Capital Senior Living Corporation (CSU) CEO Kimberly Lody on Q1 2021 Results - Earnings Call Transcript

May 13, 2021 5:39 PM ET**Capital Senior Living Corporation (CSU)**

Capital Senior Living Corporation (NYSE:CSU) Q1 2021 Results Conference Call May 13, 2021 2:30 PM ET

Company Participants

Kimberly Lody - President & Chief Executive Officer

Brandon Ribar - Chief Operating Officer

Tiffany Dutton - Senior Vice President of Accounting & Finance

Conference Call Participants

Steven Valiquette - Barclays

Operator

Good day, and welcome to Capital Senior Living's First Quarter 2021 Earnings Release Conference Call. Today's conference is being recorded.

All statements today, which are not historical facts, may be forward-looking statements within the meaning of the federal securities laws. These statements are made as of today's date, and the Company expressly disclaims any obligation to update these statements in the future. Actual results and performance may differ materially from forward-looking statements.

Some of these factors that could cause actual results to differ are detailed in the earnings release the Company issued earlier today as well as the reports the Company files with the SEC from time to time, including the risk factors contained in the annual report on Form 10-K and quarterly reports on Form 10-Q. Please see today's press release for the full safe harbor statement, which may be found at capitalsenior.com/investor-relations, and was furnished in the 8-K filing this morning.

Also, please note that during this call, the Company will present non-GAAP financial measures. For a reconciliation of each non-GAAP measure from the most comparable GAAP measure, please also see today's press release.

At this time, I would now like to turn the call over to Capital Senior Living's President and CEO, Ms. Kimberly Lody.

Kimberly Lody

Thanks, Devon, and good afternoon, everyone. Welcome to our first quarter 2021 earnings call. Joining me today are Brandon Ribar, our Chief Operating Officer; and Tiffany Dutton, our Senior Vice President of Accounting and Finance. The 12 months from March 2020 to March 2021 were extraordinary and unprecedented as our company and our nation fought the ongoing impacts of the COVID-19 pandemic.

Our experienced and decisive teams are rigorous, clinical and operational protocols, our comprehensive communication and most importantly, our collective relentless devotion to the safety and well-being of our residents is what supported and strengthened us through those incredibly difficult times. Our on-the-ground frontline community teams and their regional leaders have much to be proud of, and I could not be more humbled by and grateful for all that they do.

I'm pleased to say the grips of the pandemic have eased considerably during the last few months, most notably upon achieving vaccination of 93% of the residents in our communities. We began to see signs of recovery in our business at nearly the same time as we began implementing vaccination activities.

Lead volume started to improve in December of 2020, but with most of the country battling the height of the pandemic's third wave in January and February, meaningful improvement in tour and move-in volume across the portfolio began in March. Move-ins increased 33% from the fourth quarter to the first quarter, and move-ins in March and April were at the highest monthly levels in two years.

Today, all of our communities are accepting visitors and new residents and all have safely resumed resident group activities and social events. Active cases of COVID-19 among our residents and employees are virtually nonexistent.

Despite the last 12 months' difficult operating environment created by the COVID-19 pandemic, we have made great progress on our three-year strategy to stabilize, invest in, nurture and grow Capital Senior Living. We have redefined the portfolio and stabilized its performance. We have invested in our people, our communities, our processes and our resident programs. We have nurtured our lead generation and sales activities and now consistent with our three-year plan, we are beginning to grow.

Occupancy for the first quarter was 75.5%, with January at 75.7%, February at 75.2% and March at 75.5%. The low point for our average weekly spot occupancy was in the second week of March at 74.7%, and occupancy has steadily rebounded since that time. April's average occupancy was 76.9%, a 170 basis point increase from February and a 220 basis point improvement from the low point. Today's spot occupancy is 77.7%.

In addition to the great work of our sales and marketing teams to welcome more residents and their families to our wonderful communities, we have further complemented these efforts by adding differentiated program to support the unique

needs of our residents. One such program is called Magnolia Trails, which was developed by an internal and external multidisciplinary team of dementia care experts.

We began implementation of the program in December of 2020. And by the end of May, we expect it to be operational in 35% of our communities that serve memory care residents and in all of our communities -- our memory care communities by the end of the year. Early results are promising in terms of positive occupancy and rate development. And the programming positions our communities to provide a higher level of memory care services to address the 16% projected increase in the number of individuals with Alzheimer's disease on average in our four largest states between 2020 and 2025.

Another great example is the advanced wellness programming, we are implementing across our portfolio in partnership with Aegis Therapies, which utilizes purposeful, engaging and evidence-based educational programs and wellness activities to demonstrably improve the physical, cognitive and emotional well-being of our residents. This program is also showing positive early results were implemented with 78% of residents actively participating in the new wellness offerings versus an industry average resident participation rate of 30%.

All of these post-pandemic growth levers are designed to support each of our communities' local brands through continuous improvement of our reputation scores. We know the first thing families look forward when searching for seniors housing and services, whether online or through referrals from others, is the reputation of the local community.

According to data from reputation.com the average reputation score in the seniors housing industry is 494. Before the COVID pandemic began, Capital Senior Living's collective reputation score was 519 above average, but not good enough.

In 2020, while fighting the COVID-19 pandemic, managing the daily operations of our business and completing our strategic initiatives to redefine our portfolio, our reputation score increased steadily throughout the year. And today, it is 688, a 32% increase. Our strong community reputations facilitate our being included in the consideration set for more prospective residents and their families.

We're in the third year of our three-year transformational strategy with the pandemic nearly behind us and all of the foundational hard work to stabilize the business complete. We continue to invest in our teams, our programming and our communities to drive post-pandemic growth. We have good momentum and on a sequential basis, we expect occupancy growth and NOI improvement to continue in the months ahead.

While it's still early to predict the recovery trajectory, we are confident that the steady improvement in the operating environment, lower construction starts and strong affordability factors in our markets and the accelerating demographic tailwind, demand for our services will continue to improve, which will support further occupancy and NOI development.

I'll now turn the call over to Brandon to provide more detail on our operating performance and expectations.

Brandon Ribar

Thank you, Kim, and good afternoon. The first quarter of 2021 provided many opportunities to recognize and celebrate the achievements of our communities, while in aggregate, producing the baseline for our post-COVID recovery from an operating metric perspective. Most important for the safety of our communities, more than 93% of our residents are now vaccinated, and COVID cases remain at extremely low levels, currently sitting at zero resident cases in our owned portfolio of communities.

We continue to experience increased vaccination levels across our employee base, and our employee cases are also nearly 0. We attribute these outcomes to our local leadership and frontline care and service providers and recognize their consistent, compassionate and steadfast efforts to keep our residents and fellow staff safe and healthy.

Throughout my travels in recent months, I have witnessed firsthand the renewed energy and many moments of joy and after that accompany the more open and active environment throughout all of our communities. We continue to adjust our operating model to accommodate increased in-person visits from family members and larger groups for communal dining and activities in a safe and enjoyable manner.

Turning to occupancy, we are pleased with the stability of the first quarter results, as Kim referenced. The strong growth in Q1 move-in volume was energizing and encouraging and the continuation of these results in April further displayed the ability of our local leadership to grow their business as the operating environment eases, achieving these results while maintaining rate integrity continues as a primary focus for our operations and sales teams.

For Q1, our average rate was $3,531, a sequential decline of 1.5% from Q4 of 2020. The change in rate resulted from increased onetime move-in concessions offered in December, January and February to ensure strong volume to begin the year during the highest levels of national COVID cases than at any other point during the pandemic. Our March rate at $3,560 increased 2% month-over-month, and March move-ins increased by 64% from February.

Our in-place rent increases take place as residents renew their leases. And in Q1, our average in-place rent increase was 2%. We expect to continue this level of increase throughout the year. As Kim referenced, with COVID-19 operating restrictions loosening and the daily impact of COVID cases at or near 0, renewed focus on resident engagement and the implementation of advanced resident programs will continue at an increased pace.

The accelerated rollout of our Magnolia Trails memory care programming and the ongoing implementation of advanced wellness programming in partnership with Aegis Therapies will positively impact each of our communities in 2021.

The care and services provided to our residents continue to deliver a safe, healthy and enjoyable living environment, further supporting recovery on the occupancy front. March and April each saw the lowest move-out levels since May of 2020, a month in which nearly all states were requiring the public to shelter in place.

We are optimistic the continued improvement in the national landscape will further sustain the occupancy trends of the previous two months. We continue our focus in Q2 on execution of our strategic growth priorities. The expansion of our inside sales team and robust sales training and development programs have delivered improvement in tour to move-in conversion ratios in 2021, a key indicator of improved sales capabilities and lead quality.

Our tour to move-in percentage remains in the mid- to high 30s, even as lead volume has increased significantly in 2021. Results from March, April and early volume indicators in May reflect the progress on each of these efforts. On the expense front, Q1 results show continued success in holding labor costs stable while investing further in revenue-generating efforts. A sequential decline of 65% in premium staff pay and a 1.2% decrease in direct labor led to a 2.5% sequential decrease in cost of labor for the quarter. Q1 also includes approximately $100,000 in additional onetime labor costs due to the Texas winter storm in mid-February.

Both labor and total expenses decreased on a year-over-year basis by approximately 1% in Q1, excluding management fee, insurance and real estate taxes. These costs include the impact of premium labor related to COVID, but do not include reimbursement received under the CARES Act in Q1 2021. Use of stat pay in the current operating environment is no longer a material component of our labor compensation model due to the nearly complete elimination of COVID-19 cases in our communities beginning in March and continuing thus far in Q2.

Our local operating teams continue to diligently adjust their operating model to address changes in occupancy while ensuring the safety and well-being of our residents and staff. We're closely monitoring the competitive wage environment and the evolving political landscape related to unemployment benefits as impact on service industries across the nation unfolds.

In summary, our communities have maintained a consistent expense model throughout the pandemic to ensure the safety of our residents and consistent staffing availability. As occupancy increases, variable expense increases will consist primarily of food and supply-related items, while labor remains constant. We remain optimistic the industry tailwinds on the occupancy front will continue in the months to come.

Occupancy improvement in Q2 will support the ongoing recovery from the impacts of COVID in 2020. Our goal is to continue outperforming the industry recovery trajectory through consistent outreach efforts and ensure our resident-based programming delivers an enjoyable and safe experience to attract future residents and grow occupancy in the second half of 2021.

I am excited and thankful that CSL has the leadership teams in the field to successfully lead the recovery. Now I'll turn the call over to Tiffany to provide a detailed review of our financials.

Tiffany Dutton

Thank you, Brandon. Good afternoon, everyone. Although our first quarter 2021 results reflect the impact of the third wave of the COVID-19 pandemic on our occupancy and revenues, as we neared the end of the quarter, we began to see increases in traffic and move-ins as our country nears the end of the pandemic.

The operating environment has remained challenging, but our operations team has continued to do an excellent job in managing the cost within their control and to mitigate the impact of COVID-19 on our overall results while continuing to prioritize the health and safety of our residents and staff members.

We also benefited from the receipt of $8.7 million in CARES Act relief funding pursuant to the provider relief funds Phase 3 general distribution in January 2021. The first quarter also reflects continued positive impacts associated with actions we completed over the course of the past two years to stabilize our business, dispose of [Technical Difficulty] improve our balance sheet position.

Our reported revenues for the first quarter were $61.6 million compared to $106.1 million in the first quarter of 2020. $43.9 million of the decrease was related to the sales or conversions of 59 properties throughout 2020, partially offset by an increase in management fees and community reimbursement revenue of $15.9 million.

Most of the revenue associated with these managed communities $15.3 million in the first quarter of 2021 was related to the reimbursement of certain operating costs that we paid on their behalf. You'll see that there is a corresponding expense on our income statement for the same $15.3 million.

Our management fee revenue in the first quarter was approximately $1.2 million. The remainder of the decrease in revenues is due to lower occupancy levels and a slight decrease in rates that Brandon referenced. Operating expenses in the first quarter of 2021 were $36.8 million, a decrease of $38.6 million when compared to the first quarter of 2020.

As I mentioned when discussing our decline in revenue, we had 59 fewer communities for all or part of the first quarter of 2021 than we had in the first quarter of 2020. These 59 communities accounted for the majority of the decrease in expenses on a combined basis.

Turning now to the results of the continuing communities portfolio, which consists of the 60 owned communities that will comprise our go-forward portfolio once all transitions have been completed. Our continuing communities' revenues decreased $5.4 million or 10.7% in the first quarter of 2021 compared to the first quarter of 2020.

Compared to the fourth quarter of last year, revenue decreased $1.7 million or 3.6%. The third wave of the pandemic, which impacted our industry earlier this year, contributed to the 190 basis point decline occupancy compared to the fourth quarter of 2020; however, the success of our vaccination clinics and increases in move-ins that Kim referenced have led to an inflection point for our company.

Although continuing community occupancy for the quarter was 75.5%, average occupancy increased to 76.9% in April, which indicates the actions we have taken to improve our key sales metrics, including our focus on the quality of the leads, our reputation score and visibility of our communities have resulted in positive momentum as we begin to move into the post-COVID operating environment.

Continuing community expenses, which exclude COVID-related cost of $650,000 decreased slightly in the first quarter of 2021 as compared to the fourth quarter of last year due to our operations team's focus on and success in managing costs to offset the lingering impact of the pandemic. We successfully navigated managing labor costs in a tight labor market. Our employee labor costs decreased $600,000 sequentially or 2.5%.

The remainder of our other expense categories combined to increase $500,000 during the quarter or 3.8%, which primarily resulted from investments in marketing and advertising initiatives to increase occupancy and an increase in utilities expenses during the quarter. Compared to the first quarter of 2020, continuing expenses decreased $200,000 or 0.5%.

Our continuing community net operating income was $9.1 million, and our NOI margin, which we define as revenues less operating expenses, exclusive of COVID-19 relief funding and cost with premium labor included, was 20.1%.

Our general and administrative expenses for the first quarter of 2021 were $7.2 million compared to $6.4 million in the first quarter of 2020. The increase of approximately $800,000 is primarily due to increases in employee incentive and retention bonus programs and higher employee and benefits and health insurance claims, partially offset by decreases in transaction costs, which were related to the lease amendments and terminations that were executed last year.

During the first quarter of 2021, we recognized other income of $8.7 million, which includes the receipt of $8.7 million in relief funding from Phase 2 of the Provider Relief Fund that I discussed earlier.

Adjusted EBITDAR in the first quarter of 2021 was $3.1 million. Adjusted EBITDAR, excluding COVID-19 expenses, was $3.8 million. Adjusted CFFO was $2.8 million for the first quarter of 2021. When COVID relief funds and expenses are excluded, adjusted CFFO was a negative $5.3 million in the first quarter.

Turning now to liquidity, we noted in the release that we had $16.8 million of unrestricted cash at March 31, 2021. As we announced during our year-end earnings call, we received approximately $8.7 million of relief funding pursuant to the Provider Relief Funds Phase 3 general distribution in January of this year.

The grants we received are intended to fund COVID-19 expenses and lost revenues for the first and second quarters of 2020. Although additional funding has not been yet announced, we continue to diligently monitor developments regarding additional government grants to the senior living industry. We will apply for additional funding as soon as it becomes available.

We continue to progress with the transfer of ownership of 18 underperforming properties to Fannie Mae. During the first quarter, we successfully transferred the legal ownership of three communities to Fannie Mae and recognized a $47 million gain on the extinguishment of debt and related liabilities of those communities.

Since the end of the quarter, we have completed the transfer of ownership of three additional communities as legal ownership of the remaining properties transferred to Fannie Mae, which is expected to occur throughout 2021, we expect to recognize gains on the extinguishment of debt and related accrued interest on those properties.

At March 31, we included $176.1 million in current notes payable and $8 million in accrued interest on our balance sheet related to the remaining 15 properties. Also, we are in active discussions with two of our lenders regarding the extension of refinancing of our two bridge loans, totaling $72.5 million that are currently scheduled to mature in December 2021.

We are in the third and final year of our transformational strategy. As we look toward the remainder of 2021, we are beginning to realize the results of the significant improvements we have made to our financial foundation and operating platform during the last two years.

Our continued investments in sales and marketing as well as our new wellness programming and Magnolia Trails have positioned us to move into the final phase of our transformational plan growth. Although we are still early in the recovery, we are pleased with the improvements in occupancy that we have seen since the second half of March and are optimistic about our results in the months ahead.

That concludes our prepared remarks. I will now ask our operator, Devon, to open the line for questions.

Question-and-Answer Session

Operator

At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Steven Valiquette with Barclays. Please proceed with your question.

Steven Valiquette

Just have a few questions on Slide 9 in the slide deck. First, I think in the prepared comments, you talked about NOI trending upward from here. I wasn't sure if that was

both NOI dollars and NOI margin. If we look at the, call it, roughly 20% in the first quarter of '21, but do you expect the margin and the dollars to both improve sequentially from here? And then I have a couple of follow-up questions on the same topic depending on the answer.

Kimberly Lody

Yes. So I'll start and then Brandon can jump in. So one of the key items here, Steve, is really around the occupancy growth because it will provide incremental operating leverage to the business. I think we've mentioned before, as we went through the pandemic last year, we really maintained our labor model in our communities to ensure that we would have enough staffing. And so as you think about occupancy improvement, we feel like we have the labor in place to absorb that occupancy improvement.

And about each point of occupancy is about $225,000 per month in incremental revenue. And given the operating leverage, we believe that the flow-through should be around 60%. And so on an annualized basis, we would expect that every 100 basis points would be about $2.7 million in incremental revenue and about $1.6 million in incremental NOI dollars.

Steven Valiquette

Okay. Great. That's helpful. Also on Page 9 in the upper right-hand corner, the average rent -- you guys talked about some of the rent concessions in the first couple of months of the year. It sounded like March was trending better where it was up a little bit year-over-year. As we think about rent or even RevPOR for the rest of calendar '21, should we assume that, that could be growing year-over-year as we look at the numbers specifically versus a year ago in the upper right part of Slide 9?

Brandon Ribar

Yes. Steven, I think it's going to -- it will be a bit market dependent. But because we do have in-place rate increases that are throughout the year on the anniversary date for the resident. We will see the continued increase on that front at approximately a 2% rate. And then as the concessions have begun to decline and the need for them have as well, our expectation is that we'll be able to recover the rate as we look at it versus 2020.

Steven Valiquette

Okay. Great. Then final question. I might have missed some comments on this. So once we go below NOI, the G&A expense of around $7.2 million for the quarter, I know you talked about some increased marketing expenses, sales efforts, et cetera. But how should we think about the run rate of G&A expense on a quarterly basis going forward? Is that $7 million still a good run rate? Or could that trend perhaps lower or higher for other reasons?

Kimberly Lody

Yes. Our expectation, Steve, is that the G&A run rate will continue to improve throughout the year. Q1 had some, we'll call it, extraordinary expenses in it really related to the transition of the communities, which we had anticipated being transitioned by the end of last year. And most of those transitions occurred here in the first quarter. And so there was quite a bit of work to get through the accounting of those transitions and get those finished off. So we would expect that the G&A will continue to sort of level down throughout the year and be at the run rate that we had put in our Q4 deck just a few weeks ago.

Operator

There are no further questions on the queue. I would like to turn the floor back over to Ms. Lody for any closing comments.

Kimberly Lody

That concludes our earnings call for today. Thank you, everyone, and have a great day.