Medical Facilities Corporation (MFCSF) Q1 2023 Earnings Call Transcript

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Company Participants

Jason Redman – President and Chief Executive Officer

David Watson – Chief Financial Officer

Conference Call Participants

Endri Leno – National Bank

Sahil Dhingra – RBC

Operator

Good morning, everyone. Welcome to Medical Facilities Corporation's 2023 First Quarter Earnings Call. After management's remarks, this call will include a question-and-answer session whereby qualified equity analysts will be permitted to ask questions.

Before turning the call over to management, listeners are reminded that today's call may contain forward-looking statements within the meaning of the safe harbor provisions of Canadian provincial securities laws. Forward-looking statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. For additional information, please consult the MD&A for this quarter, the Risk Factors section of the Annual Information Form and Medical Facilities' other filings with Canadian securities regulators. Medical Facilities does not undertake to update any forward-looking statements. Such statements speak only as of the date made.

I would now like to turn the meeting over to Mr. Jason Redman, President and CEO of Medical Facilities. Please go ahead, Mr. Redman.

Jason Redman

Thank you, operator. Good morning and welcome to our first quarter earnings call. On the call with me today is our Chief Financial Officer, David Watson. We reported our Q1 results earlier this morning. Our news release, financial statements and MD&A may be accessed through our website at medicalfacilitiescorp.ca and have also been filed with SEDAR.

Our first quarter results reflect the continued strong operational performance of our best-in-class surgical hospitals. Overall surgical volumes from our specialty surgical hospitals were up in the quarter, contributing to an 8.4% increase in facilities service revenue compared to Q1 of last year. This past quarter produced solid earnings with income from operations increasing 4.9% and EBITDA increasing 6.3% year-over-year when excluding government stimulus income in the prior period.

It was also a good quarter from a cash flow perspective with all our distributable cash flow metrics moving in a favorable direction. Of note, our cash available for distribution on a per common share basis and our payout ratio also reflects a significant reduction in our share count as a result of last year's substantial issuer bid and our ongoing normal course issuer bid program. As we mentioned in our news release this morning, three of our hospitals were recognized by Healthgrades during the quarter as leading hospitals for joint replacements in their respective states. Healthgrades evaluates hospital performance using objective quality measures, including clinical outcomes, patient safety and patient experience.

To deliver the utmost quality of care to our patients, we rely on our teams of top-tier physicians and nurses as well as the hardworking staff to keep our facilities operating efficiently. This recognition from Healthgrades is a testament to their efforts. We believe the investments we continue to make in our facilities, staff and technology will result in sustained strong demand in each of our hospitals' markets while allowing our healthcare teams to provide the highest quality of care to our patients.

Looking ahead to the balance of the year, we intend to maintain a disciplined approach to executing our corporate strategy, including focusing on our core assets, pursuing additional overhead cost reductions and evaluating and implementing strategies to return capital to our shareholders.

With that, I would like to turn the call over to David to review our financial results.

David Watson

Thank you, Jason. Good morning, everyone. As usual, I will discuss our financial performance for the quarter and provide an update on our balance sheet and liquidity. But first, I would like to remind everyone that all dollar amounts are in U.S. dollars unless stated otherwise.

Our facility service revenue increased 8.4% to $109.3 million compared to Q1 of 2022. The increase is largely due to a favorable combination of case and payer mix and higher overall surgical case volumes from our specialty surgical hospitals.

Sioux Falls moved its anesthesia service and related billing in-house during the quarter, which contributed approximately $0.7 million to revenue. Operating expenses increased by $7.8 million, or 8.9%, compared to Q1 of last year. Consolidated salaries and benefits increased by $3.6 million, or 12.1%. Clinical and non-clinical salaries and wages were higher due to annual increases, full-time equivalent increases, market wage pressures and benefit costs from higher health plan utilization. Sioux Falls moving its anesthesia service and related billing in-house contributed $1.1 million to the increase in salaries and benefits. Case mix and the higher surgical case volumes at our hospitals resulted in a $3.2 million or 9.6% increase in drugs and supplies for the quarter.

Consolidated G&A expenses were up slightly from increases in administrative and facility-related expenses, as well as costs pertaining to Sioux Falls' Accountable Care Organization, billing fees, physician guarantees and lease-related costs. When excluding the $1.8 million in government stimulus income recorded in Q1 of last year, income from operations increased 4.9% to $13.5 million and EBITDA grew 6.3% to $19.1 million for Q1 of 2023. In the quarter, we generated cash available for distribution totaling C$5.6 million, representing an increase of 20.6% on a per common share basis and resulting in a payout ratio of 36.9%, compared to 44.4% in Q1 of last year. During the quarter, we purchased 417,900 of our common shares for a total consideration of $2.5 million. In total, under our SIB last year and our ongoing NCIB, we have purchased approximately 17.2% of our total shares outstanding since the start of 2022.

Turning to our balance sheet. At the end of the quarter, we had consolidated net working capital of $31.9 million, including $35.3 million of cash and equivalents. For comparison, at the end of 2022, we had working capital of $32.5 million, including cash and equivalents of $34.9 million. In addition, we had $36 million outstanding on our corporate credit facility. Inclusive of lease liabilities, our net debt to equity remains low at 0.9x as compared to 0.94x at December 31, 2022.

This concludes our prepared remarks. At this time, we would like to turn it back over to the operator to open up the call for questions. Operator?

Question-and-Answer Session

Operator

Thank you. Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. [Operator Instruction] Okay. And your first question comes from Endri Leno from National Bank. Please go ahead.

Endri Leno

Hi, good morning. Thank you for taking my questions. I'll start – the first one, I have a question on labor. If you guys can talk a little bit on how you're seeing it, I mean, given all the pressures we had last year and some of the hospital operators, U.S. based ones, reporting things improving a little bit. Like, how are you seeing the labor evolving in your hospitals?

Jason Redman

Hi. Thank you, Endri. So we are starting to see the labor market stabilize. As David mentioned, we were impacted by the quarter. Salaries and benefits are still up, but we are starting to see some stability, less differential pay, less signing bonuses that are happening. So we're still focused obviously on retaining key staff in our facilities, but we are starting to see some of that pressure ease.

Endri Leno

Okay. That's good to hear. Thanks, Jason. And then the other one, another thing that came up from industry updates on the quarter is that there's been some negotiations to have improved commercial procedural rates. Is there anything you guys can talk to that? I mean, did you have any progress there or any kind of color you can give us?

David Watson

Endri, just to confirm, so you're asking if there have been any changes from a commercial payer perspective with respect to contract rates?

Endri Leno

Exactly. Exactly, yes.

David Watson

Yes, generally the contracts are multiyear contracts. So the opportunity to make changes to those is when those come up for renewal. There is certainly pressure from within the industry to get concessions from the payers. But at this time, we haven't seen anything from that.

Endri Leno

Okay, thank you. And last one for me, and I'll jump in the queue. But there was a new surgical hospital that opened in Little Rock recently. I mean, it's been announced before it's been into construction. But just over recently, I was wondering if you have any comments on whether there might be any impact to ASH.

Jason Redman

There may be some impact. We haven't seen anything in the quarter yet. It's something that we'll obviously monitor going forward, but nothing to date.

Endri Leno

Thank you.

Operator

Your next question comes from Sahil Dhingra from RBC. Please go ahead.

Sahil Dhingra

Hi. This is Sahil for Doug Miehm. My first question is, can you comment on how much the surgical case volumes increased year-over-year? And then also in your MD&A, you noted that Sioux Falls had – the volumes declined in Sioux Falls YoY. So could you please comment there? Thank you.

David Watson

Yes. Hi, Sahil. It's David. Yes, so with respect to surgical case volumes, observation cases are up 57.5% compared to the first quarter last year, outpatient cases decreased by 5.6% and the inpatient cases decreased by 9.9%.

Sahil Dhingra

Okay, thanks. And then the second one I had was on Sioux Falls. You noted all the facilities saw increase in surgical volumes, except Sioux Falls. Was there anything significant there? Or is it just normal?

David Watson

It's just normal. It's based on physician availability. Sometimes you have physicians who take vacation, maybe out for personal reasons, so normal fluctuations.

Jason Redman

There was nothing systemic. It was just, like David mentioned, physician absence and a little bit of weather impact in the first quarter.

Sahil Dhingra

Okay, thank you. Those are all my questions.

Jason Redman

Thank you.

Operator

We have a follow-up question that just came in from Endri from National Bank. Please go ahead.

Endri Leno

Hi. Thanks for taking the follow-ups here. Just two quick ones. The first one, I just wanted to see whether the divestiture of core assets remain as part of the strategy? And the second part, Jason, you mentioned focusing on returning capital to shareholders. Any – like what kind of strategies would you prioritize on that regard? That's it. Thank you.

Jason Redman

Sure. So just on the first one. So divesting non-core assets still remains a critical part of our strategy going forward. So we have not deviated from that at all. In terms of returning capital to shareholders, it's still a strong focus. As David mentioned, we've repurchased almost 418,000 shares in the quarter. Keeping that NCIB in place is something that we intend to do going forward. We're also looking at opportunities in subsequent quarters, no decisions are made yet, but to the extent cash flow commence we'll also look at maybe potential debt repayments as well.

Endri Leno

Thank you.

Jason Redman

Thank you.

Operator

There are no further questions at this time. I'll turn it back to Jason for closing remarks.

Jason Redman

Thank you, operator. I would like to thank everyone for joining our call this morning. We look forward to updating you again next quarter. Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.