Akumin Inc.

2023 Second Quarter Results Research Analyst Call

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CORPORATE PARTICIPANTS

Riadh Zine
Akumin Inc. — Chairman and Chief Executive Officer

David Kretschmer
Akumin Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Noel Atkinson
Clarus Securities — Analyst

Rishi Parekh
JP Morgan — Analyst

PRESENTATION

Operator

Good morning. My name is Lara (phon) and I will be your conference Operator today.

At this time, I would like to welcome everyone to Akumin Inc.'s 2023 second quarter results research analyst call.

Our lines have been placed on mute to prevent any background noise. After the speaker's 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 *, followed by the number 2. Thank you.

Mr. Zine, you may begin your conference.

Riadh Zine — Chairman and Chief Executive Officer, Akumin Inc.

Good morning and thank you for joining us for today's presentation. My name is Riadh Zine and I'm the Chairman and CEO of Akumin. I'm joined today by David Kretschmer, our Chief Financial Officer.

I want to thank all of you for taking the time to join us on this call.

In today's call, I will provide an overview of Akumin's Q2 results and discuss some of the factors that impacted our results in the quarter. I will also review the steps we're taking to overcome the challenges we have experienced in both of our business segments. David will go over some of our key operating and financial metrics and discuss our revised guidance for 2023. I will then conclude the presentation and then we will proceed to Q&A.

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 under Events & Presentations.

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.

Please refer to the disclaimer slide, Slide number 2 on our following (phon) presentation, as well as the Forward-looking Statements section of our earnings press release.

The risk factors that may affect the results in 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 or SEDAR.com.

We may also refer to certain non-GAAP measures during this conference call, such as EBITDA and adjusted EBITDA and adjusted EBITDA margin. You can find information regarding these non-GAAP measures, including definitions, again, on Slide 2 of our presentation, as well as the non-GAAP measures section of our earnings release.

A reconciliation of EBITDA and adjusted EBITDA to net loss, the most comparable GAAP measure, is included in the 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 a reconciliation without unreasonable efforts.

Turning to our Q1 results. On Slide 3, you can see the same-store consolidated volume growth in our key Radiology service lines and our patient starts in our Oncology division versus our results in Q2 of last year.

Specifically, our same-store MRI volume were up 3.1 percent, which reflects ongoing strong demand for MRI procedures. Our same-store PET/CT volumes were up an impressive 16.5 percent, as strong demand, particularly from our hospital partners, continued for that modality.

Total Oncology patient starts were up 3.4 percent, as the market for oncology services remains robust.

Q1 revenue of $184.8 million was down 3.8 percent from $192.1 million in the second quarter of last year.

Adjusted EBITDA of $26.5 million was down $11.7 million from $38.2 million in the first quarter of last year. And I will elaborate on some of the causes of this decline in later slides.

Adjusted EBITDA margins of 14.4 percent were down 5.5 percent from the second quarter of 2022 and down sequentially from 17.7 percent in Q1 2022. Our margins in Q2 were negatively impacted by a number of factors, and given our high operating leverage, resulted in a significant decline in margins in the quarter.

On a consolidated basis, accounts receivable at quarter-end were $115.8 million versus $114.7 million at the end of Q1 2023. This equates to 57 days of sales outstanding near record-low levels.

Turning to Slide 4, we began to see same-store volume growth in our Radiology segment in Q1, which continued in Q2, although not to the extent we anticipated and remains below our growth target.

As highlighted on this slide, we experienced some challenges in Q2 that resulted in our radiology revenues to be down $4.6 million from the same period last year: the ongoing closure of our Port Charlotte facility in Florida, which has been closed for necessary renovations after suffering significant hurricane-related damage last year. While we are working diligently with the local building authorities to secure permits to complete the necessary renovations, this process has proven to be more onerous and time-consuming than originally anticipated.

We also experienced some equipment delivery delays in the quarter, which negatively impacted our ability to bring new mobile customers online. We do anticipate that the situation will improve by year-end, such that we can satisfy commitments from new customers.

In addition to those items which resulted in our year-over-year revenue decline, we also experienced some persistent labour shortages, particularly among clinical staff, despite early signs of improvement on this front in Q1. The severity of this issue varies significantly across geographies, but in aggregate, our ability to perform additional procedures has been constrained.

In addition to clinical staff, we have also experienced above average number of vacancies amongst our account executive team responsible for the relationships of the referring physicians, which has compressed volume growth in certain specific regions.

Turning to Oncology. While we saw growth in patient starts, this was more than offset by other factors that negatively impacted the segment, resulting in year-over-year revenue decline of approximately $2.7 million. Recall that under new leadership, our Oncology segment underwent a repositioning in 2022, which included a re-examination of several of our partnerships. The result has been the discontinuation of certain operations.

Unfortunately, certain unresolved contract discrepancies have led to a reduction in revenues received from a specific customer. This has obviously impacted our Q2 results and may continue to do so, pending resolution of this matter.

We have also experienced some lengthy delays in the receipt of payments from one of our Oncology customers, in part due to the financial challenges and liquidity constraints they're facing. We have several tools at our disposal to either mitigate the financial impact or resolve this matter.

On the expense consent side, we were also impacted by higher costs in the quarter, which were, in part, related to the increased use and cost of specialty tracers, particularly in our PET/CT modality. Although some of these costs can be passed through to customers, this and other cost inflation we have experienced, including in medical supplies, has resulted in expenses being $3.9 million higher year over year.

Given our high operating leverage, the net aggregate EBITDA impact decline year over year was over $11 million in the quarter. That said, we remain very focused on implementing measures to address the operating challenges we are facing.

While we do expect these measures to benefit our results and performance over time, we do not foresee a material improvement prior to the end of 2023, which David will elaborate on in his discussion of our revised 2023 guidance.

On Slide 5, we review our current outlook for the balance of 2023.

As you can see, we expect the challenges we face in both our Radiology and Oncology segments to continue, to a certain extent, for the remainder of the year. We have also factored in some additional equipment delays in our budget and outlook.

In our Radiology segment, we are implementing measures to alleviate the impact of these challenges, including the ongoing digitizations of our business and the continued deployment of our remote clinical capabilities as described later on.

In Oncology, we expect that, based on business development initiatives we have underway and with the discontinuation of certain suboptimal Oncology partnerships, the contribution from this core business segment should improve materially in 2024.

Notwithstanding the challenges we face, we continue to see robust demand for our services and the fundamentals of our industry remain very strong, which is why we are focused on taking measures to remedy these challenges.

As you know, we embarked on a significant organizational transformation in 2022 to align and streamline all areas of our business. These initiatives resulted in the realization of approximately $23 million in synergies last year, although they were somewhat offset by inflationary pressures and other cost increases during the year.

In 2023, we had planned to implement initiatives related to rationalizing business processes, consolidating systems, and optimizing our procurement by leveraging our enhanced scale, which would result in additional $25 million synergies on a run-rate basis by the end of 2023.

These initiatives have been delayed, given the management focus on resolving our near-term challenges. As a result, we now do not anticipate any material financial benefit in 2023. However, we remain very confident that these synergies will be realized in 2024.

As we have highlighted in the past, there is significant operating leverage in our business model. As such, we are very focused on increasing our capacity utilization and driving additional volumes through existing sites. On that front, we continue to focus on improving scans and treatments per labour hour and enhancing our scheduling and call centre capabilities.

Another key element of our strategy is to digitize the business to streamline operations in order to enhance the patient experience and capture significant efficiencies.

We are also deploying remote technologies capabilities to help alleviate the labour constraints that our industry is facing and the health care sector generally speaking.

On the business development front, recall that part of our strategic rationale for the Alliance acquisition in 2021 was to better position Akumin to service hospitals and health system partners in their ever-growing needs for outpatient service delivery and capacity.

With the extensive suite of services and facilities we have in place today, including network density in multiple markets, we are an attractive outpatient partners for hospitals and health systems. In fact, we have received significant partnership interest from hospitals and health systems and we are now in the process of negotiating partnerships with these important customers.

We have also generated meaningful partnership interest from hospitals for our oncology services given our unique capabilities in this business line.

While formal relationships and partnerships will take time to finalize, we are confident that we will be able to capitalize on opportunities to leverage our capabilities for the mutual benefit of Akumin and its hospital partners in the near future.

Each of these initiatives are an important focus of Akumin and together, we expect that they will deliver significant benefits to our platform in 2024 and beyond.

Turning to Slide 7. As mentioned in our quarterly results press release, our Board of Directors has formed a Special Committee to explore strategic initiatives related to our capital structure.

As you know, our current leverage is well above our management target levels and given the operational challenges we have recently faced, the board felt it was prudent to evaluate our alternatives at this time.

As a reminder, interest on our subordinated debt held by our partner and sponsor, Stonepeak, has been paid in kind and is expected to become cash pay on September 1, 2023.

The Special Committee is diligently evaluating alternatives, but there can be no assurance that this process will result in any transaction or other alternatives.

There is no set timetable for the completion of the strategic review process and the Company does not intend to provide updates unless or until the Board of Directors approves a specific action or otherwise determines that disclosure is appropriate or necessary.

I will now turn the presentation over to David, who will walk you through some of our key operating and financial metrics.

David Kretschmer — Chief Financial Officer, Akumin Inc.

Hey, thank you, Riadh.

As Riadh mentioned at the outset, I will review some of the key operating and financial metrics of our business for the second quarter and provide an update to our 2023 guidance.

Slide 8 illustrates that the Akumin platform continues to offer a diverse suite of services while remaining focused on areas of high-growth and high-value-added modalities.

As you can see, 53 percent of our radiology revenues are derived from MRI procedures, making MRI volumes a key driver to that segment.

Akumin is also a significant player in cancer diagnosis and treatment, with 27 percent of our radiology revenues from PET/CT and 16 percent of our total revenues coming from our Oncology division. These modalities are critical to the delivery of quality patient care and are utilized by a variety of physician specialties across the care continuum, from screening to diagnosis to treatment.

As we have previously highlighted, we have an ongoing initiative to consolidate our fixed-site radiology footprint to eliminate underperforming sites. As at the end of Q2, we now operate 276 sites comprised of 178 in radiology and 29 in oncology.

We continue to evaluate all sites to identify opportunities to improve the operation and contribution from our fixed-site footprint, including exploring partnerships with hospitals to optimize the economics of these sites.

As we've previously stated, Akumin is well positioned to benefit from the ongoing shift to outpatient service delivery as we partner with hospitals and hospital systems to transition care to lower-cost sites of delivery.

We continue to generate over 95 percent of our revenues from outpatient procedures, as you can see on Slide 9. We have a balanced revenue mix between third-party payors for outpatient services and hospitals, with no one customer representing more than 4 percent of our consolidated pro forma revenues.

As a preferred outpatient solution provider to hospitals, half of our revenues come from our hospital customers. The balance of revenues are derived from reimbursement for patient procedures made by third-party and government payers.

We continue to expect the revenue share with hospitals to grow over time, as both existing and new hospital customers and partners search for outpatient solutions in both radiology and oncology.

Our financial performance is typically driven primarily by procedure volumes, although, as Riadh previously mentioned, certain extraneous factors did impact our results this past quarter.

As you know, given that the current mix of our business includes both hospitals and independent sites, we track actual scans by modality across our radiology platform.

Previously noted, MRI and PET/CT scan procedure volumes are the biggest contributors to our performance in the Radiology segment. These volumes, together with the radiology procedures as a percent of revenue, as is illustrated on Slide 8, are the key metrics we use to track our operating and financial performance in Radiology.

On Slide 10, we can see the MRI, PET/CT procedure volumes over the last four quarters and the percent same-store changes in those periods.

As Riadh mentioned, equipment delivery delays, primarily in our mobile segment, together with an ongoing shortage of clinical staff, has been constraining our ability to grow procedure volumes. We are continuing to explore ways to alleviate these pressures and are optimistic that these efforts will begin to show tangible results by the end of 2023.

As we've previously highlighted, as the market leader in PET/CT, we have seen strong growth in that modality in recent years as the pharmaceutical industry continues to develop improved tracers, which can allow for earlier detection of diseases.

Labour constraints are less of a factor in the PET/CT, given the highly specialized skill sets of clinical personnel for this modality, and we're better able to capitalize in the strong demand for these services.

In the Oncology segment, we track activity level by patient starts volume. As you can see, patient starts began to grow in Q4 of 2022 as we completed the review and repositioned that business in Q2 and Q3 of last year.

That growth was less pronounced in the recent quarter, in part because of reduced collections for a customer related to contract discrepancies and a specific customer liquidity challenges, as Riadh previously noted.

We expect our Oncology division to resume an improving growth trajectory over time, given business development initiatives we have underway.

We continue to believe we have compelling value proposition in radiation therapy and we bring to our hospital partners in this modality. This includes our mobile fleet, which enables oncology programs to continue treating patients while replacing equipment, and our significant experience with Varian's Halcyon, a new treatment platform which can provide faster, more effective cross-treatment.

In Slide 11, we present the quarterly revenue and adjusted EBITDA trend for our Radiology and Oncology segments.

As you can see, the contribution from our Radiology and Oncology segments has been quite consistent over the past five quarters, with Radiology ranging between 83 percent and 85 percent of total revenues, and Oncology making up the balance of 15 percent to 17 percent.

In the Radiology segment, our second quarter adjusted EBITDA margin was 21.5 percent before allocation of corporate services.

Our Oncology segment is higher margin, with an adjusted EBITDA margin of 33.4 percent before the allocation of corporate services. Chart on the right illustrates the quarterly adjusted EBITDA and EBITDA margin over the past five quarters.

Given the high operating leverage in our business, the modest volume growth in Q2, in large part because of the ongoing clinical labour shortage, together with delays in reopening some facilities and some accounting executive attrition, has put significant downward pressure on margins for the period. That said, we continue to believe we have a solid foundation on which to build and see strong demand for our services.

To the extent that we are able to address these operational issues, we should see a return to growth in both revenue and adjusted EBITDA toward this back half of 2023.

In Slide 12, you will see the annual and last 12 months financial performance in our Radiology and Oncology segments and the consolidated adjusted EBITDA.

Note that the 2020 results are pro forma, assuming the legacy Akumin Alliance businesses, the acquisition of which was completed in September of 2021, were combined for the entire period, as well as adjusted for the fourth quarter 2021 divesture of Alliance Oncology of Arizona.

As you will see in the chart on the left, the Radiology segment contributed $622 million of revenue through the last 12 months, representing approximately 84 percent of total revenues, while the Oncology segment contributed $124 million of revenue, approximately 16 percent of the total.

As we have mentioned on prior calls, growth in consolidated adjusted EBITDA has been muted in recent periods, as we have focused on internal integration and transformation business and ongoing labour constraints.

As Riadh and I also mentioned, the Oncology segment has been meaningfully impacted by the failure of two customers to meet their financial obligations to us, for which we are no longer recording revenue and have increased reserves against existing accounts receivable, also impacting revenue for the current period.

As mentioned, we expect we will begin to see higher volume growth driving revenue and adjusted EBITDA as we exit 2023, assuming some of the issues negatively impacting our volume growth at the present are based in the back half of the year.

Slide 13 is a bridge from our adjusted EBITDA to our free cash flow in the first half of 2023.

As you can see from the slide, our cash position decreased by approximately $21.5 million so far in 2023. As in past quarters, debt service and finance lease payments continue to have a meaningful impact on free cash flow.

As you know, cash minority interest primarily relates to oncology joint ventures and hospital partners, and as a function of the performance of these centres, is not a fixed obligation. As these partnerships become more profitable and generate more cash, our cash distribution from minority partners increases as well.

It should be noted that as at the end of Q2, we have incurred over $9.6 million of cash costs related to site repairs at our Port Charlotte facility and our ongoing restructuring efforts. As Riadh mentioned, our Port Charlotte facility continues to be closed as reopening measures are proving to be more onerous and lengthy than anticipated. We have received partial reimbursement for insurers and expected to recover more.

We do expect to reduce burn from restructuring charges in the latter part of 2023, together with some modest additional synergy capture to the benefit of our free cash flow. This will be offset by the additional cash interest payments related to the Stonepeak's subordinated notes, which are expected to go cash pay on September 1st of this year.

Slide 14 is an update to our 2023 guidance, previously announced on the fourth quarter of 2022 earnings call.

Given the challenges we have faced in the first half of the year, and our expectation that some of these conditions (phon) will persist in the future quarters, we now expect 2023 consolidated revenues to be in the range of $740 million to $750 million, and adjusted EBITDA to be in the range of $120 million to $130 million.

Turning to CapEx, we continue refining our capital expenditure plan to ensure the most efficient deployment of equipment that are aligned with our strategic priorities.

We continuously evaluate all markets and prioritize those that, based on our criteria, have the greatest near-term potential for growth. We are also cognizant of our ability to take delivery and install equipment in a timely manner and are currently experiencing some delays on that front.

As a result, we now expect total CapEx spend to be between $40 million and $50 million, with $10 million to $20 million allocated to growth CapEx for new customers and new sites, and the balance for maintenance CapEx.

Recall that we define maintenance CapEx as spend for existing customers at existing sites, while growth CapEx is primarily oriented towards new hospital customer and partner acquisition, as well as capacity expansion. Our investments in new customers and sites continues to be high return, typically with a four-year payback on growth capital.

We anticipate total CapEx to be funded by approximately 20 percent in cash and the balance will be financed by combination OEM and equipment finance companies.

Higher financing costs are a reality in all industries and may be a headwind in coming quarters.

Slide 15 illustrates our capital structure at the end of Q2 2023.

As you can see, Akumin's leverage and secured leverage is 7.0 times and our unsecured leverage is now 3.6 times. As an organization, we are very focused on reducing this leverage over time, although recent events have made that increasingly challenging.

In the future, drivers of leverage reduction will come from increasing EBITDA as a result of synergy capture, network rationalization, technology-driven standardization, and the streamlining and service delivery as we have outlined in previous calls.

Note that as significant shareholders, we are highly incentivized to prudently optimize the capital structure and we continue to evaluate options to do so as market conditions permit. As Riadh had mentioned, the Special Committee of the board is currently evaluating alternatives on that front.

With that, I'll turn it back over to Riadh to wrap up before we take questions.

Riadh Zine

Thanks, David.

That concludes the prepared remarks portion of the presentation. I hope we provided an informative window into the results for the quarter. And we would now ask the Operator to start the question-and-answer period.

Q&A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by the number 1 on your touch-0tone phone. Again, that's *, followed by the number 1. If you would like to withdraw your request, please press *, followed by the number 2.

Your first question comes from the line of Noel Atkinson from Clarus Securities. Please go ahead.

Noel Atkinson — Clarus Securities

Good morning, guys, and thanks for taking our questions this morning. First off, just on the labour constraints. So are you seeing that across all your Radiology segments? Or is it—you know, we're seeing this difference in PET/CT growth versus MRI growth. Is it more in the freestanding centres where you're seeing labour constraints?

And then have you seen any easing of the hiring activity, improvement of hiring activity in Q3?

Riadh Zine

Sure. Thanks, Noel, for the question. In specialized workforce like PET/CT, we're not seeing the same level of constraint, but for MRI and other procedures, yes, it's across the board.

The severity of the shortage depends market by market. It's not the exact same everywhere, but it's a tight labour and it's not just new labour. Even when you compare pre-COVID to post-COVID, even from an overtime perspective, we don't have the same flexibility that we used to have.

Like we said before, David and I, there were signs of improvement, so it's actually the challenges are at the slower pace than it was at the end of last year or early next year, I think, as you probably recall, Noel, and I think it's on the slide deck when you look at year over year. We actually had no same-store growth in Q3 and Q4 of last year for MRI. It was 0 percent, it was flat.

We start to see 4 percent and 3 percent, but that's not the growth levels that we've experienced in the past or we should experience based on the demand for our services.

So we're taking the steps. We've made some changes where we start to see higher number of applicants in markets where we had challenges, where positions were open. And the long-term solution, as you know, is also technology with our remote scanning capabilities.

So we're working on both the short-term and the long-term plans.

David Kretschmer

And, Riadh, if you don't mind, I'll jump in. Noel, this is a great question. And as you appropriately noted, it's been less pronounced in our mobile division, which is where most of our PET/CT is.

The one thing that we don't put in and discuss is what we kind of consider like other modalities, because as Riadh pointed out, there was lower revenue and lower EBITDA for things like ultrasound, mammography, and we have seen a meaningful shortage and ability to backfill some of those tech positions as well.

So while we don't talk about it as much because it's not the headline, that's impacted us also.

Noel Atkinson

Okay. Thanks. Secondly, so again, let's go back to this PET/CT that just you're seeing that's a continued acceleration of PET/CT volumes on a same-store basis. And you also mentioned that you're seeing supply chain issues, getting new equipment.

So first off, can you maybe give us a sense of how much is that impacting on a current revenue, this inability to get equipment to, I guess, start new contracts with hospitals?

And then secondly, what are you seeing for demand in your pipeline for new contracts with hospitals? Like are they kind of holding back on new initiatives, new partnerships with folks like you because they're trying to save money? Or are they just saying, look, we need to increase this in light of say, like the new Alzheimer drug approvals and things like that?

Riadh Zine

So again, thanks, Noel, for the detailed question on the PET/CT. There were a couple of questions there. I'll try to answer each one of them. So on demand and kind of new applications and new tracers, we expect this growth to continue into the next couple of years. This is not a phenomenon for just the short term. We believe we're going to experience these levels, if not higher, of growth going forward.

Having said that, as you pointed out, and this is true, not just for Radiology, even for Oncology, post-COVID, especially as we, in PET/CT were signing up new customers, but the requirement on the mobile side is more so for the new digital PET/CTs, which we have deployed already, a number of them, and we're looking to deploy a lot more going forward. That delay of equipment is impacting us.

And just to give you an order of magnitude, which is why we're dealing with timing issues, in the mobile, in the second quarter of 2023, the quarter that is in discussion right now, we booked or we sign up new customers that when you look at the book of business of signing up new customers versus what we booked as revenue in the second quarter because of delay in getting the equipment is a ratio of 3x. So you're signing up new customers at the rate of 3x of what you're booking. And so it's a real issue the delay in equipment delivery.

And I'll actually address it at the same time because it's important for our investors to also understand that. The reason we are focusing, we're focused more on the operations and the oncology and repositioning and building a pipeline for the future because you really don't have access to equipment today. That's going to get resolved as we move into next year.

But even if you signed up five new facilities today, you're going to have the same equipment delay we're experiencing on the mobile radiology side, for example. So it's a supply issue.

So I hope that answers your question. But it's a really good question. Like we're not dealing with the change in fundamentals; we're just dealing with the reality of the supply side.

Noel Atkinson

And you feel comfortable that there—like you've been provided assurances from the manufacturer that the digital PET/CT will come back? The availability will improve by the end of the year?

Riadh Zine

That's what we believe as, first of all, like GE has already a solution in the market. And as you know, for mobile, it's not just the equipment, like freestanding, it's also the unit that will host the equipment. And that's where the manufacturing also bottleneck is coming from.

So it’s not the OEM in some cases, because we have been able to secure it from OEMs, PET/CT units. But the bottleneck is from the manufacturing side of the mobile unit itself that is hosting the PET/CT equipment.

Noel Atkinson

Gotcha. Okay. And then just maybe a couple quick financial ones if I can. So you had accelerated amortization in Q2 from the Oncology unit, closing one site, winding in ops for the second. Does amortization and depreciation go back to kind of Q1 levels or a bit below starting in Q3?

David Kretschmer

To your point, it would be slightly lower just because we accelerated the amortization of those couple sites. So I think you’re spot on.

Noel Atkinson

Okay. So instead of—okay, so it would go down by like $10 million or something like that, quarter over quarter?

David Kretschmer

I’m not sure $10 million. Let me get you a better estimate for that as to what the [audio gap] would be.

Noel Atkinson

Okay. And then finally, before I go back in the queue, just you had all $55 million on your revolver available at the end of June. So does the Company have full access to all of that $55 million at the present time if it needed it in the future?

David Kretschmer

Well, the revolver availability is based on trailing 12 months and ratio to EBITDA, so that will be probably slightly impaired. But the majority, the vast majority of that will be available to us.

Noel Atkinson

Okay. All right. That's it for me. Thanks very much.

Riadh Zine

Thank you, Noel.

Operator

Thank you. Your next question comes from the line of Rishi Parekh from JPM. Please go ahead.

Rishi Parekh — JP Morgan

Excuse me. Commercial revenue was down, hospital revenue was flattish. Is this a sign that your legacy business is deteriorating and the Alliance health care side of the business is making up for that slack?

And then with that, with hospital revenue being flat and volumes being so strong, are you granting or providing price concessions to your hospital customers? Because I was just trying to understand why revenue is not up even more. I know you had the Port Charlotte issue, but more than what we're seeing, just given the volumes that you're producing.

David Kretschmer

Well, Rishi, I'll jump in just real, real quick before I let Riadh address the broader question because I did mention that particularly on the oncology side.

We are no longer recording revenue to two customers and actually had to reverse previously accrued revenue due to lack of receiving payment. So that does distort Q2 a little bit, just because of the reversal. And we have a slightly lower run rate on the oncology side until we resolve these issues with a couple of customers.

Rishi Parekh

But does that explain the entire reason as to why revenue is down despite the volume increase?

David Kretschmer

Well, that's a large part on the oncology side.

Riadh Zine

Yeah, and on the radiology side—sorry, go ahead.

David Kretschmer

No, I'll let you address the radiology.

Riadh Zine

Yeah. So on the radiology side, Rishi, it's exactly what you've outlined. So the challenges that we have on—as you know, whether it's hurricane related or it's the labour, the labour shortage, it's really on the commercial side.

The only challenge we're having on the hospital side of the business is in satisfying customer demands on the mobile side not fast enough.

But your observation is right on where the commercial side is where we're having the pain points.

Rishi Parekh

And then just to kind of add onto that, with regards to the hospital side, are you losing contracts? I know this is—before you look at the Alliance Healthcare business, CapEx was very high and today CapEx is very low relative to what we’ve seen before, which to me implies that you needed to keep spending money on the CapEx front to maintain those contracts.

But because you’re not, are you losing contracts on that side, which may also explain why hospital revenues are down?

Riadh Zine

Yes. So, as you know, it’s the nature of the business on the mobile side, right, of radiology. There is a natural churn. And typically, so you have contracts that expired in the past, I think you—because you’re very familiar with the legacy Alliance, I think as you probably recall, Rishi, they always talk about net renewal. Right? Like, is your book of business larger than what you’re replacing?

Today, our book of business is actually in a net position, but just from a signing perspective, from commitments, but not from a revenue booking perspective, because the business is still turning or churning as historically, but to bring on new customers, you have the contract signed, but you have a timing issue in basically booking the revenue because you don’t have the equipment yet.

And that’s also why the CapEx did come down, and we’ve revised it for the balance of the year because we’re not getting delivery of the equipment at the same pace that we expected. And you’re absolutely right, you said you have to continue to basically deploy CapEx, which really, what you’re doing when you’re deploying CapEx, you’re signing new customers for longer terms, and that’s just the nature of the beast on the mobile side of radiology.

Rishi Parekh

And just a few other questions. On Port Charlotte, do you have insurance? So all this money that you’re spending, do you expect to recoup it through insurance?

And with regards to the tracers, I know you said there's a pass through, but obviously, you took a loss in this quarter. Is there no way to recoup those losses in future periods with those same customers?

And then just lastly, I know you have partial access to your revolver. You have $35 million or so of cash on the balance sheet, you have this cash pay that might be coming up. So liquidity is going to be really tight, and it's not certain as to whether or not your guidance is maybe reflecting some of the challenges that you're seeing now. Do you believe that you have sufficient liquidity to get through this year? Or is this restructuring something that you have to complete sooner than later?

And then with that, I believe you have $100 million or so of super secure capacity, maybe $100 million to $200 million of additional secure capacity. Can you just confirm what your capacity baskets are on the secure side, and what your RP basket is today?

Thank you.

Riadh Zine

No problem. So I'll answer the first question on Port Charlotte.

We have received, like David mentioned earlier, a portion from the insurance companies that have pretty much covered most of the cost of—or will cover most of the cost when we—because there was a delay in getting the permits when we start the construction and the renovation. So that has been recovered.

But we're still expecting more payments from the insurance company that relate to business interruption, which as you would—given that it was an $8 million to $9 million revenue facility, that's obviously a large number. But we're still expecting more payments from the insurance companies. And that's really kind of what's going on with Port Charlotte.

I think you're—before we go into liquidity, your second question again, Rishi, was on?

Rishi Parekh

On the tracer pass-throughs? On the tracer pass-throughs?

Riadh Zine

On the tracer. So, yes. So historically, it has been, but what we're doing more is not just a simple cost recovery, given the cost of these specialty tracers and given the demand for the service and the growth we're seeing.

So, in new contracts, obviously, you cannot change existing contracts, but in new contracts, we're more successful in getting more than the cost recovery.

And then on the liquidity, I don't know, David, if you want to address it, or I'm happy to address it as well, on the basket that we currently have.

David Kretschmer

Yeah, a couple of high-level points.

Number one, at the end of Q2, actually, I misspoke earlier, we actually had—I said largely. No, it's entirely. The revolver's entirely available to us as of the end of Q2. So we do have that $55 million of liquidity available.

And while we do have to be cognizant of the fact that the Stonepeak notes are going cash pay, we do have financial capacity to meet our obligations. So that's not an issue for us through year-end and into next year. So we have some degree of line of sight.

Rishi, I think you did mention, well, that there's no assurances. Of course, there's a number of assurances that you're going to realize being the range that we've outlined and given our revised guidance, I understand some concern around that. We think we've been appropriately conservative in putting that $120 million to $130 million EBITDA range together.

And I think you've heard Riadh and I say there are opportunities too for additional liquidity events. We have recovered some of the payments from what we've spent on Port Charlotte. We can expect to receive more. So that would be again, a benefit over and above beyond the adjusted EBITDA.

And in terms of the baskets, I want to probably get you a more precise number offline. You're right. We do have some capacity available to us. And while we had reached the limit on the purchase money because of just the (unintelligible) we've done for the equipment financing every quarter or every month that goes by and we pay down some of those lease expenses, that does recreate capacity in the purchase money. But we have been able to do financing for our last couple of capital equipment purchases under operating leases.

That also affects—marginally, not usually—but it does impact the adjusted EBITDA because for finance leases, it comes out of adjusted EBITDA. And the operating leases, it creates a little bit of a headway in the adjusted EBITDA. Again, it's not significant, but we probably should start calling that out going forward, Riadh, about how, had we continued previous practice of financing leases versus now starting to use some operating leases, how that impacts the adjusted EBITDA negatively.

Riadh Zine

Agreed.

Rishi, any additional questions?

Rishi Parekh

No, I'll follow up on the rest of it, but thank you.

Riadh Zine

Thank you, Richie.

Operator

Thank you. There are no further questions at this time. I'd now like to turn the call back over to Mr. Zine for any closing remarks.

Riadh Zine

Thanks. Thank you, everyone, for your participation on today's call. 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 address our operating challenges and we address our capital structure as well.

This concludes our call, and thanks again to all participants for your interest in Akumin.

Operator

Thank you, sir. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a lovely day.