Akumin Inc.

CALL TRANSCRIPT

2019 Third Quarter Results

Research Analyst Call

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Corporate Participants

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

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

Conference Call Participants

George Ulybyshev, *Clarus* — Analyst

Endri Leno, *National Bank* — Analyst

Tania Gonsalves, *Canaccord Genuity* — 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.'s 2019 third 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 — President, Chief Executive Officer & Director, Akumin Inc.

Thank you. Good morning, ladies and gentlemen, and thank you for joining us for Akumin's earning call for the quarter ended September 30, 2019. Please note a visual presentation is meant to guide our earnings call today, and a copy is available through the URL link in our Q3 2019 earnings press release.

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 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 make reference to certain non-IFRS measures during this conference call such as EBITDA, adjusted EBITDA, adjusted EBITDA margin, 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 our operations.

On today's call, Mohammad Saleem, our Chief Financial Officer, and I plan to provide you with highlights from our operations and financial results for the quarter ended September 30, 2019. After our prepared remarks, we will open the call to questions from industry analysts.

Overall, our results for the quarter were in line with management's expectations. As you can see in the executive summary on Page 3 of our presentation, we continue to see growth across all of our key financial metrics. I will discuss these further in the following slides. 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. Our financial discipline, in terms of capital deployment, is measured by return on capital to all stakeholders and the return on equity to shareholders.

Turning to Slide 4. Our RVU volume for the quarter increased by approximately 69% relative to Q3 2018. The volume for the third quarter of 2019 is 1.4 million RVUs. Similarly, RVUs have increased approximately 61% on a year-to-date basis compared to the same period for 2018. On a same-centre basis, when excluding acquisitions completed during the period, the increase in Q3 represented growth of approximately 10 percent.

We use RVUs, rather than individual procedures, to measure our volume on a relative basis. RVUs are a standardized system used by CMS for Medicare that applies a weighting to different procedures to distinguish the complexity from one procedure to another so that a brain MRI is distinguished from a standard X-ray.

On Slide 5, you can see that we recorded revenue of approximately $69 million for the quarter, an increase of 76% compared to Q3 2018. This revenue growth was driven by previously announced acquisitions and strong organic growth of 10% in a relatively stable pricing environment. As you can also see, our revenue per RVU is up slightly in the quarter to $48 per RVU. Akumin generated a higher proportion of revenue from attorney and auto payors, driven in large part by the ADG acquisition, which closed in late May 2019.

On Slide 6, adjusted EBITDA for the quarter was just over $18 million, an increase of 117% from the same quarter last year, with adjusted EBITDA margin increasing to 26%. We believe part of the margin expansion is a result of higher proportion from attorney and auto payor, but it's also a result of organic growth and operational synergies implemented earlier in 2019. Management remains focused on realizing synergies from previously completed acquisitions.

At this time, I would like to hand the call over to our Chief Financial Officer to discuss the balance sheet.

Mohammad Saleem — Chief Financial Officer, Akumin Inc.

Thank you, Riadh. Good morning, everyone. I will focus on Slide 7 and provide summary information about Akumin's balance sheet as at September 30, 2019.

Akumin's cash balance was about $17.5 million at September 30th. The accounts receivable were about $77 million versus about $66.5 million at June 30th. This increase of about $11 million was mainly due to approximately $15 million increase in net revenue in Q3 2019 versus Q2 2019, mainly due to the acquisitions made in Q2 and Q3 2019 and organic growth. Also, during August 2019, we made the El Paso acquisition, which added approximately $1.3 million in opening balance sheet accounts receivable in the Q3 2019 number.

As at September 30, 2019, based on pro forma annual revenue at the end of Q3 2019, the Company's days of sales outstanding were approximately 98 days versus 92 days at the end of Q2 2019. Excluding the auto/attorney payors, the days of sales outstanding were approximately 77 days at the end of Q3 2019 versus 69 days at the end of Q2 2019.

This increase is mainly due to revenue growth from acquisitions and organic growth and an increase in auto/attorney accounts receivable. During the quarter, the service fee revenue from auto and attorney business represented approximately 31% of Akumin's revenue in Q3 2019 versus about 11% in Q3 2018. We have been transitioning ADG's revenue cycle management over to Akumin's platform, which management expected would lead to some disruption to our DSO during the quarter. In addition, the integration efforts from previous acquisitions are also continuing.

With respect to net debt, we calculate it as debt excluding operating lease liabilities on our balance sheet and net of cash. It was approximately $311 million at September 30, 2019. This gives us an implied net debt to adjusted EBITDA ratio of about 4.3 times based on annualized EBITDA for Q3 2019.

Lastly, our capital expenditure for the year-to-date September were approximately $9.3 million, representing approximately 5.5% of year-to-date revenue, which is broadly in line with our expectations.

I will hand it back to Riadh now to discuss some of Akumin's operational highlights and to provide a strategic update.

Riadh Zine-El-Abidine

Thanks, Mohammad. Turning to Slide 8; while we remain focused on streamlining our operational efficiencies and the integration of previously announced acquisitions, we also continue to identify opportunistic tuck-in acquisitions and have completed some of those recently.

On August 16, 2019, we completed an acquisition of five centres in El Paso, Texas. The purchase price was approximately $11 million. It was fully funded using our revolving credit facility. Based on the revenue of those five centres for the 12 months ended December 2018, we expect these acquisitions to add approximately $13 million of revenue to our business. These five centres expand our geographic footprint in Texas, which was primarily in the Dallas/Fort Worth area. Given the timing of the acquisition, note that Q3 2019 does not include a full contribution from these acquisitions.

Shortly after the end of the quarter, we also completed an acquisition of three centres in West Palm Beach, Florida. This transaction, which had a purchase price of approximately $18 million, was also funded using our credit facilities. Based on the revenue of those three centres for the 12 months ended December 2018, we expect this acquisition to add approximately $21 million of revenue to our business. This acquisition expands our density in the South Florida markets and complements both our existing South Florida business as well as our ADG's attorney and auto business.

Slide 9 outlines several strategic priorities that management is currently focused on. First is our growth strategy. Akumin's acquisition 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 provides an alternative to hospitals for insurance and other third-party payors. You've seen this strategy implemented with the acquisitions this year in both Florida and Texas, which we expect will leverage our existing payor network.

Another strategic focus is our continuing efforts to strengthen our Akumin brands. On that front, we have commenced certain initiatives to migrate sites that still operate under predecessor banners over to the Akumin name and with a uniform design. ADG will continue to operate its centres as well as any other locations we convert to ADG brand with a focus on auto and attorney under its own brand.

Third, and as discussed previously in this call, we are continuing to streamline our revenue cycle in order to reduce our DSOs through our integration efforts but also through technological enhancements.

Fourth, we have ongoing efforts to integrate prior acquisitions with a particular focus on billing and operating platforms. As we've discussed in the past calls, we have completed the billing transition of all of our 2018 acquisitions and have completed most of the operational transition as well for those acquisitions. Our focus now is largely on the integration of 2019 acquisitions and the cost reduction synergies that will continue to benefit the entire company.

Lastly, as our US shareholder base continues to grow, we will be exploring ways, in the first half of 2020, to more closely engage with those US investors as well as all other investors. As you will note from the press release, we recently enlisted the services of Hinge Markets, led by Jeffrey White, to dedicate additional resources to our investor relations.

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