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TRANSCRIPT

Q3 2018 Financial Results Earnings Call

Event Date/Time: November 14, 2018 – 8:30 am ET

Corporate participants

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

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

Conference Call Participants

Noel Atkinson, *Clarus Securities* — Analyst

Bob Gibson, *PI Financial* — Analyst

Endri Leno, *National Bank Financial* — Analyst

Tania Gonsalves, *Cormark Securities* — 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 Akumin Inc.'s 2018 Third Quarter Financial Results Research Analysis 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 *, and the number 1 on your telephone keypad. If you'd like to withdraw your question, press the # key. Thank you.

Mr. Riadh Zine, Chief Executive Officer of Akumin, you may begin your conference.

Riadh Zine — President, Chief Executive Officer & Director, Akumin Inc.

Thank you, Marcella. Good morning, ladies and gentlemen, and thank you for joining us for Akumin's third quarter 2018 earnings call. 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. 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 make reference 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 disclosures. 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.

On today's call, we plan to provide you with the highlights from our operations and third quarter 2018 results. After our prepared remarks, we will open the call to your questions.

Overall, our results for the quarter were in line with management's expectations. We recorded revenue of $39.1 million, adjusted EBITDA of $8.3 million, and adjusted earnings per share, or EPS, of $0.05. Our results are up significantly when compared to the same quarter in 2017, which was impacted by Hurricane Irma in Florida.

Starting with this reporting period, we have commenced reporting adjusted EPS and other non-IFRS financial measures to help, when taken together with IFRS measures, assess our overall financial performance in terms of scale, profitability, and return on capital as outlined in our Management Discussion and Analysis.

We measure our ability to scale our business by revenue and adjusted EBITDA. We measure the profitability and health of our business by looking at adjusted EBITDA margin and adjusted earnings per share on a diluted basis. Our financial discipline, in terms of capital deployment, is measured by return on capital to all stakeholders and return on equity to shareholders.

As you can see in our Management Discussion and Analysis, all these measures have been continuously improving over time. The management team will continue to focus on improving these metrics as we execute our acquisition growth strategy and our organic growth initiatives. We believe this focus will result in long-term shareholder value creation.

Akumin's growth strategy remains to build density in core geographic markets. In the current stage of our growth, we continue to be focused on developing the size and scope of our network, which we believe will provide an alternative to hospitals for insurance and other third-party payers.

In 2018, we entered the Tampa, Florida market with two acquisitions resulting in us operating 16 clinics in the area and making us the largest independent operator in that market. We have also strengthened our position in south and mid Florida with acquisitions announced on November 12, 2018, adding four centres in Broward County and one centre in the Orlando region. In total, in 2018 to date, we have added 21 centres to our network, representing more than $50 million in revenues based on the last twelve month financials at closing of each respective acquisition.

We now have 45 centres in Florida with particular density in the south, mid and western Florida markets, and 95 centres company-wide, compared to only 74 at the end of 2017. Even with these acquisitions, we still have debt capacity and our lending syndicate remains supportive of our efforts going forward. We also closed the quarter with more than $20 million cash on the balance sheet.

We continue to remain focused on our existing business operations. We expended significant effort over this quarter streamlining our billing and revenue cycle management practice. Through our legacy businesses, we have inherited a number of different billing systems and workforces. We are happy to report that all of our businesses, with the exception of the most recent acquisitions, are now fully integrated across the Company on the same billing platform.

We are also continuing our efforts to integrate operations from other acquisitions that we made. The operations of the four centres in the Tampa Bay, Florida area, acquired on May 11, 2018, are now fully integrated, and we have also made significant progress toward the full integration of the operations of Rose Radiology, which was acquired on August 15, 2018.

As we expected and consistent with the vision and strategy of Akumin, a lot of changes are going on in the diagnostic imaging industry, and the U.S. health care industry generally speaking.

The increase in high deductible plans has made patients more aware of out-of-pocket expenses and has made patients expect more price transparency and a more meaningful service experience.

Insurance payers are being more active in driving patient behaviour. For example, Anthem and UnitedHealthcare continue to push patients to outpatient imaging centres from hospital care.

Medicare reimbursement rates continue to change. However, our initial analysis of prospective 2019 rates suggests that the changes should have no material impact on our pricing but may encourage small operators to continue the trend of consolidation.

We are also seeing more strategic alliances in development between retail and insurance companies as evidenced by Aetna and the CVS alliance and the United and Walgreens alliance. We expect these trends will lead to the best practices of customer-centred companies becoming more dominant in health care practices. We believe Akumin, with its clearly defined strategy, operating philosophy, and record of execution integration is well positioned to take advantage of the disruption and changes resulting from these trends.

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

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

Thank you, Riadh. Good morning, everyone. I will provide a summary of Akumin's results for the quarter ended September 30, 2018. As I discuss our results, I will refer to certain non-IFRS measures, which are defined and reconciled in Akumin's MD&A. I will define these terms now.

Adjusted EBITDA means EBITDA plus noncash items such as stock-based concentration, impairment of assets, gains or losses in the period, and nonoperating cash items such as settlement costs and public offering and acquisition-related costs.

Adjusted net income to shareholders of Akumin means adjusted EBITDA less depreciation and amortization and interest expense, taxed at Akumin's estimated effective tax rate, which is a blend of US federal and state statutory tax rates for the period.

With respect to volume, Akumin measures volume of procedures performed in its diagnostic imaging centres based on relative value units, or RVUs, instead of the number of procedures. RVUs are a standardized measure of value used in the US Medicare reimbursement formula for physician services.

Akumin's volume in Q3 2018 was approximately 850,000 RVUs compared to approximately 756,000 RVUs in Q2 2018. I am providing sequential quarterly information as meaningful comparative information for 2017 is unavailable. The increase in RVUs is primarily related to acquisitions during Q2 and Q3 2018.

With respect to the income statement, the Company reported the following results as compared to the same quarter for last year:

Revenue was $39.1 million, up from $24.1 million in 2017. Adjusted EBITDA was $8.3 million versus $2.2 million in 2017. Adjusted EBITDA margin was 21 percent versus 9 percent for the same quarter last year. The improvement in adjusted EBITDA was mainly due to the negative impact of Hurricane Irma on some of our Florida operations in September 2017 and to the positive impact of our acquisition of Preferred Medical Imaging in August 2017, which operates centres predominantly in the Dallas-Fort Worth area, our acquisitions in Florida's West Coast in 2018, and increased contribution from our legacy Florida operations. During this quarter, our net income was impacted by a $2.4 million noncash expense resulting from the extinguishment of our previous credit facility.

The adjusted diluted earnings per share was $0.05 versus minus $0.01 for the same quarter last year. The increase results from the same factors which increased adjusted EBITDA, as I described earlier, and tax rate, and is partly offset by the increase in weighted average share count, which was 62.8 million versus 34.8 million at Q3 2017.

With respect to balance sheet, cash was $20.4 million at September 30, 2018 versus $19.8 million at June 30, 2018. Accounts receivable were $26.1 million versus $21.2 million at June 30, 2018. The increase was due to strong revenue performance during the quarter and to our acquisitions on the Florida's West Coast. Fixed assets at September 30, 2018 were $51.2 million versus $42.8 million at June 30, 2018. The increase was mainly due to the acquisition of Rose Radiology in August 2018.

Total debt of the Company was $103 million at September 30, 2018 versus $76 million at June 30, 2018. The key liability of the Company is our new five-year syndicated credit facility of $100 million in face value, which was obtained in August 2018 to finance the Rose Radiology acquisition and to repay the previous senior debt. In addition to the $100 million term credit facility, this credit facility also includes a $30 million revolving credit facility. As of September 30, 2018, we are well within our financial covenant requirements under our credit facility.

With respect to the key events occurring during the quarter, on August 15, we completed the acquisition of Rose Radiology, which added 11 clinic locations in Florida's West Coast. The purchase cost was approximately $25 million. The Rose acquisition is expected to annually contribute approximately $27.5 million in revenue and approximately $4.8 million in EBITDA.

Key subsequent events after this quarter include two acquisitions in Florida for a total of five clinic locations, four in south Florida and one in mid Florida, which we announced on November 12th. On a combined basis, these acquisitions had annual revenue of approximately $19.2 million on a last twelve-month basis, as of June 30, 2018. The purchase price of both transactions was financed using proceeds drawn from our syndicated revolving credit facility.

I'll stop here and hand it back to Riadh for closing remarks.

Riadh Zine

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