

Extendicare Announces 2023 First Quarter Results

MARKHAM, ONTARIO, May 4, 2023 – Extendicare Inc. (“Extendicare” or the “Company”) (TSX: EXE) today reported results for the three months ended March 31, 2023. Results are presented in Canadian dollars unless otherwise noted.

First Quarter Highlights

- Adjusted EBITDA⁽¹⁾ increased \$10.8 million to \$31.0 million, primarily due to a higher recovery of COVID-19 costs of \$3.6 million, prior period long-term care (“LTC”) funding of \$3.7 million, and growth in home health care volumes and managed services.
- COVID funding support will be phased out in Ontario and Manitoba following a Q1 2023 recovery of \$13.1 million for unfunded COVID costs incurred in 2022; we expect lower volatility in our financial results as COVID outbreaks recede and Ontario increases funding for direct care hours effective April 1, 2023.
- Home health care volume growth continued, with Q1 average daily volume (“ADV”) of 26,043, an increase of 2.0% from Q4 2022 and 6.1% from Q1 2022.
- Average LTC occupancy improved by 60 bps to 95.1% from Q4 2022 and 430 bps from Q1 2022 as incidence of COVID-19 in LTC homes decline.

Subsequent to quarter end, the Company received approval to construct a new 256-bed LTC home in Peterborough, Ontario to replace a 172-bed Class C home in the same city. Construction is expected to commence in Q2 2023 and be completed in Q4 2025.

“In the first quarter we saw improvement in our financial results in all our operating segments, supported by a decline in COVID-19 rates, continuing growth in home health care volumes and improvement in LTC occupancy levels,” said President and Chief Executive Officer, Dr. Michael Guerriere. “With signs that the pandemic is transitioning to endemic status and continuing vigilance in regard to infection control, we have been gradually returning to the vibrant social interaction that is so important to the quality of life of residents in our homes.”

“We continue to work with the Ontario and Manitoba governments to secure regulatory approval for our strategic partnerships with Axiom and Revera. We are advancing our comprehensive integration plan with the expectation that the transaction will close by the end of the third quarter of 2023. This will mark a key milestone in the transformation of our organization and enhance our ability to meet the increasing care needs of an aging population,” Guerriere added.

Continued Commitment to Redevelopment in Ontario

Construction of our new Peterborough 256-bed LTC home is expected to begin in Q2 2023. Together with our Sudbury, Kingston and Stittsville projects, these four homes will replace 834 Class C LTC beds with 960 new beds at an estimated net investment of \$281.1 million. Extendicare is targeting to break ground on a further three projects in 2023, with tendered construction costs and receipt of applicable regulatory approvals largely determining if and when they will proceed.

We continue to advance the balance of our redevelopment portfolio to be well positioned to make use of future capital funding that may be made available beyond August 2023.

End of Pandemic Funding Marks Transition to Endemic Status

The Government of Ontario ended COVID-19 prevention and containment funding at the end of Q1 2023, coincident with the phasing out of a number of prevention and containment measures that are no longer required. At the same time, the previously announced increase in direct hours of care funding effective April 1, 2023 will help support any ongoing costs that may continue as the pandemic transitions to endemic status. Provincial funding for COVID-19 prevention and containment measures also ended on March 31, 2023 in Manitoba and is scheduled to end on June 30, 2023 in Alberta.

The timing mismatch between the incurrence of COVID-19 costs and their reimbursement continued to drive volatility in our financial results this quarter. We recognized \$13.1 million in provincial COVID-19 prevention and containment funding related to spending in 2022, resulting in a net recovery of COVID costs of \$12.1 million in the quarter. In comparison to Q4 2022, our COVID-19 funding increased by \$9.5 million to \$24.8 million and our estimated COVID-19 expenses declined by \$11.1 million to \$12.7 million as we experienced a decline in outbreaks throughout the quarter, resulting in a \$20.6 million sequential increase in our consolidated NOI⁽¹⁾.

Since the beginning of the pandemic, we have received funding to cover approximately 95% of our COVID-related costs, leaving a cumulative unfunded pandemic impact on our Adjusted EBITDA⁽¹⁾ from continuing operations of \$19.3 million. We do not anticipate any further material recovery of our unfunded COVID-19 costs. With pandemic impacts waning, we expect the significant volatility we have seen in our financial results to subside as we enter Q2 2023.

Strategic Transactions with Revera and Axiom

We continue to advance through the regulatory approval processes in Ontario and Manitoba and anticipate our previously announced transactions with Revera and Axiom to close by the end of Q3 2023. This will mark a key milestone in our strategic transformation to position Extendicare as a leader in the delivery of high-quality LTC and home care services while leveraging a more capital-efficient platform for growth. While regulatory approvals are still pending, we are developing a comprehensive integration plan to support a smooth transition. Total aggregate consideration to be paid on closing of these transactions remains at approximately \$70.0 million, subject to customary adjustments.

Q1 2023 Financial Highlights (all comparisons with Q1 2022⁽²⁾)

- Revenue increased 6.2% or \$19.0 million to \$324.7 million, driven primarily by LTC flow-through funding increases, timing of spend under the flow-through care envelopes, year-over-year impact of prior period LTC funding of \$3.7 million, higher LTC occupancy, home health care ADV growth of 6.1% and billing rate increases, and growth from managed services, partially offset by lower COVID-19 funding of \$25.9 million.
- NOI⁽¹⁾ improved \$11.6 million to \$44.6 million, supported by a higher recovery of COVID-19 costs of \$3.5 million, the benefit of prior period LTC funding of \$3.7 million, LTC funding increases and higher occupancy, higher home health care ADV and rate increases, and growth from managed services, partially offset by higher operating costs across all segments.
- Adjusted EBITDA⁽¹⁾ improved by \$10.8 million to \$31.0 million, reflecting the improvement in NOI noted above, partially offset by higher administrative costs of \$0.8 million.
- Other expense of \$3.6 million was up \$3.0 million, reflecting higher year-over-year strategic transformation costs related to the Revera and Axiom transactions.
- Earnings from continuing operations of \$11.6 million increased \$7.6 million, driven by the after-tax impact of the improvement in Adjusted EBITDA and lower depreciation, amortization and net finance costs, partially offset by the increase in other expense.
- AFFO⁽¹⁾ of \$20.8 million (\$0.24 per basic share) was up from \$12.5 million (\$0.14 per basic share), reflecting the improvement in earnings and the impact of the normal course issuer bid ("NCIB") activity in 2022. Excluding the impact to AFFO of the net higher recovery of COVID-19 costs and prior period LTC funding in Q1 2023, AFFO per basic share was up \$0.03 from prior year.

Business Updates

The following is a summary of Extendicare's revenue, NOI⁽¹⁾ and NOI margins⁽¹⁾ by business segment for the three months ended March 31, 2023 and 2022.

(unaudited) (millions of dollars unless otherwise noted)	Three months ended March 31					
	2023			2022		
	Revenue	NOI	Margin	Revenue	NOI	Margin
Long-term care	207.6	33.8	16.3%	199.8	26.6	13.3%
Home health care	107.4	6.4	6.0%	98.6	2.7	2.7%
Managed services	9.7	4.4	45.2%	7.3	3.7	51.0%
	324.7	44.6	13.7%	305.7	33.0	10.8%

Note: Totals may not sum due to rounding.

Long-Term Care

The average occupancy of our LTC homes has continued to recover, improving to 95.1% in Q1 2023, up 430 bps from Q1 2022 and 60 bps from Q4 2022.

NOI and NOI margin in Q1 2023 were \$33.8 million and 16.3%, respectively, up from \$26.6 million and 13.3% in Q1 2022. Excluding a higher net COVID-19 recovery of \$1.3 million, NOI increased by \$5.9 million, which included the benefit of prior period funding adjustments of \$3.7 million, funding enhancements and increased occupancy, partially offset by higher operating costs.

Ontario implemented a 2.4% blended funding increase for LTC providers on April 1, 2023, including a 2.0% increase to the non-flow through accommodation envelope, which lags the inflationary impact on the costs funded through this envelope. In addition, flow-through envelope funding for ward-style beds no longer in service is being phased out between April 1, 2023 and April 1, 2025; however, 100% of the accommodation envelope funding will be preserved through the phase out period. Extendicare's Ontario LTC homes closed 185 ward-style beds, of which 84 will be re-opened as private and semi-private rooms when the three redevelopment projects currently under construction open between Q3 2023 and Q1 2024. The net impact of these funding changes represents incremental annual revenue of approximately \$4.0 million, of which \$2.2 million is accommodation envelope funding.

Home Health Care

Q1 2023 ADV was 26,043, up 2.0% from Q4 2022 and 6.1% from Q1 2022.

ParaMed revenue was \$107.4 million in Q1 2023, up 8.9% from Q1 2022, driven by growth in ADV, billing rate increases and \$6.5 million in funding to support wage enhancements, partially offset by reduced COVID-19 funding of \$6.9 million.

NOI and NOI margin were \$6.4 million and 6.0%, respectively, in Q1 2023, compared to \$2.7 million and 2.7% in Q1 2022. Excluding a reduction in unfunded COVID-19 costs of \$2.2 million, NOI improved by \$1.5 million, reflecting higher volume and rate increases, partially offset by higher wages and benefits, travel and technology costs, including increased costs associated with recruitment, retention and training to address ongoing staff capacity challenges.

Managed Services

Revenue increased by \$2.4 million or 33.4% to \$9.7 million from Q1 2022, largely due to timing and mix of Assist consulting services and growth in SGP clients, contributing to a \$0.7 million increase in NOI to \$4.4 million. The number of third-party beds served by SGP increased to approximately 111,800 at the end of Q1 2023, up 13.1% from Q1 2022 and 1.9% from Q4 2022.

Financial Position

Extendicare is well positioned with strong liquidity, which includes cash and cash equivalents on hand of \$105.4 million and access to a further \$77.0 million in undrawn demand credit facilities as at March 31, 2023.

In addition, Extendicare has undrawn construction financing in the aggregate of \$106.7 million available for its ongoing Stittsville, Sudbury and Kingston LTC redevelopment projects.

Normal Course Issuer Bid

In June 2022, Extendicare launched an NCIB, and as at May 3, 2023, had purchased for cancellation 5,531,980 Common Shares at a cost of \$38.4 million, representing a weighted average price per share of \$6.94. The Company did not purchase any Common Shares during Q1 2023 and acquired 520,800 Common Shares at a cost of \$3.4 million subsequent to March 31, 2023. The NCIB provides Extendicare with the flexibility to purchase up to 7,829,630 Common Shares for cancellation until June 29, 2023. Decisions regarding the quantity and timing of purchases of Common Shares are based on market conditions, share price and the outlook for capital needs, which includes the impact of the announced strategic transactions with Revera and Axiom.

Select Financial Information

The following is a summary of the Company's consolidated financial information for the three months ended March 31, 2023 and 2022.

<i>(unaudited)</i> <i>(thousands of dollars unless otherwise noted)</i>	Three months ended March 31	
	2023	2022⁽²⁾
Revenue	324,712	305,710
Operating expenses	280,148	272,734
NOI⁽¹⁾	44,564	32,976
<i>NOI margin⁽¹⁾</i>	13.7%	10.8%
Administrative costs	13,586	12,773
Adjusted EBITDA⁽¹⁾	30,978	20,203
<i>Adjusted EBITDA margin⁽¹⁾</i>	9.5%	6.6%
Other expense	3,618	640
Earnings from continuing operations	11,580	4,045
per basic and diluted share (\$)	0.14	0.04
Earnings from operating activities of discontinued operations	–	75
Net earnings	11,580	4,120
per basic and diluted share (\$)	0.14	0.04
AFFO⁽¹⁾	20,839	12,518
per basic share (\$)	0.24	0.14
per diluted share (\$)	0.23	0.13
Maintenance capex	2,047	1,412
Cash dividends declared per share	0.12	0.12
Payout ratio⁽¹⁾	49%	89%
Weighted average number of shares (000's)		
Basic	85,437	90,075
Diluted	96,229	101,190

Extendicare's disclosure documents, including its Management's Discussion and Analysis ("MD&A"), may be found on SEDAR's website at www.sedar.com under the Company's issuer profile and on the Company's website at www.extendicare.com under the "Investors/Financial Reports" section.

May Dividend Declared

The Board of Directors of Extendicare today declared a cash dividend of \$0.04 per share for the month of May 2023, which is payable on June 15, 2023, to shareholders of record at the close of business on May 31, 2023. This dividend is designated as an "eligible dividend" within the meaning of the Income Tax Act (Canada).

Conference Call and Webcast

On May 5, 2023, at 11:30 a.m. (ET), Extendicare will hold a conference call to discuss its 2023 first quarter results. The call will be webcast live and archived online at www.extendicare.com under the "Investors/Events & Presentations" section. Alternatively, the call-in number is 1-800-319-4610 or 416-915-3239. A replay of the call will be available approximately two hours after completion of the live call until midnight on May 19, 2023. To access the rebroadcast dial 1-800-319-6413 followed by the passcode 0056#.

About Extendicare

Extendicare is a leading provider of care and services for seniors across Canada, operating under the Extendicare, ParaMed, Extendicare Assist, and SGP Purchasing Partner Network brands. We are committed to delivering quality care throughout the health continuum to meet the needs of a growing seniors population. We operate or provide contract services to a network of 103 long-term care homes and retirement communities (53 owned/50 contract services), provide approximately 9.3 million hours of home health care services annually, and provide group purchasing services to third parties representing approximately 111,800 beds across Canada. Extendicare proudly employs approximately 18,000 qualified, highly trained and dedicated individuals who are passionate about providing high quality care and services to help people live better.

Non-GAAP Measures

Certain measures used in this press release, such as "net operating income", "NOI", "NOI margin", "Adjusted EBITDA", "Adjusted EBITDA margin", "AFFO", and "payout ratio", including any related per share amounts, are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. These measures may differ from similar computations as reported by other issuers and, accordingly, may not be comparable to similarly titled measures as reported by such issuers. These measures are not intended to replace earnings (loss) from continuing operations, net earnings (loss), cash flow, or other measures of financial performance and liquidity reported in accordance with GAAP. Such items are presented in this document because management believes that they are a relevant measure of Extendicare's operating performance and ability to pay cash dividends.

Management uses these measures to exclude the impact of certain items, because it believes doing so provides investors a more effective analysis of underlying operating and financial performance and improves comparability of underlying financial performance between periods. The exclusion of certain items does not imply that they are non-recurring or not useful to investors.

Detailed descriptions of these measures can be found in Extendicare's Q1 2023 MD&A (refer to "Non-GAAP Measures"), which is available on SEDAR's website at www.sedar.com and on Extendicare's website at www.extendicare.com.

The reconciliations for certain non-GAAP measures included in this press release are outlined as follows:

The following table provides a reconciliation of AFFO, which includes discontinued operations, to "net cash from (used in) operating activities", which the Company believes is the most comparable GAAP measure to AFFO.

(unaudited) (thousands of dollars)	Three months ended March 31	
	2023	2022 ⁽²⁾
Net cash (used in) from operating activities	(30,139)	51,337
Add (Deduct):		
Net change in operating assets and liabilities, including interest, and taxes	50,345	(38,335)
Other expense	3,618	640
Current income tax on items excluded from AFFO	(959)	(170)
Depreciation for office leases	(821)	(657)
Depreciation for FFEC (maintenance capex)	(2,333)	(1,862)
Additional maintenance capex	286	450
Principal portion of government capital funding	842	1,115
AFFO	20,839	12,518

The following table provides a reconciliation of “earnings from continuing operations before income taxes” to Adjusted EBITDA and “net operating income”, which excludes discontinued operations.

(unaudited) (thousands of dollars)	Three months ended March 31	
	2023	2022 ⁽²⁾
Earnings from continuing operations before income taxes	15,766	6,264
Add:		
Depreciation and amortization	7,351	8,251
Net finance costs	4,243	5,048
Other expense	3,618	640
Adjusted EBITDA	30,978	20,203
Administrative costs	13,586	12,773
Net operating income	44,564	32,976

Forward-looking Statements

This press release contains forward-looking statements concerning anticipated future events, results, circumstances, economic performance or expectations with respect to Extendicare and its subsidiaries, including, without limitation, statements regarding its business operations, business strategy, growth strategy, results of operations and financial condition, including anticipated timelines, costs and financial returns in respect of development projects, statements relating to the agreements entered into with Revera Inc. and its affiliates (“Revera”) and Axiom Infrastructure Inc. and its affiliates (“Axiom”) in respect of the ownership, operation and redevelopment of LTC homes in Ontario and Manitoba; and in particular statements in respect of the impact of measures taken to mitigate the impact of COVID-19, the availability of various government programs and financial assistance announced in respect of COVID-19, the impact of COVID-19 on the Company’s operating costs, staffing, procurement, occupancy levels and volumes in its home health care business. Forward-looking statements can often be identified by the expressions “anticipate”, “believe”, “estimate”, “expect”, “intend”, “objective”, “plan”, “project”, “will”, “may”, “should” or other similar expressions or the negative thereof. These forward-looking statements reflect the Company’s current expectations regarding future results, performance or achievements and are based upon information currently available to the Company and on assumptions that the Company believes are reasonable. The Company assumes no obligation to update or revise any forward-looking statement, except as required by applicable securities laws. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to differ materially from those expressed or implied in the statements. For further information on the risks, uncertainties and assumptions that could cause Extendicare’s actual results to differ from current expectations, refer to “Risks and Uncertainties” and “Forward Looking-Statements” in Extendicare’s Q1 2023 MD&A filed by Extendicare with the securities regulatory authorities, available at www.sedar.com and on Extendicare’s website at www.extendicare.com. Given these risks and uncertainties, readers are cautioned not to place undue reliance on Extendicare’s forward-looking statements.

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Endnotes

- (1) See the “Non-GAAP Measures” section of this press release and the Company’s Q1 2023 MD&A, which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
- (2) Comparative figures have been re-presented to conform with the Q3 2022 presentation in connection with the classification of strategic transformation costs as “other expense”.