Akumin Inc.

EDITED TRANSCRIPT

Year End and Q4 2020 Financial Results Analysts Conference Call

Event Date/Time: April 1, 2021 – 8:30 am ET

Length: 62 Minutes

Corporate participants

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

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

Conference Call Participants

Tania Gonsalves, *Canaccord Genuity* — Analyst

George Anghelache, *Clarus Securities* — Analyst

Endri Leno, *National Bank Financial* — 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 Akumin Inc. 2020 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'd like to ask a question during this time, simply press *, 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 — President and CEO, Akumin Inc.

Thank you. Good morning, everyone, and thank you for joining us for Akumin's results call for the 2020 fiscal year. My name is Riadh Zine, and I am the President and CEO of Akumin.

Please note, a visual presentation is meant to accompany 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. You should not place undue reliance on these statements, particularly on future financial performance.

The risk factors that may affect the results in these forward-looking statements are detailed in Akumin's periodic results and public disclosures. These documents can be accessed under Akumin's profile on SEDAR or on 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 refer to certain non-IFRS measures during this conference call, such as EBITDA, adjusted EBITDA, and adjusted EBITDA margin. Our definitions for these terms are included in our public disclosures. Our use of these non-GAAP measures is intended to complement GAAP measures by providing additional information and further understanding of our results of operations.

Our financial report begins on Slide 3. As you can tell from our financial statements, we have begun reporting our results in U.S. GAAP, and we have released interim financial statements for the year 2020 in US GAAP as well. For our international investors, IFRS conversion notes can be found in our MD&A.

As you can see in our summary slide, we generated revenue of $58 million for the quarter and $251 million for the year, which represents a small increase as compared to 2019. The increase from our acquisition of Advanced Diagnostic Group and other tuck-in acquisitions during 2019 was offset by the impact of COVID pandemic in the year.

Despite the dynamic, as I will touch on again later, and with the support of our employees and all other stakeholders, we were able to largely maintain our margin profile.

Adjusted EBITDA for the year was down from $60 million to a total of $54 million for the fiscal year 2020.

Moving to Slide 4 and discussing the volumes for the fiscal 2020. As you can see from the slide, volumes continue to increase, up 3% compared to Q3 and 40% compared to the COVID quarter Q2. So far, based on preliminary information, we expect Q1 2021 to track similarly to the volume we saw in Q4 and the same we saw in Q1 2019, even with the impact of the Texas ice storm on our Texas operations, which is obviously a validation of volumes coming back to normal pre-COVID levels.

Still, as a result of the pandemic, we experienced, in the quarter, a 6% decline in same-center volume in Q4 as compared to Q4 2019, with overall volume year over year down only 3%.

Let’s move to Slide 5 and discuss the revenues. The collections experienced on the acquisitions we completed in 2018 and 2019, along with the impact from the pandemic, have required we increase our implicit price concessions for the year, which resulted in a service fee revenue for RVU for the quarter of $38 and service fee revenue for the year of $43. Obviously, the more relevant number here is the number for the fiscal year 2020 of $43.

These concessions don’t reflect any change to our reimbursement rates or network status with any of our payers. It is again a reflection of the collection experience of all the acquisitions we made, whether it was on our new platform or on the legacy platforms.

Because these price concessions had to be booked in the fourth quarter, they obviously had a significant impact on the revenue booked in the quarter. However, we believe any run rate revenues for any quarter in 2020 or for the full year should be calculated by multiplying the RVUs in the period by the price for the whole fiscal period for 2020.

For example, in Q4 2020, where we generated more than $1.5 million of RVUs, at the average price per RVU of the year of approximately $43 million, that would then imply a total service fee revenue of approximately $66 million, which would be in line with the expectations for the quarter.

Our other revenue included $5.2 million in grant funds from HHS, $4.1 million of which was received in December 2020 under the CARES Act and was applied in connection with expenses incurred and revenue lost related to COVID-19. This approach was consistent with market practices of including the total $5 million grant in other revenue.

Moving to Slide 6. As part of our adoption of U.S. GAAP accounting, you will now find our revenue mix included in our public disclosure. Like many other companies in the sector, our 2020 revenue mix is mostly commercial insurance at 67%, 12% Medicare, 3% Medicaid, 4% workers' comp, and 4% other patient revenue. However, and like most companies in this sector, we also have 10% of our mix from Attorney revenue.

On the whole, we find the proportion of our revenue mix dedicated to Medicare is also much lower than most others in this space that tend to be around double our exposure at 24%, 25% instead of our 12% exposure to Medicare.

We classify attorney as a separate category from auto, which forms part of Commercial, as attorney payers have much longer payment cycles, which are often contingent on core processes and victim settlements. These longer payment cycles are what result in more than 40% of our accounts receivables being made up of attorney AR.

Moving to the discussion on adjusted EBITDA on Slide 7. As you can see, the adjusted EBITDA for the year was $54 million as compared to $60 million last year, with an adjusted EBITDA margin of 21% versus 24% last year.

Our 2020 margins were obviously impacted by much lower volume during COVID-19, and we expect to return to normal margins of about 24% as volume levels, including volumes attributed to acquisitions completed in 2019, return to normal levels.

Even with the significant volume decline, we were able to successfully manage our expense profile and redeploy volumes as volume returned, and that is what kept a healthy margin for the business for the full year.

Now I would like to pass it over to Mohammad Saleem, our Chief Financial Officer, to discuss our leverage profile, our capital expenditures, and cash position as well.

Mohammad Saleem — Chief Financial Officer, Akumin Inc.

Thank you, Riadh. Good morning, everyone.

On Slide 8, you will see our leverage profile information. With respect to leverage, the total debt reported in our financial statements as at December 31st was approximately $406 million, and it includes finance leases, and the net debt was about $361 million. These numbers do not include the $75 million financing that took place in February 2021.

Using the low end of the guidance range in our press release, we assume a run rate of the business with adjusted EBITDA of about $65 million. This implies a pro forma net leverage ratio of about 5.5 times as at December 31st.

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

With respect to capital expenditure, the capital expenditure-to-revenue ratio for 2020 was about 5.3%, which is in line with our typical expectation of between 5% to 6% of normalized revenue.

With respect to accounts receivable, at December 31st, it was about $91 million versus $99 million at September 30th. The decrease in the accounts receivable is mainly due to higher incremental implicit price concessions during Q4 2020 which relate to the Company's experience of collections affected by COVID-19 and the integration of imaging centers acquired in 2018 and 2019.

The cash balance at December 31st was about $44 million versus $27 million at September 30th. The increase is mainly due to the cash received as part of the senior notes issuance in November 2020 and the $4 million in grants received from US Health and Human Services.

Part of the net cash received from the note was applied to repay transaction costs and to pay the $4.7 million earnout in November 2020 in connection with the ADG acquisition.

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. And none of the proceeds from the new senior notes issuance in February 2021 have been applied towards operations.

The current cash balance also reflects steady improvement in business volume and ongoing expense management by the Company.

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

Riadh Zine

Thank you, Mohammad. Even with COVID's impact on all of our lives, 2020 still saw Akumin advance many of its capital market strategies, which you can see summarized on Slide 9. We registered with the SEC and commenced trading on the NASDAQ in September 2020, becoming a dual listed with both the NASDAQ and the TSX, where the NASDAQ has become our sole US currency in terms of trading markets. We have seen a significant increase in our trading volumes since we began trading on the NASDAQ.

We also completed our first bond offering, which was a US-based private placement of 7 percent senior secured notes for a principal value of $400 million. We also maintained a *pari passu* secured revolving credit facility for $55 million.

With the financial statements released today, we have also begun reporting in U.S. GAAP and have provided all the interim financials for each quarter in 2020 in U.S. GAAP as well.

On Slide 10, we've highlighted few of the subsequent events noted in our financial statements. In early February, as Mohammad alluded to earlier, we completed a tack-on offering to our bond for $75 million. The proceeds, as indicated earlier in previous press releases, are expected to be applied to future acquisitions.

We also completed a successful equity investment in an AI technology company, which we expect will supply an integral part of our ERP platform modernization. Our investment of $4.6 million, together with the conversion of an earlier debt investment, has resulted in us owning a 34.5% interest in the business.

Now, I would like to review our 2021 fiscal year guidance levels, which we released in our press release and which are outlined on Slide 11.

For volume, our guidance range is 6.25 million to 6.45 million RVUs for fiscal 2021. Revenues is a range of $270 million to $279 million, and we expect adjusted EBITDA to be in the range of $65 million to $70 million.

These guidance levels are built on a number of assumptions.

First, we based our RVU volume on a very modest increase of analyzed Q4 2020 levels. Our initial data for volume in Q1 2021 already suggests and confirms that level, even after taking into account, as discussed earlier, the Texas ice storm impact on our operations.

Second, our estimates assume the same service fee revenue per RVU as we achieved in 2020. Obviously, this includes the same implicit price concessions we discussed earlier in this call.

Third, we have assumed the same general cost structure for our business as well as the same geographic and clinic footprint as we had in 2020.

We believe there is potential upside beyond the high end of our guidance ranges which would result from planned cost reductions, acquisitions resulting from the deployment of our tack-on bond proceeds of $75 million, as well as other tuck-in acquisitions which could be completed over the course of 2021.

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