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Medical Facilities Corp. (DR.CA)

Q3 2023 Earnings Call

CORPORATE PARTICIPANTS

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

David N. T. Watson
Chief Financial Officer, Medical Facilities Corp.

OTHER PARTICIPANTS

Sahil Dhingra
Analyst, RBC Capital Markets

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone. Welcome to the Medical Facilities Corporation's 2023 Third Earnings Call. After management remarks, this call will include a question-and-answer session in which 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 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
President, Chief Executive Officer & Director, Medical Facilities Corp.

Thank you, operator. Good morning and welcome to our third quarter earnings call. With me on the call is our Chief Financial Officer, David Watson. We reported our Q3 results earlier this morning. Our news release, financial statements, and MD&A can be found on our website at medicalfacilitiescorp.ca and have also been filed on SEDAR+.

We had a solid third quarter with growth in revenue and profitability. In terms of our strategic objectives, we completed the divestitures of the MFC Nueterra ASCs, continued to pay down our corporate debt and repurchased shares under a normal course issuer bid. We also further reduced corporate costs with the downsizing of our Nashville office.

Looking at our top line, we had facility service revenue of $104.6 million for the quarter. This represents an increase of 7.4% when excluding the divested MFC Nueterra ASCs. The improvement was largely due to case mix. The surgical case volumes again excluding the MFC Nueterra ASCs were also up 1% for the quarter. Our income from operations increased 20.3% to $12.5 million, and EBITDA was up 13.7% to $17.7 million. As a percentage of revenue, income from operations improved to 12% versus 10.2% in Q3 of last year. EBITDA rose to 17% of revenue from 15.3% a year ago. The improvements for both were mostly due to cost savings initiatives at the corporate level.

As I mentioned earlier, we completed the divestitures of remaining ownership interest in the MFC Nueterra ASCs for aggregate proceeds of $3.5 million. These divestitures are part of our strategic plan to focus on our core operations, allowing us to better concentrate our resources on supporting our physician partners and continuing to provide the best patient experience in hospital care.

On that note, I'd like to share that three of our surgical hospitals were included in Healthgrades top hospitals for joint replacement last month. The 2024 Healthgrades Joint Replacement Excellence Award acknowledges hospitals that deliver superior patient outcomes in knee replacement and hip replacement. Arkansas Surgical Hospital was one of three hospitals in Arkansas to make the list. While Black Hills Surgical Hospital and Sioux Falls Specialty Hospital were the only hospitals recognized in South Dakota.

In addition to providing the highest quality of care, MFC remains focused on maintaining a strong and sustainable financial structure in creating long term value for our shareholders. During the quarter, we continued to reduce our corporate debt, repaying $3 million on our credit facility, and we repurchased a 157,700 common shares under our NCIB.

And on that note, I'll turn the call over to David to review our financial results in more detail. David?

David N. T. Watson

Chief Financial Officer, Medical Facilities Corp.

Thank you, Jason. Good morning, everyone. As usual, I'll start by reminding everyone that all dollar amounts that follow are in US dollars unless stated otherwise. As Jason mentioned earlier, we had facility service revenue of $104.6 million, which was an increase of 7.4% when excluding the divested MFC Nueterra ASCs. Much of this was due to case mix, but volumes also played a role, as did Sioux Falls moving to anesthesia service and related billing in-house earlier this year. Excluding the divested ASCs, overall surgical case volumes increased 1%. Observation cases increased significantly by 39.5%, while inpatient cases decreased by 9.2% and outpatient cases decreased by 3.4%. While our operating expenses increased by $0.3 million to $92 million, as a percentage of revenue, they fell to 88% in the quarter from 89.8% a year ago.

Consolidated salaries and benefits increased by a $0.5 million or 1.6% as we experienced higher clinical and non-clinical salaries and wages due to annual salary adjustments, growth in full time equivalent staff and market wage pressures. Bringing anesthesia services and related billing in-house to Sioux Falls also contributed to this increase. However, it's important to note that these increases were mostly offset by the impact of the MFC Nueterra divestitures and our ongoing cost saving initiatives at the corporate level.

Consolidated drugs and supplies increased by $0.4 million or 1.1%, driven by changes in case mix, which included a higher proportion of orthopedic and spine cases along with increased surgical case volume. This was partially offset by the impact of the divestiture of the MFC Nueterra ASCs. Consolidated general and administrative expenses were down $0.6 million or 3.3%. The decrease in G&A expenses was a result of the divestiture for the MFC Nueterra ASCs and cost saving initiatives at the corporate level. Corporate costs related to share based compensation plans were also down primarily due to the relative change in the corporation's share price compared to the same period last year.

Jason already covered the increases in operating income and EBITDA. So I'll move on to distributions. In Q3, we generated cash available for distribution totaling CAD 5.4 million, up from CAD 3.8 million in Q3 of last year. This increase and our lower share count compared to last year lowered our payout ratio to 36.9% for the quarter, compared to 61.5% a year ago.

Turning to our balance sheet. At the end of the quarter, we had consolidated net working capital of $13.1 million and cash and cash equivalents of $27 million. For reference, at the end of December 2022, our net working capital stood at $32.5 million and we had cash and cash equivalents of $34.9 million. The decline in our cash and cash equivalents partly reflects our corporate level activities. During the first nine months of 2023, we made repayments of $12 million against our corporate credit facility, including a $3 million repayment in the third quarter.

Additionally, we repurchased common shares under our normal course issuer bid for an aggregate consideration of $5.5 million, including 157,700 shares for $1 million during the quarter. Inclusive of lease liabilities, our net debt to equity remains low at 0.93 times as compared to 0.94 at December 31, 2022.

This concludes our prepared remarks. We'd now like to open up the call for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Sahil Dhingra with RBC. Your line is open.

Sahil Dhingra
Analyst, RBC Capital Markets

Q

Hi. This is Sahil for Doug Miehm. Thank you for taking our questions. My first question is on competition. Are you seeing any increase in competition? Also the pain cases were down year-over-year, is there anything to read out there, or is it more quarterly fluctuation?

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

A

Yes. Just on the competitive environment, Sahil. Thank you for the question. No major changes. I mean we do see the competitive environment at Arkansas tightening up a bit. And as you know there is a new facility opened up in June, July of this year. But we haven't seen the impact of that this year. Actually, our case counts at ASH are higher than they were previously. But it is something that that we watch very carefully.

Sahil Dhingra
Analyst, RBC Capital Markets

Q

And sorry. On the pain cases that were down 15%, is it just fluctuation like availability of the surgeons, or is it something else?

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

A

Yes. Sahil, this basically is availability in the – of the physicians. It's always difficult to know when exactly they're going to be taking time off.

Sahil Dhingra
Analyst, RBC Capital Markets

Q

Yeah. Okay. That is helpful. And then my second question is on the wage inflation and wage pressures. Is there any update there or are you still seeing elevated level of wage inflation?

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

A

I think what you're seeing Sahil is definitely moderation compared to previous years. We're not seeing the employees signing bonuses anymore, our retention payments that need to be paid. We're also seeing more stability in employee turnover. So we're definitely seeing a return to more normal conditions.

Sahil Dhingra
Analyst, RBC Capital Markets

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Okay. And then in the MD&A, I was looking at the income from operations by each of the facility. So like the significant decline in some of them, like Oklahoma and even some in Black Hills. So is it more a function of a mix, or is it inflation?

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

A

It's couple of things. For Oklahoma, it was primarily mix. For Black Hills, it was a bit of volume-related.

Sahil Dhingra
Analyst, RBC Capital Markets

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Okay. And is there any update on the capital deployment going forward? Like would you prioritize debt repayments like you have been doing over the last two quarters, or can we see an increase in dividend sometime?

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

A

No. The board hasn't made any decision with respect to changing the dividend. As you know, [ph] Sahil, I mean (00:12:16), we're constantly looking for ways to optimize the return to shareholders. Dividends are one. The NCIB is another. And we continue to be active under our NCIB program.

Sahil Dhingra
Analyst, RBC Capital Markets

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Okay. Thank you. Those were all my questions.

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

A

Thank you.

Operator: [Operator Instructions] At this time, it appears there are no further questions. I'd like to turn the call back over to management for any closing remarks.

Jason Redman

President, Chief Executive Officer & Director, Medical Facilities Corp.

Thank you, operator. I would like to thank everyone for taking the time this morning. We look forward to speaking with you again next quarter.

Operator: Thank you, everyone, for attending the call today. This does conclude the call. Have a wonderful rest of your day.

Jason Redman

President, Chief Executive Officer & Director, Medical Facilities Corp.

Thank you.