reimbursed by Medicare in 2021 for the same volume for Q3, on an annualized basis, we estimate that these CMS changes, if implemented as proposed, would result in a drop of approximately $1.5 million to our 2021 revenue.

On Slide 6, you will see our adjusted EBITDA for the quarter was almost $18 million. That is an increase of 30 percent over the second quarter and similar to the same quarter last year. But what is interesting is despite not quite returning to pre-COVID volumes, and we all know the operating leverage in the business with organic growth, adjusted EBITDA margins have remained strong, increasing from 26 percent to 27 percent over sequential quarters.

As mentioned earlier to provide more color on the refinancing, on Slide 7 we closed the refinancing of our credit facilities. With our entry now to the U.S. debt capital markets, there are three benefits: We have created significant balance sheet flexibility; we have now a platform to access additional capital to fund our future growth; and also, more importantly, we have broadened our investor base in the U.S., which will have multiple benefits going forward.

Our secured notes offering closed on November 2nd for total proceeds of $400 million, which was up-sized from $375 million due to a strong demand for our offering. The offering was led by Barclays, with Citigroup, Morgan Stanley, and BBVA as joint bookrunners and Raymond James, Craig-Hallum Capital, and William Blair as co-managers. The notes have a 7 % interest rate and mature November 2025. Our obligations under the notes are secured against substantially all our assets. Customary for other similar notes in the market, the notes are subject to incurrence-based covenants. The notes will remain private and are not subject to any registration rights.

Proceeds from the offering were used to repay our existing credit facilities and deliver the financial instruments with excess cash added to the balance sheet to be used for general corporate purposes.

At the same time, we closed a new revolving credit facility with a total commitment of $55 million from BBVA, Barclays, and Citi. The facility is currently undrawn. Obligations under the new credit facility are secured *pari passu* with the obligations under the secured notes, and like comparable facilities in the market, are subject to springing maintenance covenants. Copies of the indenture and the credit facility agreement are available under our profile on SEDAR and EDGAR.

Before I pass it on to Mohammad Saleem, our Chief Financial Officer, I would also like to take this opportunity to thank all the lenders and institutions that have supported Akumin's capital structure to date. From the beginning to this journey up to now, everyone has contributed to the balance sheet of Akumin. Although we have new investors going forward, we want to thank, and we cannot forget, those who helped us to be where we are today. So although the refinancing has been completed, the Akumin management team and shareholders have a great appreciation for what they provided the Company with in terms of capital over the last couple of years.

Now I will turn it over to Mohammad to go through the next slides on the presentation.

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

Thank you, Riadh. Good morning, everyone. During the September 2020 quarter, Akumin generated free cash flow of about $6.2 million driven, by adjusted EBITDA of $17.8 million. We expect this to improve gradually with business volume growth.

With respect to CapEx, the capital expenditure to revenue ratio for the nine months ended September 30th was 4.9 percent, which is in line with our typical expectation of around 5 to 6 percent of normalized revenue.

With respect to accounts receivable, as of September 30th, Akumin's accounts receivable were $99 million versus $91.9 million at June 30th. 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 September 30th were approximately 116 days versus 108 days at June 30, 2020. Excluding attorney/auto payers, the days of sales outstanding were approximately 76 versus approximately 70 at the end of June 30th and 74 at the end of March 31, 2020.

The increase in the total days of sales outstanding is mainly due to four factors. First, there was strong recovery in RVU volume relative to the three-month period ended June 30th. Relative to the June 2020 quarter, the revenue increased sequentially by about 25 percent.

Second, a relatively high proportion of auto/attorney accounts receivable, which has a longer collection tail.

Third, the disruption from our continued efforts to streamline the medical billing team and to consolidate the attorney/auto billing team.

And fourth, the impact of COVID-19 on our personnel and on nonelectronic payers.

With respect to revenue contribution from attorney/auto payers, they represented approximately 27 percent of the service fee revenue in Q3 2020.

With respect to the cash balance, the cash at September 30th was $27.4 million versus $28.1 million at June 30th. In April 2020, the Company benefitted from about $3 million in advanced payments and $1 million in grants from Centers for Medicare & Medicaid Services and US Health & Human Services, respectively. The Company did not receive any advances or grants from the government in Q3 2020.

The current cash balance reflects improvement in business volume and ongoing expense management by the Company. Since COVID-19 began to have an impact in March 2020, no draw has been made on Akumin's credit facility for working capital purposes.

Moving on to the next slide. This page shows our margin and leverage profile information. During the quarter, as Riadh mentioned, our adjusted EBITDA margin remained healthy at 27 percent. The improvement year over year is mainly due to permanent and temporary staffing changes and salary reductions related to our cost-containment strategy in response to COVID-19.

With respect to leverage, the total debt at face value as at September 30th was approximately $381 million and net debt was $353 million at face value. Pro forma for the refinancing mentioned earlier, as of September 30th on a pro forma basis, we have nothing drawn under the credit facility, the total debt is approximately $415 million, and the net debt is about $369 million.

Using Q3 2020 as the current run rate for business, on an annualized basis we would have adjusted EBITDA of approximately $71 million. This run rate is not adjusted for COVID-19. Also, there was no acquisition activity in Q3, so there is no acquisition impact included in this run rate. This implies a pro forma net leverage ratio of 5.2 times as of September 30, 2020.

Going forward, we expect our leverage will benefit from improving volumes, savings from our new service delivery platform, and other strategic business initiatives.

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

**Riadh Zine**

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