Akumin Inc.

EDITED TRANSCRIPT

Q2 2022 Investor Call

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PRESENTATION

Operator

Operator

Good morning. My name is Darren and I will be your conference operator today.

At this time, I would like to welcome everyone to the Akumin Inc.'s 2022 Second 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 *, then the number 2. Thank you.

Mr. Cameron, you may begin your conference.

Matt Cameron — Chief Legal Officer & Corporate Secretary, Akumin Inc.

Thank you. Good morning, everyone, and thank you for joining us for today's investor presentation. My name is Matt Cameron. I'm the Chief Legal Officer and Corporate Secretary of Akumin. Joining me on the call today are Riadh Zine, our Chairman and CEO, and Bill Larkin, our Chief Financial Officer.

There is a slide deck that is meant to accompany our presentation today. A copy of it is available for download from 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 or information 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 our future financial performance.

The risk factors that may affect results and these forward-looking statements are detailed in Akumin's periodic results and public disclosure. These documents can be accessed under our public disclosure at sec.gov and 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-GAAP measures during this conference call, such as EBITDA, adjusted EBITDA, and adjusted EBITDA margin. These non-GAAP measures are not recognized measures under the United States generally accepted accounting principles and do not have standardized meanings prescribed by GAAP.

We believe, in addition to GAAP measures, certain non-GAAP measures are used for investors for a variety of reasons, including we regularly use such measures to communicate with our Board of Directors, and that EBITDA and adjusted EBITDA are used as analytical indicators by us and the health care industry to assess business performance and are measures of leverage capacity and ability to service debt.

EBITDA and adjusted EBITDA should not be considered in isolation or as alternatives to net income or loss, cash flows generated by operating, investing, or financing activities, and other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity.

You can find additional information regarding these non-GAAP measures on Slide 2 of our presentation, which again is available on our website at akumin.com under the Investor Relations section, and a reconciliation of EBITDA and adjusted EBITDA to net loss, the most comparable GAAP measure, is included in that presentation as an appendix.

We have not provided a reconciliation for any forward-looking non-GAAP measure referred to in this presentation, as we would not be able to produce such reconciliation without unreasonable efforts.

And with that, I'll turn things over to Riadh.

Riadh Zine — Chairman and CEO, Akumin Inc.

Thanks, Matt, and good morning, everyone. My name is Riadh Zine and I'm the Chairman and CEO of Akumin. Very happy to be able to speak to everyone today to discuss our Q2 results.

As you know, we're now among the largest companies in the entire industry delivering outpatient solutions in radiology and oncology to hospitals, physicians, and their patients. We also serve over 1,000 hospitals and health systems, which is an important component of our growth strategy going forward as hospitals continue to expand their outpatient capabilities.

The new Akumin platform is exceptionally well-positioned to capitalize on the growth trends in the industry. And this was evident in the Q2 results as we continue to see strong support from all of our partners, including hospitals, health systems, and physician groups.

On Slide 3, you can see that, in Q2, we saw positive same-store volume growth on a pro forma basis in our Radiology business. However, total oncology patient starts slightly declined due to the variation in patient starts from one quarter to another.

Our MRI volume was up 2% in the quarter. Our PET/CT volume was up 6.4%. Our total radiology procedures went up 4.5%. And like we said earlier, total oncology patient starts saw a slight decline of 1.4%.

Q2 revenue of $192.1 million was up $122.6 million or up 176.4% from only $69.5 million in the second quarter of last year. Obviously, that was mainly due to the Alliance Healthcare Services acquisition which was completed on September 1, 2021.

On a sequential basis, though, revenue increased $5.8 million or 3.1% over the first quarter of 2022.

Adjusted EBITDA of $38.2 million was up $32.6 million or a 212.7% increase from $12.2 million in the second quarter of last year.

On a sequential basis, adjusted EBITDA increased $6.2 million or 19.4% over the first quarter of 2022.

Adjusted EBITDA margin of 19.9% was up 2.6% sequentially from 17.3% in Q1, which was a function of organic growth and our integration efforts, which we expect will further benefit the Company in future periods.

In addition, building on our momentum in Q1, we generated net new hospital sales contracts in Q2, the results of which we expect will benefit the Company in the second half of 2022 and beyond.

On a consolidated basis, accounts receivables at quarter-end were $127.4 million or 60 days of sales outstanding, a slight decrease from Q1.

These strong results were ahead of consensus estimates, notwithstanding the fact that our industry, like many others, is facing macroeconomic challenges, such as cost inflation, labor shortages, and supply chain disruptions.

As you know, we are also in the midst of a deep integration initiative that requires an extensive time and resource commitment throughout the organization. We made excellent strides on that front in Q2, and we are looking forward to seeing the benefits of these efforts in future periods.

Slide 4 illustrates that, while the Akumin platform offers a diverse suite of services, it's very focused on areas of high growth and high value adds. Akumin is a clear leader in radiology; 55% of our Radiology revenues come from MRI procedures. Akumin is also a significant player in cancer diagnosis and treatment, with 24% of our Radiology revenue from PET/CT and 18% of our total revenue coming from our Oncology division.

These modalities are critical to the delivery of quality patient care and are utilized by a variety of physician specialists from screening through diagnosis through treatment.

Akumin is clearly well-positioned to benefit from the ongoing shift to outpatient service delivery. As you can see on Slide 5, over 95% of our revenues are derived from outpatient procedures. We have a balanced revenue mix between third-party payors for outpatient services and hospitals, with no one customer representing more than 4% of our consolidated pro forma revenues.

As a preferred outpatient solution provider to hospitals, approximately half of our revenues come from our hospital customers, the balance of which is for reimbursement for patient procedures paid by third-party and government payors.

Over time, we expect our revenue share with hospitals to continue to grow, as existing and new hospital customers and partners search for outpatient solutions.

I will now turn the call over to our CFO, Bill Larkin, to go over some of the operational and financial metrics.

Bill Larkin — Chief Financial Officer, Akumin Inc.

Thank you, Riadh, and good morning, everyone. We're on Slide 6 of the presentation.

As you've listened on our previous calls, Akumin now includes both hospital and independent sites. Therefore, we track actual scans by modality across the entire radiology platform. By providing procedure volumes and mix, together with radiology procedures as a percentage of revenues, as illustrated in the pie chart on Slide 4, we believe you should have enough relevant information at your disposal to accurately track our operating expense performance over time.

On Slide 6, here you can see the MRI, PET/CT, and total radiology procedure volumes and same-store changes over the last 9 quarters. And on the bottom charts, the aggregate volumes in 2020, 2021, as well as the trailing 12-month period, including Q2 2022, on a pro forma basis, to provide comparability, including the acquisition of Alliance.

Akumin continued to realize strong same-store volume growth in Q2 2022, particularly in our core modalities of MRI and PET/CT. We have five consecutive quarters of same-store volume growth in both MRI and PET/CT procedures and six consecutive quarters of total procedures same-store growth. Certainly, our trailing 12-month pro forma volumes are above 2021 levels and are well ahead of the 2020 volumes, which were significantly impacted by COVID.

Move on to Slide 7. In the Oncology segment, we track activity level by patient start volume and revenue per patient start. Note that radiation therapy is an essential element of cancer care. Up to 60% of cancer care patients receive radiation therapy in a course of their treatment. Therefore, our Oncology segment saw a more muted decline in activity levels due to COVID-19 when compared to the Radiology segment.

In the same quarter of 2022, same-store patient starts were down approximately 1.4%, which is primarily attributed to the variation that we see in patient starts from quarter to quarter.

As you can see in the chart in the bottom left of the slide, the Oncology business has recovered from the modest COVID-related declines and has returned to pre-COVID levels.

Revenue per patient start has declined slightly from the 2021 levels, which is down about 1.3%. And this change is primarily the result of disease sites and procedure mix across our Oncology business.

On Slide 8, the top-left chart presents our Q2 2022 financial performance by segment. And the top-right chart presents, on a pro forma basis, our trailing 12-months financial performance by segment for the period ended June 30, 2022.

In Q2 2022, trailing 12-month pro forma results assume the Akumin and Alliance businesses were combined for the entire period, while we adjusted for the divestitures of Alliance's Interventional segment, which was completed in the first half of 2021, and Alliance Oncology of Arizona, which was divested in the fourth quarter of 2021.

We report two segments, Radiology and Oncology. And this slide illustrates the financial performance of each of these segments. You'll see the charts on the top left that, in Q2, the Radiology segment contributed $160.9 million of revenue, which is approximately 84% of our total revenues, with an adjusted EBITDA margin of 22.2% before the allocation of corporate services.

The Oncology segment contributed $31.3 million of revenue or approximately 16% of total revenue in the second quarter of 2022, with an adjusted EBITDA margin of 33% before the allocation of corporate services.

Our consolidated adjusted EBITDA margins for the second quarter of 2022 were 19.9%. This is up from 17.3% in the first quarter of 2022, since the first quarter is typically seasonally a slower period and then also our volumes in Q1 were negatively impacted by the Omicron.

Assuming no further unforeseen business disruptions, we expect that adjusted EBITDA margins will be higher for the balance of the year.

With that, I'll now turn it back over to Riadh to provide other updates and discuss our 2022 guidance. Riadh?

Riadh Zine

Thank you, Bill.

On Slide 9, you will note that our integration process is well underway, and we incurred significant restructuring and severance charges in the quarter. This was primarily related to streamlining the organization to remove functional duplication.

We are also in the midst of an ongoing optimization of our clinical footprint which resulted in the rationalization of seven fixed sites across our network. We will continue to evaluate opportunities to consolidate sites in future periods as part of our integration process.

Although our cash position at the end of the quarter remained strong with $38.4 million, we continue to pursue options to further enhance liquidity, including the monetization of certain of our accounts receivable. We will provide an update on these efforts when appropriate.

On the regulatory front, there have been a number of changes that have been implemented or proposed over the last 12 months, including surprise billing legislation, a proposed 2023 CMS fee schedule, and the Enhancing Oncology Model framework.

As an in-network provider, Akumin has seen very little impact to our revenues from the surprise billing legislation. And we don't anticipate any material changes on that front.

Similarly, we believe our growth strategy for our Oncology business is very well aligned with the Enhancing Oncology Model framework, and our network is very well positioned to adapt to this new direction.

On the proposed CMS fee schedule for 2023, note that the proposal is still in the comment phase, and we are working with the ACR and other industry groups to provide feedback. Given that the final schedule and implementation timeline remains uncertain, it's premature for us to comment on the potential impact on our business in 2023 and beyond.

Slide 10 sets out our ongoing expectations for 2022. We continue to expect consolidated revenues to be in the range of $760 million to $780 million, which is primarily predicated on same-store organic revenue growth across the platform and some contribution from business development initiatives in our pipeline.

Notwithstanding the headwinds of cost inflation, labor shortages, and supply chain disruptions, we continue to expect 2022 adjusted EBITDA to be in the range of $155 million to $170 million.

Going forward, we should begin to see the benefits of our organic growth, integration measures, and business development initiatives to benefit our financial results, particularly as we are in the midst of a seasonally strong period for the business.

As mentioned in our Q1 2022 call, we expect our previously disclosed synergy estimates on a run-rate basis within the first 12 months post-closing of the Alliance Healthcare Services acquisition as we originally anticipated. Recall that we previously identified approximately $23 million in synergies that we are confident can be realized in the first phase and certain elements of the second phase of our integration, specifically through the integration of back-office corporate functions, including the elimination of functional duplication, consolidation of purchasing power, and equipment maintenance overhaul.

We expect that Q4 2022 will fully reflect this $23 million of synergies on a run-rate basis. As we exit 2022, we will continue to implement additional phase 2 and phase 3 initiatives that should result in cost savings in excess of the $23 million that would have already been realized.

Longer term, there are many other opportunities for efficiencies, including some of the technological deployment initiatives, which will result in further savings through process standardization. Although we continue to closely monitor all the risk factors that could impact our performance, including the challenges that we previously identified, we remain very confident that we will be able to achieve our 2022 financial guidance objectives.

On the CapEx front, we have further reduced our planned CapEx budget for 2022 to $64 million from the previous guidance of $79 million.

Of the $64 million in revised CapEx, we now anticipate that $14 million will be cash and the balance of $50 million to be financed through our network of equipment finance providers and local lending institutions. The overall reduction in CapEx is primarily attributed to the timing of CapEx spend and shift in growth opportunities for fiscal year 2023.

Recall that we previously anticipated that we would only begin to see the benefits of this growth CapEx spend as we exited 2022. And as such, there is no change to our revenue expectations at this time despite the slightly lower growth CapEx now planned for 2022.

As a reminder, growth CapEx is primarily geared towards new hospital customer and partner acquisition, as well as capacity expansion. Our investments in new customers and sites continue to be higher return, typically with a four-year payback on growth capital. We continue to evaluate all of our markets and prioritize those that, based on our criteria, have the greatest near-term potential for organic growth.

Moving to Slide 11, which illustrates our capital structure at the end of Q2. As you can see, Akumin secured leverage is 5.4 times. As an organization, we remain very focused on reducing this leverage over time. The near-term drivers of leverage reduction will come from increasing EBITDA as a result of synergy capture, network rationalization, technology-driven standardization, and the streamlining of our service delivery.

In addition, we have an abundance of organic revenue growth levers in our purview, which will meaningfully increase EBITDA, giving our significant operating leverage. As a result of these significant cost efficiencies and organic growth opportunities, we believe that our secured leverage will decline to less than 4 times over time.

Note that as significant shareholders, we are highly incentivized to prudently optimize our capital structure.

That concludes the prepared remarks portion of the presentation. I hope that it provided an informative window into the new Akumin and the potential of the combined platform going forward.

On behalf of Bill and myself, I would like to take the opportunity to thank all of our employees, physicians, customers, and partners for all of their efforts in making this quarter another success.

We would now ask the Operator to start the question-and-answer period.

Q&A

Operator

Thank you. As a reminder, if you wish to ask a question, press *, 1 on your telephone keypad. Please ensure your mute function is turned off to allow your signal to reach our equipment. We will pause a moment to allow everyone the opportunity to signal.

We will take our first question from Noel Atkinson from Clarus Securities. Please go ahead. Your line is open.

Noel Atkinson — Clarus Securities Inc.

Hi. Good morning, Riadh and everybody. Thanks very much for taking our calls. And well done in Q2.

First off, so I wondered if you could talk a bit about the new hospital win, contract wins that you're able to achieve here. Are you seeing this new business coming as a result of your winning business from competitors? Or is it that hospitals are primarily starting to—looking to outsource and enter into partnerships for the first time?

Riadh Zine

It's a combination of both, Noel. And thank you for the comments and the question. As you could see in our numbers, there's definitely organic growth in health care services, generally speaking, coupled with the trend of the hospitals moving more towards outpatient. And we're seeing that in our business. But there's always an element of competitive landscape, as you mentioned.

But I think what's really stronger is the trend. I think we will have market share gains as we continue to build scale and as we continue to rationalize our market, because also part of the market share is to kind of have concentration of your efforts in certain regional markets and build the density because it's not really—if you don't have really strategy to build density and service well your hospitals, partners in a certain market, then actually, that doesn't really—it's not a win-win proposition for both us and our hospital partners. So that's why you've seen some of the rationalization that we start to see because the focus is EBITDA and profits.

But the growth drivers are there, whether it's organic volume, whether it's the trend of outpatient, and something else we haven't talked about here and we'll talk about it in due course, we're also seeing the strategy unfolding in terms of the attractiveness of the legacy Akumin independent sites to hospital partners in an outpatient setting. And that's also something that we didn't touch on here. But that's also further opportunities in terms of growth strategy, in terms of EBITDA enhancement going forward.

Noel Atkinson

Great. And in terms of that point, how many of your—as you'd mentioned, the legacy centers are part of—incorporated into sort of hospital partnership today?

Riadh Zine

As you know, from a year ago, so the sites that we have today, it's really—it's a big concentration of Florida and Texas. And those are in discussions with hospital partners. We haven't executed on any joint ventures in that front yet. But the discussions are active discussions on that front.

Noel Atkinson

Okay. And then one more before I get in the queue here. Just I wonder if you could talk a bit about the environment for labor right now in terms of market tightness, cost, availability with—there's still a bit of COVID sort of hanging around. We've been seeing some pressures in some of the other outpatient service providers in health. So just wondering if you could talk about how you're managing that.

Riadh Zine

Yeah. I mean, I think we're managing as you've seen it in our Q2 results. We're managing that as best as we can. Again, scale really helps from the perspective of stability of your workforce. But those forces are there. The inflation is there. But I think, like I said in Q1, what is more concerning in the short term, and we have obviously plans to address it and we will turn it to a positive for us, it's actually shortage of labor is more of a concern than the inflation. I would say, if we actually—if there was more labor available today, you would have actually seen more organic growth in our numbers.

So there are certain markets where there is definitely a shortage of labor. And it's having an impact on the magnitude of the organic growth. But again, it's not unique to Akumin. It's the whole industry.

I think what's interesting is the demand is there for our services. And we're booked solid. When I started the business, you don't see clinics that are booked solid for a couple of weeks. But that's the business of today.

So I think as we work on our strategic solutions for this labor shortage on the clinical front and other fronts, we will be well positioned for organic growth, and that will become a competitive advantage probably to others.

Noel Atkinson

Okay. Great. Thank you very much.

Riadh Zine

Thank you, Noel.

Operator

Thank you. We will now take our next question from Endri Leno from National Bank of Canada. Please go ahead. Your line is open.

Eduardo Garcia Hubner — National Bank Financial

Hi. Good morning. My name is Eduardo Garcia, and I'm calling on behalf of Endri. And thank you for taking my question.

I have a couple here for me. The first one is, well, in Q1, we saw some impact of COVID. And I was wondering if you saw anything in Q2 or an impact of any other sort of like labor? How does it factor into Q3?

Riadh Zine

Bill, do you want to answer that question?

Bill Larkin

Yeah. Sure. Let me address the first one. So I'm not aware of any impact as a result of COVID in Q2. I think we did see the impact in Q1 and then we saw a substantial recovery in March. So I think when we looked at Q2, we didn't have that disruption.

I think the—can you just clarify the question on labor? Make sure I properly answer that question.

Eduardo Garcia Hubner

Yeah. For sure. No. Just in general, I wanted to know if there was any impact from labor or any other factor affecting the numbers in Q2. And how it evolves in Q3?

Bill Larkin

Sure. I think Riadh touched on the tight labor market. I think one of the biggest challenges that we have is just the availability of labor. And that talent pool, it is a limited talent pool for techs to operate our equipment across the platform.

In addition, as you're seeing across the health care industry is you're seeing increases in wages, and we are seeing that impact, but I think we are managing that. Through looking at our total cost structure, by far, labor is one of the largest inputs. However, we are looking at our cost structure across the entire platform, and I think we are starting to see those benefits.

We're in the early stages of seeing those benefits in our financial results, and I think we'll continue to see those benefits as we move forward. We will continue to keep an eye on, we'll call it, wage inflation, our labour cost, and we will continue to monitor that. And we'll, going forward, look at that cost structure and other things that we can do to kind of mitigate some of that impact to our overall business.

Riadh Zine

So the short—

Eduardo Garcia Hubner

Yes. Okay.

Riadh Zine

Like really the short answer to your question is we don't have a cost issue. Like Bill said, we have labour shortage issues, which would have—if it was available, you would have had even more—you would have witnessed more organic growth than what you've seen in the numbers.

Eduardo Garcia Hubner

Yeah. Okay.

Riadh Zine

Do you have another question?

Eduardo Garcia Hubner

Yes. Yes. I have still a couple more if I may. The next one is there's been a report of a lower shortage of contrast dye. I was wondering if there was any background on Akumin in this regard.

Riadh Zine

Go ahead, Bill.

Bill Larkin

Yeah. So I'm not aware—we are aware of what's going on within the industry and the allocation of dye, and I'm not aware of any impact to our business in delivering service to our patients. We are keeping an eye on that. And I'll let you know, we have a very strong relationship with our suppliers and partnerships, and so we are in discussions with our suppliers and our partners as it comes to contrast dye and tracers.

Eduardo Garcia Hubner

Perfect. Thank you. And I also wanted to know what type of efficiency have you achieved so far in the integration process. And what can we expect for the second half of the year so you can keep the guidance?

Riadh Zine

Sorry. What kind of—what was the first part of the question? What kind of what?

Bill Larkin

Well, Riadh, I think it's just how we're progressing on our integration efforts and the synergies that—

Riadh Zine

Yeah. I think we made it very clear in our remarks. We would see the full impact on the run-rate basis in the fourth quarter of achieving our previously disclosed synergies. And that's really why you have seen restructuring and severance charges in the second quarter; it was the implementation of those synergies. So we will see the impacting on a full run-rate basis in Q4.

And given that we've already executed on those, we're actually now working on the second phase of the third phase, which we will start implementing as we exit 2022, and we will see that impact in 2023.

Eduardo Garcia Hubner

Okay. Thank you very much. And I have a last one. I know you say that it's too early to comment on the changes in Medicare conversion factors. But I was wondering if you have any timeline, where you're expecting this to take place? And when the impacts could be reflected?

Riadh Zine

Yeah. I mean, I think, like we said in our remarks as well, it's proposed for 2023. It's in the comment phase. We don't know what the magnitude of the change will be, when it will be, what proposal will be, it will be less. When that would be in place at the CMS new fee schedule, we will actually calculate the impact on our business and share that with our investors.

I think you know we do not have significant exposure to Medicare in our business, as you know from our payor mix. Having said that, when the numbers are finalized, we will actually share with you what the impact is.

Eduardo Garcia Hubner

Okay. Perfect. Thank you very much for answering my question.

Riadh Zine

Thank you for your questions. Are there any other questions?

Operator

Thank you. As a reminder, if you would like to ask a question, press *, 1.

We have no further questions at this time, so I'll hand the call back to the speakers for any additional and closing remarks.

Riadh Zine

Excellent. Thank you. So thanks, everyone, for your participation on today's call. Akumin's vision continues to be focused on driving patient-centered innovation, service delivery standardization, and exceptional health care value, all in an outpatient care setting.

We are a leading outpatient health care service platform with significant scale, long-standing hospital and health system relationships, and freestanding operational expertise.

On a pro forma basis, in the last 12 months, we generated in excess of $740 million in revenues and served patients in more than 215 (sic) [214] fixed sites of radiology and oncology, with more than 4,000 team members across the US.

Our integration initiatives are well underway, and we continue to expect 2022 to be a milestone year as we build on this solid foundation. Our company has never been better positioned to capitalize on the trends and growth opportunities that lie ahead in our industry.

I would like to take this opportunity to thank our staff, radiologists, and all of our stakeholders for their efforts and ongoing support as we continue our transformational change at Akumin.

This concludes our call. Thanks again to all participants for your interest in Akumin.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.