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EXE-TSX

Rating:	Buy
Target:	$8.00
Price:	$6.64
Return (inc yield):	27.7%
Valuation:	10x AFFO, 10x EV/EBITDA (F2022 estimates)

Market Data

Basic Shares O/S (M)	89.5
Market capitalization ($M)	581.4
Enterprise Value ($M)	963.5
Cash & equiv ($M)	182.5
Total debt ($M)	564.6
52 Week Range	$4.90/$7.93
Avg. Weekly Volume (M)	1.63
Fiscal Year End	Dec-31
Annual dividend per share	$0.48
Dividend yield (%)	7.1%

Financial Metrics

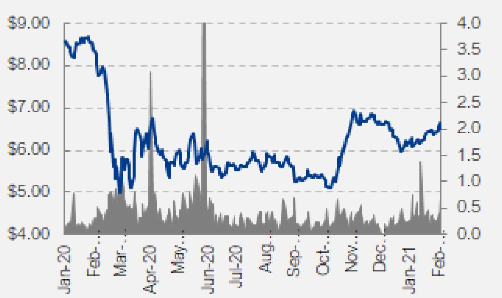
In C$	2020A	2021E	2022E
Rev, LTC ($M)	715.6	770.0	794.1
Rev, homecare ($M)	368.2	392.1	394.1
Rev, retire res ($M)	47.8	44.4	44.4
Rev, other ($M)	26.8	27.0	27.2
Adj EBITDA ($M)	41.7	70.7	99.6
Adj EBT ($M)	59.5	32.1	34.1
Adj net inc ($M)	43.2	24.0	25.6
EPS (basic)	$0.48	$0.27	$0.29
Adj AFFO (basic)	$0.88	$0.62	$0.65
Price/AFFO	*7.5x*	*10.7x*	*10.3x*
EV/EBITDA	*23.1x*	*13.6x*	*9.7x*

Quarterly Data (Cdn LTC/homecare)

In C$M		Q1	Q2	Q3	Q4
REVENUE	2020A	271.8	281.9	296.8	307.7
	2021E	306.9	307.4	305.8	313.4
EBITDA	2020A	19.9	8.2	13.0	0.7
	2021E	12.0	17.5	20.4	20.7

Company Description

Extendicare is a Canadian long-term care, retirement residence & home-care service provider, with operations in four Canadian provinces & long-term care/home-care focused mainly in ON/AB



Source: Consensus data- Refinitiv, Forecasts/Estimates - Leede Jones Gable

Strong FQ420 AFFO Mitigates Margin Softness in Core LTC-Homecare Operations, but Operating Metrics Trending Well into H121 - BUY

ON-based eldercare services firm Extendicare reported FQ420 financial data for the December-end period. As in most recent quarters during which pandemically-compelled activities have impacted operations, operating income/margin continued to trend down for eldercare operations. Notably, for the first time in our coverage history, home healthcare generated an operating loss and thus negative operating income. This was however offset by operating income stability in retirement residence operations and Extendicare Assist/SGP Purchasing Partners, both of which generated operating income/margin consistent with pre-pandemic norms.

FQ420 AFFO comfortably funded quarterly dividend at an attractive pay-out ratio, but supplemental CEWS funding was required to get there and thus to supplement funding shortfalls for core long-term care/home healthcare operations. Extendicare reported strong FQ420 AFFO of $21.8M/$0.24/shr (49.3% payout ratio) and thus well above actual dividend in the period of $10.8M/$0.12/shr. But it required $40.4M in Canadian Emergency Wage Subsidy (CEWS) pandemic relief funding to get there, just as it did in FQ320 when AFFO was $42.8M/$0.48/shr (25.1% payout ratio), though a more substantial CEWS funding infusion of $50.8M was required to support operations. Maintenance capex impact on AFFO of $5.7M was substantially above FQ1-to-FQ3 level, but this is typical of FQ4 during which Extendicare's maintenance capex tends to intensify near end-of-year.

We are less inclined to reflect cautiously on how CEWS funding impacts EBITDA/AFFO for Extendicare than we might otherwise be for other coverage stocks, even those in healthcare services as Extendicare is. This is because the firm's main revenue source for its core LTC/home healthcare operations is government-derived anyway, as is its pandemic relief funding. But for modelling purposes and to sustain some measure of historic perspective on Extendicare's division-specific operating income/margin, we have separately recorded CEWS funding below the EBITDA line. This allows us to comment directly on how LTC and home healthcare performed in FQ420 in comparison to prior periods when CEWS was obviously not forthcoming.

Our investment thesis assumes that Extendicare can eventually re-establish historic operating margins in long-term care/home healthcare, margins that unsurprisingly are well above F2020 level. Staying with general themes before we shift to division-specific commentary, Extendicare's pandemic-related costs were again above supplemental funding support specifically for the firm's long-term care operations, ($8.7M) specifically in FQ420 and cumulatively ($24.2M) for F2020. Supplemental long-term care funding of $44.4M was countered by $74.5M in new pandemic-related costs, and this delta will need to narrow through new funding formulas in future quarters. Long-term care operating income/margin during FQ220-to-FQ420 were at levels not previously seen during our coverage history of the firm, at least not since US operations were divested in FQ414. We were encouraged to hear that $6.6M in new CEWS funding was already deployed to offset FQ121 losses, providing us with some transparency on how AFFO will be mitigated in the current quarter.

Exhibit 1. Financial Summary for Extendicare

(C$M, except per share & ratio data)	2013A	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021E	2022E
Revenue, SNFs	$568.9	$583.7	$594.2	$608.6	$616.9	$632.5	$643.8	$715.6	$770.0	$794.1
Revenue, ParaMed	$174.1	$185.5	$195.4	$215.2	$220.7	$222.3	$214.0	$188.2	$203.1	$205.1
Revenue, Revera home	$0.0	$0.0	$131.6	$199.2	$215.0	$209.0	$209.0	$180.0	$189.0	$189.0
Revenue, Assist liv	$0.0	$0.0	$1.2	$15.5	$20.7	$33.4	$41.3	$47.8	$44.4	$44.4
Revenue, other Cdn ops	$10.0	$12.8	$15.6	$18.6	$18.8	$22.3	$23.9	$26.8	$27.0	$27.2
Revenue, US ops	$31.0	$34.2	$41.7	$11.8	$5.3	$0.4	$0.0	$0.0	$0.0	$0.0
Consolidated revenue [1,2]	$784.0	$816.2	$979.6	$1,068.9	$1,097.3	$1,120.0	$1,132.0	$1,158.3	$1,233.4	$1,259.8
Rev growth (%)	*7.5%*	*4.1%*	*20.0%*	*9.1%*	*2.7%*	*2.1%*	*1.1%*	*2.3%*	*6.5%*	*2.1%*
EBITDA [3]	**$69.6**	**$74.7**	**$86.4**	**$92.9**	**$97.6**	**$94.2**	**$91.1**	**$41.7**	**$70.7**	**$99.6**
EBITDA margin (%)	*8.9%*	*9.1%*	*8.8%*	*8.7%*	*8.9%*	*8.4%*	*8.0%*	*3.6%*	*5.7%*	*7.9%*
EBITDA growth (%)	*(3.7%)*	*7.4%*	*15.8%*	*7.5%*	*5.0%*	*(3.4%)*	*(3.3%)*	*(54.2%)*	*69.4%*	*41.0%*
Non-oper exp (inc D&A)	*$18.8*	*$32.9*	*$18.7*	*$28.0*	*$27.0*	*$34.1*	*$35.7*	*$39.7*	*$34.3*	*$35.1*
Interest expense	*$34.5*	*$32.9*	*$31.1*	*$27.0*	*$28.1*	*$27.6*	*$28.7*	*$28.5*	*$28.4*	*$28.4*
Tax expense	*$6.1*	*$4.5*	*$13.5*	*$7.4*	*$10.9*	*$4.2*	*$7.2*	*$16.3*	*$8.0*	*$8.5*
Adjusted EPS (basic) [1]	$0.12	$0.05	$0.26	$0.35	$0.36	$0.09	$0.19	$0.48	$0.27	$0.29
Adjusted AFFO	$0.38	$0.39	$0.51	$0.75	$0.66	$0.65	$0.59	$0.88	$0.62	$0.65
Dividend per share	$0.48	$0.48	$0.48	$0.48	$0.48	$0.48	$0.48	$0.48	$0.48	$0.48
Implied payout ratio (%)	*126%*	*123%*	*94%*	*64%*	*73%*	*73%*	*81%*	*54%*	*77%*	*74%*
P/E ratio	*56.6x*	*134.8x*	*25.2x*	*19.2x*	*18.6x*	*72.6x*	*34.7x*	*13.8x*	*24.7x*	*23.2x*
Pro forma EV-to-EBITDA [2,3]	*13.9x*	*12.9x*	*11.1x*	*10.4x*	*9.9x*	*10.2x*	*10.6x*	*23.1x*	*13.6x*	*9.7x*
Price/AFFO	*17.5x*	*17.0x*	*13.1x*	*8.9x*	*10.1x*	*10.2x*	*11.3x*	*7.5x*	*10.7x*	*10.3x*

[1,2,3] EV includes FQ420 cash of $182.5M, FQ420 total debt of $564.6M; historic F2013-to-F2014 data excludes US long-term care (LTC) operations divested to Formation Capital during FQ414

Source: Historical data – Company Information (Extendicare), Forecasts/Estimates – Leede Jones Gable

Pandemic-related costs and occupancy downdraft are contributing to transiently (and unsurprisingly) soft margins in this division. Since FQ115, Extendicare tended to generate long-term care operating margins in the 10%-to-11% range in FQ1/FQ4, below the 12%-13% range it typically generated in FQ2-FQ3, with the delta mostly attributable to higher utility costs incurred in the winter months. FQ120 operating margin of 11.5% was in line with prior years due to limited pandemic impact on the quarter until near quarter-end, but with operating margin then coming in at 6.2% in FQ220, at $7.0M in FQ320, and then hitting its recent nadir in FQ420 at 4.8%. Predictably, part of this margin decline is occupancy-related, with new resident intake clearly slowing due to pandemic considerations. Consolidated FQ420 nursing home occupancy was 87.7% (a bit lower in ON at 85.3%), down from 90% in FQ320 (87.9% in ON), from 93.5% in FQ220 (92.9% in ON) and from a more typical occupancy level of 97% (97.6% in ON) in FQ120.

Until pandemic considerations impacted F2020 occupancy data, we had never seen a financial period when Extendicare's long-term care occupancy was below 97% (waiting lists for available beds are far too long for unoccupied beds to remain unoccupied for more than a few days, if that), and that occupancy threshold is usually necessary to receive full funding from the Ontario government anyway. Encouragingly (and necessarily), the Ontario government has temporarily eliminated this occupancy-based funding provision at least until end-of-FQ121, but it seems probably (and necessary) for the province to extend this timeline while pandemic logistics are still relevant to operations.

Supplemental long-term care funding is flowing through the revenue line, but not to a degree that historic long-term care operating margins are yet achieved. It is clear from Extendicare's quarterly long-term care revenue that its per-bed funding levels have increased in recent quarters, since we believe that its resident capacity had been relatively stable over the last several quarters (no major acquisitions or new facility construction projects were completed during the period, and resident capacity at end-of-F2019 was 13,849, 10,649 in ON). While revenue has increased steadily from $156.2M in FQ119 (96.9% occupancy, implying per diem revenue per patient of $126.65) and was only slightly higher in FQ120 at $160.2M (97.0% occupancy, per diem revenue per patient of $1312.08), revenue has been scaling upward sequentially to $192.1M in FQ420 (87.7% occupancy, per diem of $171.93).

Revenue augmentation from government sources has clearly been insufficient to offset new pandemic costs that have correlated directly with negatively-trending long-term care operating income, from $20.5M/12.3% in FQ419 down to $9.2M/4.8% in FQ420. But as we stated in our initial commentary above, we could notionally allocate a proportion of CEWS funding into Extendicare's nursing care operations. If we did so, operating income/margin compression for this division would be less dramatic, and supportive of the positive AFFO just reported. Long-term care in all major geographies is undergoing pandemic-motivated government review of service logistics. And on that theme, we know that in Ontario, the LTC Staffing plan will be deploying $1.9B to increase hours of direct staff-to-resident contact up to four hours per day by 2025, certainly a laudable goal as one way to enhance quality of care in this industry. We will assess impact of this initiative on our long-term care revenue/operating income projections as the program matures in coming years.

Exhibit 2. Valuation Summary for Extendicare

AFFO multiple, F2022	6x	8x	10x	11x	12x	14x
Implied unit price [1]	$3.88	$5.17	$6.46	$7.10	$7.75	$9.04
EV-to-EBITDA multiple, F2022	**6x**	**8x**	**10x**	**12x**	**14x**	**16x**
Implied unit price [1,2]	$2.41	$4.63	$6.86	$9.08	$11.31	$13.53
One-year EXE target price [2]				*$8.09*		
Implied dividend yield (%)				*5.9%*		
Current dividend yield (%)				*7.2%*		

[1] Based on F2022 EBITDA forecast of $99.6M & F2022 AFFO forecast of $0.65, using 12x EV/EBITDA multiple & 11x AFFO, as ascribed to Extendicare's dividend-bearing healthcare services peers

[2] EV includes FQ420 cash of $182.5M; LT debt of $564.6M

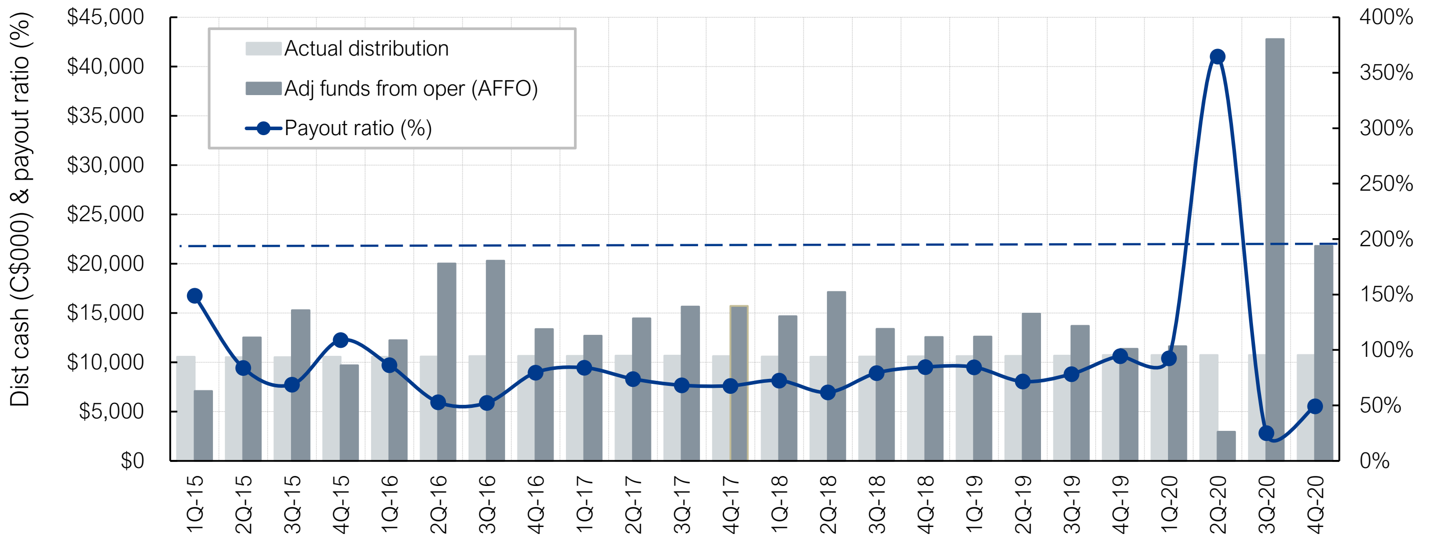
Source: Historical data – Company Information (Extendicare), Forecasts/Estimates – Leede Jones Gable

Home healthcare operating income is lagging other eldercare divisions based on unique staffing logistics, but demand for home healthcare is growing and not shrinking, and Extendicare's industry leadership should fuel its recovery in pending quarters. Shifting to home healthcare operations at ParaMed, this division like its long-term care counterpart was cumulatively underfunded during F2020 by the conventional mechanisms that this industry is funded by ($10.3M), though this shortfall is clearly substantially offset by CEWS funding just described. When taken together with Extendicare's $12.0M investment in cloud-based home healthcare scheduling/work process infrastructure last year, the delta between home healthcare operating income in F2020 vs F2019 (was $31.3M in F2019 vs $8.7M in F2020) is largely explained. The operational efficiencies that this new IT network was expected to confer has clearly been obscured by pandemic activities, but we are optimistic that cost efficiencies on staffing/workflow can be realized in coming quarters.

Operating income/margin in what are conventionally secondary operations for Extendicare were comparatively strong, and thus highly supportive of AFFO in the period. We will not dwell on retirement residence or consulting/group purchasing activities in the quarter other than to indicate that operating income contribution was paradoxically above that of Extendicare's long-term care/home healthcare operations at $7.9M vs $7.5M, respectively, and this is the first occurrence of this dynamic in our EXE coverage history. Home healthcare loss of ($1.7M), itself a unique occurrence in our coverage history, is a key factor in this dynamic, and we are of course excluding $40.4M in CEWS funding from home healthcare operating income.

But our key observation here is that retirement residence operations (generated operating income/margin of $3.3M/27.6%) and consulting/group purchasing operations ($4.6M operating income/63.2% margin) in fact performed at near historic highs on this measure, thus mitigating risk to FQ420 AFFO and to our F2021/22 AFFO forecasts. Occupancy in Extendicare's mature retirement residences (that is, those that have not opened in the last quarter or two) was actually quite strong by historic standards and though down sequentially to 90.7% in the period, is up incrementally to 91.2% as of this writing. This is a stabilized occupancy level that our model assumes throughout F2021/22.

Exhibit 3. Historic AFFO and Pay-out Ratio for Extendicare



Source: Historical data – Extendicare, modified for presentation by Leede Jones Gable

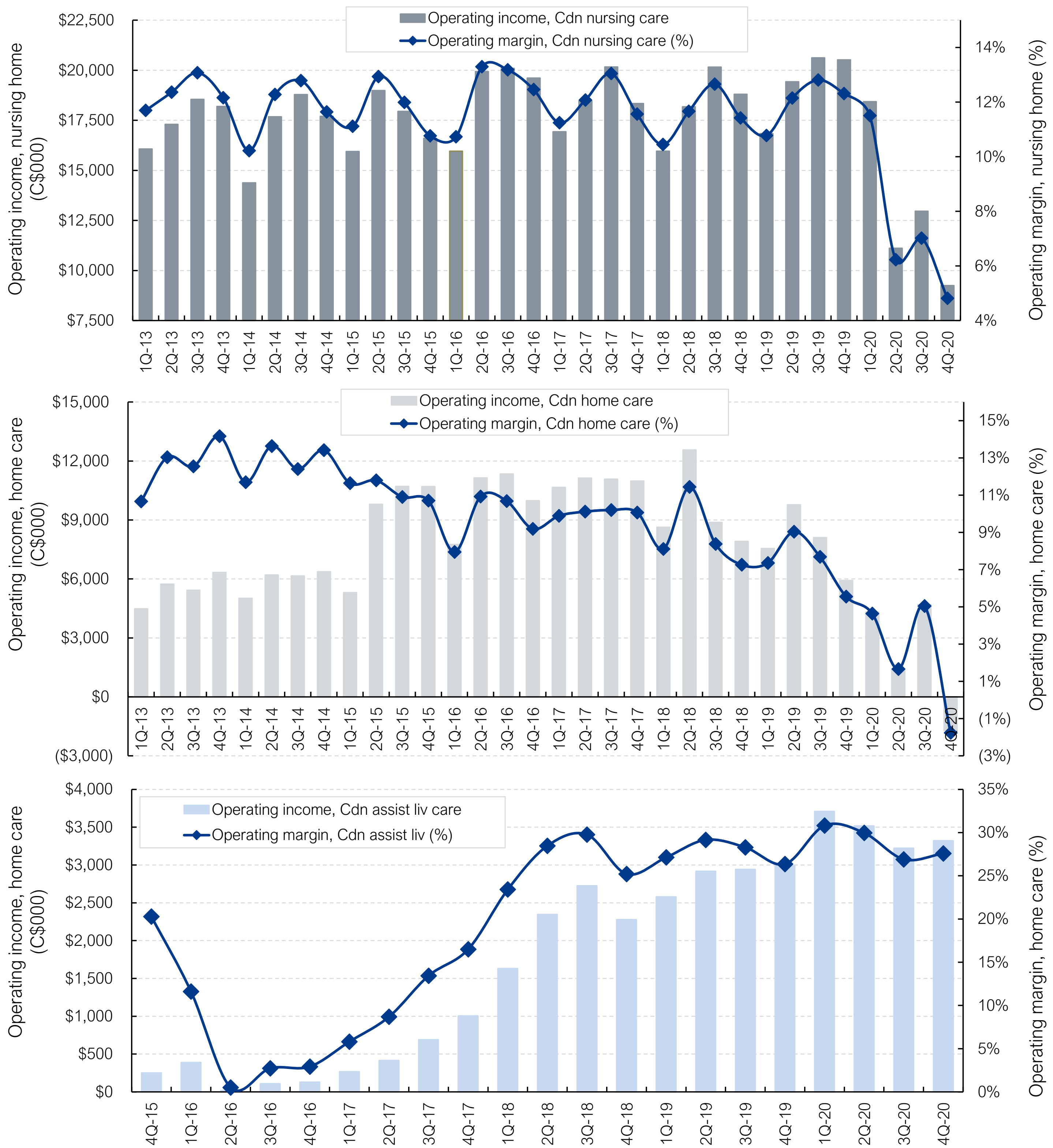
Funding shortfalls in long-term care/home healthcare flow directly to EBITDA compression, but CEWS funding obviously helps soften impact on AFFO. Shifting to consolidated operations, cumulative FQ420 revenue/EBITDA/margin of $307.7M/$0.7M/0.2% does not on its own merit independent commentary from that provided above for long-term care or home healthcare, other than to state that we believe this represents a floor and not a ceiling for how well Extendicare's eldercare operations can perform in future periods. Corporate costs were up in the quarter, to $14.8M (4.8% of revenue) from $12.2M last quarter and $9.3M last year, and this clearly had a supplemental impact on EBITDA/margin in the period. Our model assumes that corporate costs will trend back to <4% of consolidated revenue by F2022. As stated above, Extendicare incorporated its CEWS funding in its EBITDA calculation and for our own purposes, we chose to allocate that funding below the EBITDA line in our model, though we did incorporate it into our AFFO calculation, since if obviously provided necessary capital to fund dividend payout in the period. We believe that CEWS funding will continue to be necessary at least until vaccination activities conclude and evidence of eradicating viral spread in eldercare environments is clear.

COVID-19 vaccination is rolling out well, and should conclude in coming weeks. We are encouraged that long-term care facilities are being prioritized for COVID-19-targeted vaccination, as all vulnerable populations should be, and that as of last week, 91% of all nursing home residents in ON-AB-MB-SK have received at least one injection of either Pfizer's/BioNTech's (PFE-NY, NR; BNTX-Q, NR) mRNA-based lipid-formulated surface spike protein-targeted Tozinameran or Moderna's (MRNA-Q, NR) similar formulation mRNA-1273, both of which have been Health Canada-approved since Dec/20. Last week, the Ontario government indicated that 62,000 of 71,000 long-term care residents (87.3%) in the province had received at least one vaccine dose, so Extendicare is proceeding on this initiative at slightly above Ontario average across its national long-term care network.

Both formulations seem to require a second booster dose, as many vaccines do, and 65% of Extendicare's long-term care residents have received this supplemental dose, giving us confidence that the firm's nationwide long-term care resident population could be fully-immunized against this respiratory viral pathogen by end-of-FQ121, or shortly thereafter. The firm's also-vulnerable retirement residence community is also advancing well on vaccination schedules, and as of this writing 71% of Extendicare's retirement residence tenants in ON-SK have received at least one dose of either Tozinameran or mRNA-1273.

Independent of existing Health Canada-approved anti-COVID-19 therapies, several alternatives are on the horizon, including alternative vaccine formulations and orally-active Rx therapies for already-infected individuals. Alternative vaccine formulations could be available imminently to offset any logistical constraints on vaccine deployment. Examples include AstraZeneca's (AZN-L, NR)/Oxford University's adenovirus-based spike protein-encoding ChAdOx1-S (which was quite literally Health Canada-approved as Extendicare was presenting its FQ420 update) and J&J's (JNJ-NY, NR)/Janssen's similarly-designed adenovirus-based Ad26.COV2.S that performed well with single dosing in an 805-patient Phase I/II trial published in Jan/21 in the *New England Journal of Medicine*. Since the latter was just FDA-approved at month-end, we would expect Health Canada endorsement to swiftly follow before end-of-FQ121.

Exhibit 4. Quarterly Operating Income & Margin Data for Extendicare, by Division



Source: Historical data – Extendicare, modified for presentation by Leede Jones Gable

Importantly, the COVID-19 pharmacopeia is expanding rapidly beyond longer-term vaccination strategies, and alternative therapies that have already been Health Canada-approved, and to which Extendicare should have access. These include Gilead Sciences' (GILD-Q, NR) small-molecule anti-retroviral drug Veklury/remdesivir (Health Canada-approved in Jul/20), Eli Lilly (LLY-NY, NR)/AbCellera's anti-COVID-19 spike protein monoclonal antibody (mAb) drug bamlanivimab (Health Canada-approved in

Nov/20, and supplemental Phase III data from the 5,000-patient long-term care-focused BLAZE-2 trial are on the horizon this year), and Dr. Reddy Laboratories' (RDY-NY, NR) RNA polymerase inhibitor drug Avigan/favipiravir (Health Canada review is ongoing, and US-based testing is ongoing in collaboration with NS-based **Appili Therapeutics (APLI-T, Spec BUY, PT $2.75)** in the 826-patient Phase III PRESECO trial, data in early FQ221). The aforementioned therapies are all positive options for mitigating COVID-19 symptoms in already-infected individuals.

C-level nursing home refurbishment investments have been slow to materialize, but pace could accelerate in F2021 and possibly for pandemically-justified reasons. Extendicare has been able to advance on its C-level nursing home refurbishment projects in Ontario at a slower pace than we originally projected. And this is undoubtedly due to timelines to negotiating suitable funding economics from the Ontario Ministry of Health & Long-Term Care for any refurbishment investments that Extendicare deploys into this collective initiative. Still, Extendicare does have one $62.3M investment (net of a $5.4M development grant when the project is completed) to build out a 256-bed facility in Sudbury to replace its existing 234-bed C-level facility in that geography and a 192-bed facility in Kingston is on pace to break ground in FQ221.

Exhibit 5. Comparable Companies for Extendicare

Company	Curr.	Sym.	Shares Out. (M)	Share Price 26-Feb-21	Mkt Cap ($M)	Ent. Value ($M)	EV/EBITDA (T12)	EV/EBITDA (FY1)	EV/EBITDA (FY2)	Price/Earnings (T12)	Price/Earnings (FY1)	Price/Earnings (FY2)	Price/FFO (FY1)	Price/FFO (FY2)	Dividend	Yield (%)
Canadian healthcare trusts or dividend-paying healthcare firms																
Chartwell REIT	CAD	CSH.UN	215.8	$10.95	2,363	4,850	18.0x	18.6x	17.3x	NA	NA	NA	14.8x	14.4x	$0.54	4.9%
Invesque [1]	USD	IVQ	55.9	$2.43	136	1,212	NA	NA	NA	NA	3.4x	NA	3.4x	3.7x	$0.90	NA
K-Bro Linen	CAD	KBL	10.7	$36.96	395	497	16.8x	12.7x	11.7x	NA	NA	35.2x	NA	NA	$1.15	3.1%
Medical Facilities [2]	CAD	DR	31.1	$7.00	218	357	8.0x	6.7x	7.3x	5.8x	31.0x	36.9x	NA	NA	$0.28	4.0%
Northwest Healthcare Properties	CAD	NWH.UN	193.1	$12.54	2,422	5,243	20.2x	19.1x	16.8x	14.1x	14.4x	19.6x	15.0x	13.6x	$0.80	6.4%
Sienna Senior Living	CAD	SIA	67.0	$14.03	941	1,878	14.9x	17.2x	15.4x	NA	NA	NA	12.8x	11.2x	$0.90	6.4%
Average							14.3x	12.7x	12.1x	10.0x	16.3x	30.6x	11.5x	10.7x		4.0%
Extendicare	CAD	EXE	89.5	$6.64	595	977	23.3x	10.3x	9.2x	14.0x	23.3x	18.4x	15.1x	11.6x	$0.48	7.2%
Healthcare REITs																
HCP Inc.	USD	HCP	538.7	$29.09	15,670	21,924	28.4x	21.2x	19.6x	NA	NA	NA	18.3x	17.0x	$1.20	4.1%
Healthcare Realty	USD	HR	139.7	$28.86	4,033	5,639	29.4x	19.2x	18.2x	54.9x	NA	NA	16.8x	16.2x	$1.21	4.2%
Healthcare Trust of America	USD	HTA	218.7	$27.16	5,941	8,853	18.9x	17.9x	17.0x	NA	NA	NA	15.6x	15.0x	$1.28	4.7%
LTC Properties	USD	LTC	39.2	$40.91	1,605	2,247	18.0x	15.4x	14.9x	16.9x	22.0x	21.3x	14.3x	13.9x	$2.28	5.6%
Medical Properties Trust	USD	MPW	578.2	$21.59	12,484	20,799	19.0x	15.8x	14.0x	26.6x	19.0x	17.6x	12.5x	11.9x	$1.12	5.2%
National Health Investors	USD	NHI	45.2	$68.27	3,085	4,541	14.8x	14.9x	14.4x	16.5x	18.6x	18.9x	12.3x	12.0x	$4.41	6.5%
Omega Healthcare Investors	USD	OHI	231.8	$37.14	8,608	13,614	17.4x	13.5x	13.1x	53.1x	20.6x	20.7x	11.3x	11.1x	$2.68	7.2%
Sabra Healthcare	USD	SBRA	210.7	$25.40	5,352	7,666	NA	17.0x	16.4x	37.9x	35.1x	32.8x	14.5x	14.0x	$1.78	7.0%
Senior Housing Properties Trust	#N/A	SNH	238.3	$0.00	0	3,424	NA	11.6x	9.7x	NA	NA	NA	NA	NA	$0.00	0.0%
Universal Health Services	USD	UHT	13.8	$61.95	853	847	NA	NA	NA	NA	NA	NA	NA	NA	$2.78	4.5%
Ventas	USD	VTR	374.7	$52.90	19,819	31,302	16.7x	19.7x	18.2x	45.0x	NA	NA	18.0x	16.7x	$1.80	3.4%
Welltower	CAD	WELL	163.1	$8.88	1,448	1,421	NA	NA	NA	NA	NA	NA	NA	NA	$0.00	0.0%
Average									15.5x			22.3x	14.8x	14.2x		4.8%
Assisted living & US nursing care																
Brookdale Senior	USD	BKD	183.5	$5.82	1,068	603	NA	2.6x	1.7x	NA	NA	NA				
Capital Senior Living	USD	CSU	2.1	$31.28	65	967	21.1x	16.4x	18.6x	NA	NA	NA				
Ensign Group	USD	ENSG	54.7	$82.02	4,486	4,352	15.6x	13.2x	11.9x	25.7x	23.8x	21.6x				
Genesis Healthcare	USD	GEN	166.8	$0.79	132	1,485	13.6x	6.3x	6.0x	NA	NA	NA				
Average									9.6x			21.6x				

[1] *Invesque transiently suspended monthly dividend payout at end of FQ120; was US$0.06134/shr per month*

[2] *Medical Facilities EBITDA/EPS estimates are adjusted for proportionate equity ownership by common shareholders (about 55% in FQ320)*

Source: Refinitiv

In its MD&A, Extendicare projected that at peak occupancy, its annual operating income from the new Sudbury home should be $5.0M, including $1.9M in construction funding subsidies from the Ontario government as incentive for the firm to invest in new long-term care capacity in the region. The NOI yield of the facility once completed is thus expected to be about 8%, similar to many of Extendicare's retirement residences in Ontario. This facility is expected to be operational by end-of-F2022 and thus is not yet embedded into our F2021/22 long-term care revenue/operating income projections.

Projected capex in F2021 is consistent with our expectations, much of which is focused on new construction projects that should augment operating income once completed. We were encouraged to hear Extendicare state on its FQ420 conference call that it is actively considering additional C-level nursing home refurbishment projects before end-of-F2021. On that theme, management projected in its MD&A that it will spend about $14M-to-$16M in maintenance capex in F2021 (total maintenance capex in F2020 was $13.9M, of which $7.6M was in FQ420) and growth capex is expected to be $60M-to-$70M (was $19.2M last year) of which $45.4M is residual capex connected to the Sudbury construction project just described and thus could intensify if new C-level refurbishment projects are announced before end-of-year.

Exhibit 6. FQ420 Financial Summary for Extendicare – Segment Operating Income

Year-end December 31 (C$000, exc per share and % data)	4Q-19	3Q-20	4Q-20	% chg (QoQ)	% chg (YoY)
Canadian operations, nursing care					
Revenue	166,656	184,727	192,112	*4.0%*	*15.3%*
Operating expenses	146,135	171,763	182,863	*6.5%*	*25.1%*
Operating income	20,521	12,964	9,249	*(28.7%)*	*(54.9%)*
Operating margin (%)	*12.3%*	*7.0%*	*4.8%*	*(31.4%)*	*(60.9%)*
Canadian operations, homecare (Paramed)					
Revenue	53,504	48,235	51,387	*6.5%*	*(4.0%)*
Operating expenses	51,583	47,537	52,237	*9.9%*	*1.3%*
Operating income	1,921	698	-850	*(221.8%)*	*(144.2%)*
Operating margin (%)	*3.6%*	*1.4%*	*(1.7%)*	*(214.3%)*	*(146.1%)*
Canadian operations, homecare (Revera) [1]					
Revenue	53,195	45,000	45,000	*0.0%*	*(15.4%)*
Operating expenses	49,195	41,000	45,850	*11.8%*	*(6.8%)*
Operating income [1]	4,000	4,000	-850	*(121.3%)*	*(121.3%)*
Operating margin (%)	*7.5%*	*8.9%*	*(1.9%)*	*(121.3%)*	*NA*
Canadian operations, assisted living					
Revenue	11,356	11,978	12,047	*0.6%*	*6.1%*
Operating expenses	8,363	8,756	8,725	*(0.4%)*	*4.3%*
Operating income	2,993	3,222	3,322	*3.1%*	*11.0%*
Operating margin (%)	*26.4%*	*26.9%*	*27.6%*	*2.5%*	*NA*
Canadian operations, rehab services/Silver Group Purchasing/corporate					
Revenue	6,184	6,846	7,196	*5.1%*	*16.4%*
Operating expenses	2,742	2,554	2,645	*3.6%*	*(3.5%)*
Operating income	3,442	4,292	4,551	*6.0%*	*32.2%*
Operating margin (%)	*55.7%*	*62.7%*	*63.2%*	*0.9%*	*13.6%*
Revenue, Canadian operations	$290,895	$296,786	$307,742	*3.7%*	*5.8%*
Oper income, Canadian ops	$32,877	$25,176	$15,422	*(38.7%)*	*(53.1%)*
Oper margin, Canadian ops (%)	*11.3%*	*8.5%*	*5.0%*	*(40.9%)*	*(55.7%)*
Consolidated revenue	$290,895	$296,786	$307,742	*3.7%*	*5.8%*
Consolidated operating income	$32,877	$25,176	$15,422	*(38.7%)*	*(53.1%)*
Consolidated operating margin (%)	*11.3%*	*8.5%*	*5.0%*	*(40.9%)*	*(55.7%)*

[1] *Revera revenue data estimated from historic T12M data provided at acquisition; Revera data in other quarters as estimated by Leede Jones Gable*

Source: Historical data – Company Information (Extendicare), Forecasts/Estimates – Leede Jones Gable

We assume that Extendicare could receive a proportion of the Ontario government's $1.75B to be deployed under its LTC Home Capital Development Funding program that is targeting redevelopment of 12,000 existing beds (presumably mostly C-level facilities) and construct an additional 8,000 beds in the province. Extendicare believes that it will have six new construction projects underway by end-of-F2022, with projected capital cost of $400M, consistent with prior disclosure. We do not see any logical impediments to accelerating C-level refurbishment programs at a faster pace than this, if only because enhancing private/semi-private capacity (C-level facilities are designed for up to four residents to share accommodations) within its network is supplemental way to mitigate spread of respiratory viral pathogens independent of vaccination/therapeutic approaches to disease eradication.

Summary and valuation. Extendicare's FQ420 was clearly a mixture of positive (AFFO, retirement residence/consulting/group purchasing margins) and negative (everything else) elements, but with the firm clearly generating sufficient AFFO to comfortably fund the dividend policy on which our investment thesis rests, and with general outlook appearing favorable to us across all eldercare service divisions, **we are maintaining our BUY rating and $8.00 PT on EXE,** with our valuation still based on multiples of our F2022 AFFO and EBITDA forecasts ($0.65/shr & $99.6M, respectively). We have revised the multiples we ascribe to these profitability metrics, however, to match average multiples ascribed to Extendicare's peer group of TSX-listed dividend-bearing healthcare services firms.

Exhibit 7. FQ420 Financial Summary for Extendicare – Consolidated EBITDA and Net Margin

Year-end December 31 (C$000, exc per share and % data)	4Q-19	3Q-20	4Q-20	*% chg (QoQ)*	*% chg (YoY)*
Consolidated EBITDA & non-operating items					
Oper income, Canadian operations	$32,877	$25,176	$15,422	*(38.7%)*	*(53.1%)*
Less: corporate expense, Canadian	9,350	12,182	14,758	*21.1%*	*57.8%*
EBITDA, Canadian operations	$23,527	$12,994	$664	*(94.9%)*	*(97.2%)*
EBITDA margin, Canada (%)	*8.1%*	*4.4%*	*0.2%*	*(95.1%)*	*(97.3%)*
Oper income, US operations	$0	$0	$0	*NA*	*NA*
Less: corporate expense, US	0	0	0	*NA*	*NA*
EBITDA, US operations	($529)	$0	$0	*NA*	*(100.0%)*
EBITDA margin, US (%)	*NA*	*NA*	*NA*	*NA*	*NA*
EBITDA, consolidated operations	$22,998	$12,994	$664	*(94.9%)*	*(97.1%)*
EBITDA margin, consolidated (%)	*7.9%*	*4.4%*	*0.2%*	*(95.1%)*	*(97.3%)*
Depreciation & amortization	10,597	9,373	9,884	*5.5%*	*(6.7%)*
Interest	7,623	7,141	7,109	*(0.4%)*	*(6.7%)*
Interest income	(1,004)	(534)	(597)	*11.8%*	*(40.5%)*
Paramed CEWS payment, other	(1,096)	(50,443)	(37,449)	*NA*	*NA*
Adj EBT, consolidated operations	$6,878	$47,457	$21,717	*(54.2%)*	*215.7%*
Adj EBT margin, consolidated (%)	*2.4%*	*16.0%*	*7.1%*	*(55.9%)*	*198.5%*
Income tax expense	1,985	12,813	6,123	*NA*	*208.5%*
Adj tax rate (%)	*28.9%*	*27.0%*	*28.2%*	*NA*	*NA*
Adj net income	$4,893	$34,644	$15,594	*(55.0%)*	*218.7%*
Adj net margin (%)	*1.7%*	*11.7%*	*5.1%*	*(56.6%)*	*201.3%*

Source: Historical data – Company Information (Extendicare), Forecasts/Estimates – Leede Jones Gable

Indeed, we observe from Exhibit 5 that Extendicare's main long-term care peers Chartwell (CSH.U-T, NR) and Sienna Senior Living (SIA-T, NR) are specifically trading at a substantial premium to EXE on an EV-to-FY2 EBITDA basis. The valuation delta may be justified based on Extendicare's greater focus on margin-constrained home healthcare operations as compared to the other two firms, but we believe the gap is excessive when considering other points of operational overlap in long-term care and retirement residence management for the respective firms.

Clearly home healthcare referral volumes and service hour growth will be key metrics that we will track in future periods, but we were encouraged by Extendicare's commentary on referral volumes (recovered to pre-pandemic levels) and service hours should intensify in lockstep with escalation in staffing and de-escalation of pandemic constraints. The one-year return implied by our PT, including share price return and 7.2% dividend yield, is 27.7%.

Exhibit 8. FQ420 Financial Summary for Extendicare – Consolidated AFFO

Year-end December 31 (C$000, exc per share and % data)	4Q-19	3Q-20	4Q-20	% chg (QoQ)	% chg (YoY)
AFFO determination					
EBITDA	$22,998	$12,994	$664	*(94.9%)*	*(97.1%)*
Less:					
Net interest expense	6,619	6,607	6,512	*(1.4%)*	*(1.6%)*
Deprec expense for FFEC tangible	1,855	1,849	1,868	*1.0%*	*0.7%*
Depreciation for office leases	0	613	610	*NA*	*NA*
Current income tax expense	1,075	14,118	7,280	*NA*	*577.2%*
CEWS payment to Paramed	0	0	-40,382	*NA*	*NA*
Accretion costs	393	311	315	*1.3%*	*(19.8%)*
Funds from operations (FFO)	13,056	-10,504	24,461	*NA*	*87.4%*
FFO per unit	$0.146	($0.117)	$0.273	*NA*	*87.2%*
Add:					
Amortization of financial costs	436	555	489	*(11.9%)*	*12.2%*
Accretion costs	393	311	315	*1.3%*	*(19.8%)*
Adj to value of investments for SILs	529	0	0	*NA*	*NA*
Inc support for acquired retire res	376	709	797	*NA*	*NA*
Principle portion of govt-funded paymts	1,369	1,448	1,447	*(0.1%)*	*5.7%*
Less: AFFO from discont operations	0	0	0	*NA*	*NA*
Distributable income (DI)	16,159	-7,481	27,509	*NA*	*70.2%*
DI per unit	$0.181	($0.084)	$0.307	*NA*	*70.1%*
Less:					
Adjustment for maintenance capex	4,173	532	5,705	*NA*	*36.7%*
Adjusted funds from oper (AFFO)	$11,986	($8,013)	$21,804	*NA*	*81.9%*
AFFO per share	$0.134	($0.089)	$0.244	*NA*	*81.8%*
Actual distribution	10,736	10,745	10,745	*NA*	*NA*
Actual distribution per share	0.12	0.12	0.12	*NA*	*NA*
Payout ratio (%)	*89.6%*	*(134.1%)*	*49.3%*	*NA*	*NA*
Shares outstanding (basic)	*89,467*	*89,539*	*89,539*	*NA*	*NA*
Capital expenditures					
Growth capex	*$3,662*	*$7,578*	*$5,639*	*(25.6%)*	*54.0%*
Maintenance capex	*$6,028*	*$2,381*	*$7,573*	*218.1%*	*25.6%*
Total capex	*$9,690*	*$9,959*	*$13,212*	*32.7%*	*36.3%*
% revenue, growth capex	*1.3%*	*2.6%*	*1.8%*	*NA*	*NA*
% revenue, maintenance capex	*2.1%*	*0.8%*	*2.5%*	*NA*	*NA*

Source: Historical data – Company Information (Extendicare), Forecasts/Estimates – Leede Jones Gable

Disclosures none

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RECOMMENDATION	NO. OF COMPANIES	%
Buy	6	40.0%
Speculative Buy	7	46.7%
Hold	2	13.3%
Sell	-	-
Tender	-	-
Under Review	-	-

Historical Target Price

Date	Target ($)	Rating
15 Dec 2020	C$8.00	Buy

Coverage Initiated: Dec 15, 2020

Data sourced from: Refinitiv