Extendicare

News Release

Extendicare Announces 2023 Second Quarter Results

MARKHAM, ONTARIO, August 10, 2023 – Extendicare Inc. (“Extendicare” or the “Company”) (TSX: EXE) today reported results for the three and six months ended June 30, 2023. Results are presented in Canadian dollars unless otherwise noted.

Second Quarter Highlights

- Home health care volume growth continued, with Q2 average daily volume (“ADV”) of 27,102, an increase of 4.1% from Q1 2023 and 7.7% from Q2 2022.
- Long-term care (“LTC”) occupancy continued to recover, improving to 97.2%, an increase of 60 bps from Q1 2023 and 470 bps from Q2 2022.
- Adjusted EBITDA(1) declined by $3.3 million to $14.8 million; removing one-time items from Q2 2022 of workers compensation rebates of $3.9 million and a recovery of COVID-19 costs of $0.6 million, Adjusted EBITDA increased $1.2 million, reflecting higher home health care ADV and rate increases, partially offset by cost increases in excess of funding in LTC operations and higher administrative costs.
- Construction commenced on a new 256-bed LTC home to replace a 172-bed Class C home in Peterborough, Ontario.

Subsequent Events

- Revera transactions closed on August 1, 2023, adding 56 LTC homes and approximately 7,000 beds to our Extendicare Assist and SGP managed services portfolio.
- The Axium transaction received regulatory approval and is anticipated to close in Q3 2023, subject to customary closing conditions.

“The close of the Revera transactions significantly advances Extendicare’s strategy to focus on LTC and home health care using a less capital-intensive, higher margin business model,” said Dr. Michael Guerriere, President and Chief Executive Officer. “The addition of 56 homes to our managed services segment adds scale and expertise to Extendicare as we enhance delivery of the high-quality care that Canada’s seniors deserve.”

“We are encouraged by the continued growth in our home health care segment, enabled by improvements in staff recruiting and retention”, added Guerriere. “We are still adapting our LTC operations to the end of COVID-19 prevention and containment funding, primarily by reducing the use of higher-cost agency staff. This, together with elevated costs stemming from inflationary pressures and rate increases that lag inflation, are putting pressure on LTC margins.”

Strategic Transactions with Revera and Axium

We closed the previously announced Revera transactions on August 1, 2023, which added 56 LTC homes and approximately 7,000 beds to our higher margin managed services segment. The total aggregate cash consideration was approximately $32.6 million, net of holdbacks, plus assumption of approximately $37.1 million in debt (Extendicare’s share of joint venture debt).

Subsequent to quarter end, regulatory approval was also received for the previously announced transaction with Axium to form a joint venture, Axium Extendicare LTC LP, to redevelop certain of Extendicare’s Class C LTC homes. Extendicare and Axium amended the previously announced purchase and sale agreement to include our 256 bed Peterborough LTC redevelopment project that commenced construction in May 2023, increasing the total number of homes and beds to be acquired by the limited partnership to four Class C home redevelopment projects comprising an aggregate of 960 funded LTC beds currently under construction in Sudbury, Kingston, Stittsville and Peterborough, Ontario. The Axium transaction is anticipated to close in Q3 2023, subject to customary closing conditions. Axium will own an 85% interest in the joint venture with Extendicare retaining a 15% managed interest. The Company will continue to undertake all development activities in respect of the joint venture homes and will provide managed services to operate the homes upon completion of construction.

Commitment to Redevelopment in Ontario

Extendicare commenced construction of our new Peterborough 256-bed LTC home during 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.

We are targeting to start an additional project in 2023 under the enhanced capital funding subsidy that is in place until August 31, 2023. While enhancements to the capital funding subsidies beyond August 2023 have not been announced, we continue to advance the balance of our redevelopment portfolio to be ready to make use of any future enhancements to the Capital Funding Program that may be made available, including one additional project that could be ready to start construction in 2023, subject to construction tender results and regulatory and municipal approvals.

Home Health Care Volume Growth

In the second quarter, we saw growth in ADV and margin recovery, demonstrating continued strong demand for services and our growing capacity as pandemic impacts on the labour market moderate. ADV in the second quarter was 27,102, marking a 4.1% increase relative to Q1 2023 and up 7.7% from Q2 2022.

The investments we have made in recruiting and retention programs and technology is expected to support continued growth of our home health care segment in the near term and beyond. As pandemic impacts subside, we expect the historical seasonality in our ADV and staffing levels to return, with our third quarter typically experiencing a drop in sequential ADV as vacations temporarily lower staffing capacity and certain client programs are suspended during the summer months.

Q2 2023 Financial Highlights (all comparisons with Q2 2022[2])

- Revenue increased 3.7% or $11.0 million to $307.5 million, driven primarily by LTC flow-through funding increases, timing of spend under the flow-through care envelopes, higher LTC occupancy, home health care ADV growth of 7.7% and billing rate increases, and growth from managed services, partially offset by lower COVID-19 funding of $17.6 million.
- NOI[1] decreased $1.9 million to $28.5 million; if the impact of one-time items in Q2 2022 of workers compensation rebates of $3.9 million and COVID-19 recoveries of $0.5 million are excluded, NOI increased $1.6 million, reflecting higher home health care ADV and rate increases, partially offset by cost increases in excess of funding in LTC operations.
- Adjusted EBITDA[1] declined by $3.3 million to $14.8 million, reflecting the decrease in NOI noted above, and higher administrative costs of $1.4 million.
- Other expense of $1.4 million was up $0.4 million, reflecting higher year-over-year strategic transformation costs related to the Revera and Axium transactions.
- Earnings from continuing operations of $2.0 million decreased $1.6 million, driven by the after-tax impact of the decline in Adjusted EBITDA and increase in other expense, partially offset by lower depreciation, amortization and net finance costs.
- AFFO[1] was $9.0 million ($0.11 per basic share) compared with $9.6 million ($0.11 per basic share). Excluding the impact to AFFO in Q2 2022 of the prior period workers compensation rebates net of unfunded COVID-19 costs, AFFO per basic share was up $0.03 from $0.08 in the prior year.

Six Months 2023 Financial Highlights (all comparisons with Six Months 2022[2])

- Revenue increased 5.0% or $30.0 million to $632.2 million, driven primarily by LTC flow-through funding increases, timing of spend under the flow-through care envelopes, prior period LTC funding of $3.7 million, higher LTC occupancy, home health care ADV growth of 6.9% and billing rate increases, and growth from managed services, partially offset by lower COVID-19 funding of $43.5 million.
- NOI[1] improved $9.7 million to $73.0 million; excluding impact of a higher recovery of COVID-19 costs of $4.0 million and the benefit of prior period LTC funding of $3.7 million, net of workers compensation rebates of $3.9 million received in Q2 2022, NOI improved by $5.9 million, reflecting 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 $7.5 million to $45.8 million, reflecting the improvement in NOI noted above, partially offset by higher administrative costs of $2.2 million.
- Other expense of $5.0 million was up $3.4 million, reflecting higher year-over-year strategic transformation costs related to the Revera and Axium transactions.
- Earnings from continuing operations of $13.5 million increased $6.0 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 $29.9 million ($0.35 per basic share) was up from $22.1 million ($0.25 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, prior period LTC funding, and workers compensation rebates, AFFO per basic share increased $0.06 to $0.19 from $0.13 in the 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 and six months ended June 30, 2023 and 2022.

(unaudited)	Three months ended June 30						Six months ended June 30					
(millions of dollars	2023			2022			2023			2022		
unless otherwise noted)	Revenue	NOI	Margin	Revenue	NOI	Margin	Revenue	NOI	Margin	Revenue	NOI	Margin
Long-term care	**182.4**	**13.9**	***7.6%***	181.6	17.6	*9.7%*	**390.0**	**47.6**	***12.2%***	381.4	44.2	*11.6%*
Home health care	**116.3**	**10.1**	***8.6%***	106.8	8.2	*7.7%*	**223.8**	**16.5**	***7.4%***	205.4	10.9	*5.3%*
Managed services	**8.8**	**4.5**	***51.5%***	8.2	4.5	*54.9%*	**18.5**	**8.9**	***48.2%***	15.4	8.2	*53.1%*
	307.5	**28.5**	***9.3%***	296.6	30.3	*10.2%*	**632.2**	**73.0**	***11.6%***	602.3	63.3	*10.5%*

Note: Totals may not sum due to rounding.

Long-Term Care

The average occupancy of our LTC homes has continued to recover, improving to 97.2% in Q2 2023, up 470 bps from 92.5% in Q2 2022 and 60 bps from 96.6% in Q1 2023.

NOI and NOI margin in Q2 2023 were $13.9 million and 7.6%, respectively, down from $17.6 million and 9.7% in Q2 2022. Excluding the impact in Q2 2022 of a recovery of COVID-19 costs of $0.9 million and workers compensation rebates of $1.8 million, NOI declined by $1.1 million, reflecting funding enhancements and increased occupancy offset by higher operating costs.

Home Health Care

Home health care ADV of 27,102 in Q2 2023 was up 4.1% from Q1 2023 and 7.7% from Q2 2022.

Revenue was $116.3 million in Q2 2023, up 8.9% from Q2 2022, driven by growth in ADV, billing rate increases and $2.7 million in funding to support wage enhancements, partially offset by reduced COVID-19 funding of $4.2 million.

NOI and NOI margin were $10.1 million and 8.6%, respectively, in Q2 2023, compared to $8.2 million and 7.7% in Q2 2022. Excluding the impact of unfunded COVID-19 costs of $1.4 million year-over-year and workers compensation rebates of $2.1 million received in Q2 2022, NOI improved by $2.5 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. NOI margins excluding the impact of unfunded COVID-19 costs and the workers compensation rebates improved to 8.6% in Q2 2023 from 7.3% in Q2 2022.

Managed Services

Revenue increased by $0.7 million or 8.1% to $8.8 million from Q2 2022, largely due to growth in SGP clients and mix of Assist consulting services, contributing to a $0.1 million increase in NOI to $4.5 million. The number of third-party beds served by SGP increased to approximately 115,500 at the end of Q2 2023, up 12.9% from Q2 2022 and 3.3% from Q1 2023.

In connection with the closing of the Revera transactions, which marks a key milestone in our strategic transformation, the Company is redefining its key performance indicators for the managed services segment starting August 1st, to better reflect the range of services we provide to our clients. We will classify our services into two categories: management contracts and consulting and other services, including policy subscriptions. Two versions of management contracts are offered to clients: (i) a fully managed service providing management oversight over the day-to-day operations of the homes supported by full back-office services, including HR, finance and IT and (ii) a back-office services only offering.

During Q2 2023 and subsequent to quarter end, certain of Extendicare Assist's clients moved or notified the Company of their intent to move to self-management or close their homes. Also subsequent to quarter end, we entered into new fully managed services contracts with two additional homes representing 340 beds that were former third-party managed clients of Revera. As a result of these events and the closing of the Revera transactions, Extendicare Assist has management contracts with 73 homes comprising 9,962 beds and provides a further 53 homes with consulting and other services. Third-party beds served by SGP increase to 122,785.

Financial Position

Extendicare is well positioned with strong liquidity, which includes cash and cash equivalents on hand of $89.3 million and access to a further $80.2 million in undrawn demand credit facilities as at June 30, 2023. In addition, Extendicare had undrawn construction financing in the aggregate of $99.6 million available for its ongoing Stittsville, Sudbury and Kingston LTC redevelopment projects.

Subsequent to quarter end, the aggregate cash consideration paid, net of holdbacks, of approximately $32.6 million on closing of the Revera transactions is expected to be offset by the estimated net proceeds expected from closing the Axium transaction anticipated by the end of Q3 2023. In addition, the Axium transaction includes assumption of all LTC redevelopment construction financing facilities and related construction contracts.

Normal Course Issuer Bid

On June 30, 2023, the Company renewed its NCIB to purchase for cancellation up to 7,273,707 Common Shares until June 29, 2024. Decisions regarding the quantity and timing of purchases of Common Shares are based on market conditions, share price and the outlook for capital needs.

Under its prior NCIB that expired on June 29, 2023, the Company purchased 5,638,680 Common Shares at a cost of $39.1 million, representing a weighted average price per share of $6.94, of which

627,500 were acquired in 2023 at a cost of $4.1 million, representing a weighted average price per share of $6.53.

Select Financial Information

The following is a summary of the Company's consolidated financial information for the three and six months ended June 30, 2023 and 2022.

(unaudited) *(thousands of dollars unless otherwise noted)*	**Three months ended June 30** 2023	2022[2]	**Six months ended June 30** 2023	2022[2]
Revenue	**307,535**	296,585	**632,247**	602,295
Operating expenses	**279,065**	266,244	**559,213**	538,978
NOI[1]	**28,470**	30,341	**73,034**	63,317
NOI margin[1]	**9.3%**	10.2%	**11.6%**	10.5%
Administrative costs	**13,694**	12,284	**27,280**	25,057
Adjusted EBITDA[1]	**14,776**	18,057	**45,754**	38,260
Adjusted EBITDA margin[1]	**4.8%**	6.1%	**7.2%**	6.4%
Other expense	**1,402**	975	**5,020**	1,615
Earnings from continuing operations	**1,951**	3,510	**13,531**	7,555
per basic and diluted share *($)*	**0.02**	0.04	**0.16**	0.08
(Loss) earnings from operating activities of discontinued operations	**–**	(37)	**–**	38
Gain on sale of discontinued operations, net of tax	**–**	67,920	**–**	67,920
Net earnings	**1,951**	71,393	**13,531**	75,513
per basic and diluted share *($)*	**0.02**	0.79	**0.16**	0.83
per diluted share *($)*	**0.02**	0.72	**0.16**	0.78
AFFO[1]	**9,037**	9,624	**29,875**	22,142
per basic share *($)*	**0.11**	0.11	**0.35**	0.25
per diluted share *($)*	**0.11**	0.11	**0.33**	0.25
Maintenance capex	**2,728**	2,700	**4,775**	4,112
Cash dividends declared per share	**0.12**	0.12	**0.24**	0.24
Payout ratio[1]	**112%**	112%	**68%**	97%
Weighted average number of shares *(000's)*				
Basic	**85,212**	90,139	**85,324**	90,107
Diluted	**96,009**	101,102	**96,273**	101,108

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.

August Dividend Declared

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

Conference Call and Webcast

On August 11, 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 August 25, 2023. To access the rebroadcast dial 1-800-319-6413 followed by the passcode 0291#.

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 managed services to a network of 126 long-term care homes and retirement communities (53 owned/73 managed services), provide approximately 9.5 million hours of home health care services annually, and provide group purchasing services to third parties representing approximately 122,785 beds across Canada. Extendicare proudly employs approximately 22,000 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 Q2 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 June 30** **2023**	**2022**[(2)]	**Six months ended June 30** **2023**	**2022**[(2)]
Net cash from (used in) operating activities	**27,160**	14,318	**(2,979)**	65,655
Add (Deduct):				
Net change in operating assets and liabilities, including interest, and taxes	**(16,311)**	(3,061)	**34,034**	(41,396)
Other expense	**1,402**	975	**5,020**	1,615
Current income tax on items excluded from AFFO	**(371)**	(257)	**(1,330)**	(427)
Depreciation for office leases	**(776)**	(753)	**(1,597)**	(1,410)
Depreciation for FFEC (maintenance capex)	**(2,157)**	(2,802)	**(4,490)**	(4,664)
Additional maintenance capex	**(571)**	102	**(285)**	552
Principal portion of government capital funding	**661**	1,102	**1,503**	2,217
AFFO	**9,037**	9,624	**29,876**	22,142

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)	Three months ended June 30		Six months ended June 30	
(thousands of dollars)	**2023**	**2022**(2)	**2023**	**2022**(2)
Earnings from continuing operations before income taxes	**3,105**	4,646	**18,871**	10,910
Add:				
Depreciation and amortization	**7,173**	8,058	**14,524**	16,309
Net finance costs	**3,096**	4,378	**7,339**	9,426
Other expense	**1,402**	975	**5,020**	1,615
Adjusted EBITDA	**14,776**	18,057	**45,754**	38,260
Administrative costs	**13,694**	12,284	**27,280**	25,057
Net operating income	**28,470**	30,341	**73,034**	63,317

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 Axium Infrastructure Inc. and its affiliates ("Axium") in respect of the ownership, operation and redevelopment of LTC homes in Ontario; 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 Q2 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 Q2 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".