Akumin Inc.

EDITED TRANSCRIPT

Q4 2018 and Year-End Financial Results Analysts Conference Call

Event Date/Time: March 29, 2019 – 8:30 am ET

Length: 38 Minutes

Corporate participants

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

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

Conference Call Participants

Noel Atkinson, *Clarus Securities* — Analyst

Endri Leno, *National Bank Financial* — Analyst

Presentation

Operator

Good morning. My name is Sharon, and I will be your conference Operator today. And at this time, I would like to welcome everyone to Akumin Inc.'s 2018 fourth quarter and year-end financial results research analysts conference 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 the # key. Thank you.

Mr. Zine, you may begin your conference.

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

Good morning, ladies and gentlemen, and thank you for joining us for Akumin's earning call for the year and quarter ended December 31, 2018.

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 www.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, and adjusted net income loss 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 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 2018 and the quarter ended December 31, 2018. After our prepared remarks, we will open the call to questions from industry analysts.

Overall, our results for the year and the quarter were in line with management's expectations. 2018 was a year of significant growth for Akumin. Organic growth continued in line with management's expectations. In fact, in Q4 2018, relative to Q4 2017, we estimate revenue for the quarter would have increased by approximately 10 percent when you exclude our 2018 acquisitions; our purchase of noncontrolling interest in Texas in Q2 2018; and the onetime revenue impact in Q4 2017 following Hurricane Irma, which hit Florida in September 2017.

Acquisition growth was also significant. In total, we added 21 centres to our network, representing more than $50 million in pro forma annual revenues. As at year-end, we had 45 centres in Florida with particular density in the south, mid and western Florida markets, and 95 centers company-wide, compared to 74 centers at the end of 2017.

In addition, in Q2 2018 we completed the acquisition of noncontrolling interests in seven of our centres in Texas that were previously not wholly owned, bringing all of those operations under the Akumin network to streamline our corporate structure, to provide balance sheet flexibility, and to simplify the administration of our regulatory compliance regime.

While a decrease in revenue resulted, this decrease related to ownership changes and not to any operating issues. The decline is consistent with declines experienced with prior purchases of noncontrolling interest experienced by Preferred Medical Imaging in Texas before we bought it and was anticipated by our management team.

We recorded revenue of $154.8 million for the year and $45.5 million for the quarter. Adjusted EBITDA for the year was $31.8 million and adjusted earnings per share, or EPS, was $0.20. Adjusted EBITDA for the quarter was $9.2 million and adjusted EPS was $0.05. If the acquisitions completed during Q4 2018 had occurred at the beginning of that quarter, the adjusted EBITDA would have been approximately $10 million.

We measure our ability to scale our business by revenue and adjusted EBITDA. We measure the profitability and health of your business by looking at adjusted EBITDA margin and adjusted EPS 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.

As you can see in our MD&A, these measures have been generally 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 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 will provide an attractive alternative to hospitals for insurance and other third-party payers. We believe we will continue to have significant access to debt markets in order to execute on our acquisition growth strategy. And we may also use our currency from time to time as an attractive form of consideration to potential operators to join the Akumin platform.

We closed the year with approximately $19 million cash on the balance sheet.

We also remain focused on existing business operations. We spent a considerable effort over 2018 streamlining our billing and revenue cycle management practice, which included the addition of a Chief Revenue Officer to run the department in late Q1. Through our legacy businesses, we had inherited a number of different billing systems and workforces. We are happy to report that all of our businesses, including those acquired in late 2018, are now fully integrated across the company on the same billing platform.

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

We have also started the execution of the operational integration for the five centres we acquired in Q4. We expect these billing and operational integrations to have a direct impact on the bottom line of the Company in the second half of this fiscal year.

Lastly, we also continued to streamline our corporate structure. We acquired the outstanding noncontrolling interest of seven of our Texas centres, and eliminated 18 entities from our corporate structure as a whole. We converted our Texas limited partnerships to limited liability companies, establishing a consistent corporate organizational structure in Texas.

In addition to our internal focus, a lot of changes are going on in the diagnostic imaging industry and the US health care industry generally speaking, which of course will influence our strategy. 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 still active in driving patient behaviour and pushing patients to outpatient centres from hospital care.

We are also still seeing some strategic alliances in development between retail insurance companies, and we expect all of these trends to lead to the best practices of customer-centric 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 this destruction 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, Akumin Inc.

Thank you, Riadh. I will provide a summary of Akumin's results for the quarter ended December 31, 2018. I will not focus on the year-over-year results in my remarks for two reasons. First, the period ended

December 31, 2017, was a 15-month period and, as a result, it is not directly comparable to the 12-month period ended December 31, 2018. Second, because of the scale of the acquisition growth, a comparison of the 2017 and 2018 periods is not meaningful. However, I would encourage you to review our 2018 MD&A, where you will find some discussion regarding year-over-year comparisons.

As I discuss our results, I will use 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 compensation, impairment of assets, gains or losses in the period, nonoperating cash items such as settlement costs and public offering and acquisition-related costs and onetime adjustments.

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

In terms of volume performance, 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 Q4 2018 was approximately 1 million RVUs compared to approximately 850,000 RVUs in Q3 2018. I'm providing sequential quarterly information, as meaningful comparative information for 2017 is unavailable. The increase is primarily resulting from acquisitions during the quarter.

With respect to the income statement, the company reported the following results as compared to the same quarter from last year. Revenue was $45.5 million, up from $35.2 million in 2017. Adjusted EBITDA was $9.2 million versus $8.3 million in 2017. Adjusted EBITDA margin was 20 percent versus 23 percent for the same quarter last year.

The improvement in revenue was mainly due to the acquisitions in 2018. Excluding the 2018 acquisitions, Akumin's revenue was about $1.2 million lower than in Q4 2017. This decrease is due to lower contributions in Q4 2018 from Texas operations related to the noncontrolling interest acquired earlier in the year and high contributions from Florida operations in Q4 2017 following Hurricane Irma, which we estimate to be an additional revenue of approximately $2 million. Excluding our 2018 acquisitions, the noncontrolling interest purchase, and the estimated revenue impact following Hurricane Irma, we estimate revenue for Q4 2018 would have increased by about approximately 10 percent relative to Q4 2017.

The improvement in adjusted EBITDA was mainly due to the acquisitions in 2018. The adjusted EBITDA in Q4 2018 included a onetime positive adjustment of approximately $0.8 million, which comprised of two items: First, an add-back related to incentive-based compensation for management for the nine months ended September 30, 2018, which had previously not been accrued and was paid during Q4 2018. And second, a deduction related to reclassification of certain third-party costs as nonoperating expenses that related to the nine months ended September 30, 2018, but were reclassified in Q4 2018.

The adjusted EBITDA margin was higher during Q4 2017 relative to Q4 2018 mainly due to strong performance in Texas prior to Akumin's purchase of the noncontrolling interest of the previously mentioned

seven Texas centres, and in Florida following Hurricane Irma in September 2017. Also, Akumin has increased its presence in Florida during 2018 through acquisitions that had lower margins than our existing business.

The adjusted diluted EPS was $0.05 versus $0.07 for the same quarter last year. This decrease is mainly due to higher depreciation and interest expense and increase in weighted average diluted share count, which was 63.1 million versus 43.9 million at Q4 2017. We expect improved financial results in the second half of 2019 as a result of the integration and streamlining efforts in billing and other operations of our recent acquisitions.

With respect to our balance sheet, cash balance was $19.3 million at December 31, 2018, versus $20.4 million at September 30, 2018.

Accounts receivable were $29.8 million versus $26.1 million at September 30, 2018. The increase was due to higher revenue during the quarter, partly due to the 2018 acquisitions in Florida.

Fixed assets at December 31, 2018, were $55.6 million versus $51.2 million at September 30, 2018. The increase was mainly due to the two acquisitions in Florida during Q4 2018.

Total debt of the company was $117.5 million at December 31, 2018, versus $103.6 million at September 30, 2018. The key liability of the company is our five-year syndicated term loan of $100 million at face value. In addition, this credit facility includes a $30 million revolving credit facility, of which $11.9 million was drawn as of December 31, 2018, to partially finance the two acquisitions in Florida during Q4 2018. As of December 31, 2018, we are in compliance with the financial covenants under our credit facility.

We expect to implement IFRS 16 related to leases from January 1, 2019. This will bring our operating leases on Akumin's balance sheet. We are still reviewing this information, but we expect that it will result in right-of-use assets and corresponding lease liabilities in the range of approximately $106 million to $116 million.

With respect to key events occurring during the quarter, on November 12, 2018, Akumin announced the completion of two acquisitions in Florida for a total of five clinic locations, four in South Florida and one in mid-Florida. The purchase cost for these acquisitions was approximately $13.3 million and was partly financed through our syndicated revolving credit facility. On a combined basis, these acquisitions had annual revenue of approximately $19.2 million on an LTM basis as of June 30, 2018.

I will 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.