Medical Facilities Corporation

CEO Rob Horrar on Q1 2022 Earnings Call Transcript

May 12, 2022, 8:30 AM ET

Company Participants

Rob Horrar - President and CEO

David Watson - CFO

Conference Call Participants

Paul Stewardson – IA Capital Markets

Ronaldo Garcia – National Bank

Operator

Good morning, everyone. Welcome to Medical Facilities Corporation 2022 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 security 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 in 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 date made.

Today's conference is being recorded. I would now like to turn the meeting over to Mr. Rob Horrar, President and CEO of Medical Facilities. Please go ahead Mr. Horrar.

Rob Horrar

Thank you, operator. Good morning and welcome to our first quarter earnings call. Joining me today is David Watson, our Chief Financial Officer.

Earlier this morning we released our first quarter results. Our news release financial statements and MD&A may be accessed through our website at www.medicalfacilitiescorp.ca and have been filed with SEDAR today.

Our first quarter results demonstrated once again our ability to respond in the face of the ongoing challenges posed by the pandemic. Surgical case volumes and facility revenue increased 6.1% and 7.2% respectively for the quarter. However, the quarter began with the Omicron variant surging across North America, driving higher cancellation rates, significantly impacting our operations in the month of January.

As the Omicron surge began to subside our case, volumes improved dramatically in the second half of the quarter, particularly in the month of March. For some context, in January of this year, our surgical case volumes were down 2% from January last year, which was also a month that was particularly impacted by the pandemic. Our January 2022 volumes were 17.4% less than those in the same period of 2019.

For February, our surgical case volumes were up 11.9% over last year, but were still 3.8% off the pace from 2019. In March, our volumes were up 8% over prior year, a month that also saw a strong rebound in case volumes. Importantly, March 2022 volumes were 11.9% higher than they were in March of 2019.

We exited Q1 with significant momentum. However, given recent global events, continued supply chain issues around the world, and inflationary pressures that the whole industry is facing, we do expect pressures on supply and labor costs to remain a headwind in the near future.

We remain confident in our ability to navigate challenges that may lie ahead. We have a strong balance sheet and remain in a good position to execute on potential growth opportunities and we continue to have a robust pipeline of de novo and acquisition opportunities in the ASC space.

With that, I'd like to turn the call over to David to review our financial results for the quarter. David?

David Watson

Thanks, Rob and good morning everyone. As usual, I will discuss our financial performance for the quarter and provide an update on our balance sheet and liquidity. I would also like to remind everyone that all dollar amounts in today's call are in U.S. dollars unless stated otherwise.

Our higher surgical case volumes for the quarter contributed to a 7.2% increase in facility service revenue, which came in at $100.8 million in the quarter, also contributing to the increase with the impact of Arkansas Surgical Hospital bringing anesthesia service and related billing in house in the current year.

Total revenue and other income including government stimulus income with $1.8 million was $102.6 million, an increase of 4.6% compared to the first quarter of last year.

Looking at expenses, our consolidated salaries and benefits were up 2.9% compared to the first quarter of last year, primarily due to annual salary increases and staff retention premiums due to industry-wide labor pressure. However, as a percentage of total revenue and other income, consolidated salaries and benefits were down to 29.1% from 29.6% in Q1 of last year.

Consolidated drugs and supplies increased 12.2%, primarily driven by case mix and a higher surgical case volume. As a percentage of total revenue and other income, the consolidated cost of drugs and supplies increased to 32.9% from 30.7% a year earlier.

Our general and administrative expenses were up 38.1% in the quarter. The largest components of this increase were share-based compensation costs driven by the 21% appreciation in our share price during the quarter and the impact of ASH bringing its anesthesia service and related billing in house.

As a percentage of total revenue and other income, consolidated G&A increased to 18.6% from 14.1% a year earlier. With the higher operating expenses and decreasing government stimulus income during the quarter, our income from operations decreased 20% to $14.7 million.

EBITDA for the quarter was $19.8 million or 19.3% of revenue and other income compared to $25.1 million or 25.6% of revenue and other income in Q1 of last year.

During the quarter, we generated cash available for distribution totaling CAD5.5 million, resulting in a payout ratio of 44.4% versus 27.6% in Q1 of 2021. Our balance sheet remains strong with consolidated net working capital of $61.4 million, including $50.3 million of cash and equivalents at the end of the quarter. This compares to working capital $67.4 million, including cash and equivalents of $61 million at the end of 2021. Total cash includes $11.7 million for Medicare advances, which will be recouped by year end.

During the quarter, we purchased 391,000 shares for $2.95 million under our NCIB program. This brings total shares purchased to 701,000 as of March 31st at a cost of $5 million since the reauthorization of the program in the fourth quarter 2021.

At the end of the quarter, we had $21 million outstanding on our corporate credit facility. Inclusive of lease liabilities, our net debt to equity stands at 0.49, which is well below that of our U.S. listed peers. We remain well-resourced to capitalize on both growth opportunities and returning capital of shareholders via dividend and NCIB program.

This concludes my financial review for the quarter. For additional detail on our financial results, including specific results for each facility, please refer to our MD&A.

With that, we would now like to open the line for questions. Operator?

Question-and-Answer Session

Operator

Thank you, sir.

We will now take our first question from Paul Stewardson from IA Capital Markets. Please go ahead.

Paul Stewardson

Good morning gentlemen. Just calling in for Chelsea. Could you give a little more color on sort of the outlook, both short-term, but also more medium term in terms of these labor shortages? Is this something that is really foreseeable – that it's just going to keep happening? Or is it something that will wash out as sort of, salaries normalized and so forth across the sector?

Rob Horrar

Yes, thanks, Paul. I appreciate the question. So, I do think that for the most part, we're going to see continued pressure. It's not only in nursing, but in the labor market in general. So, there'll be a continued pressure there.

Now we're not immune to that, but our facilities have a pretty good environment -- working environment, typically not a lot of weekend or call types of schedule. But we do have some challenges around all the labor, the pressure -- inflationary pressures.

And in the near-term, we expect that to continue. And we have seen a little bit of improvement around the pressure for clinical folks to work in contract labor, which is more expensive. That seems to be normalizing a little bit. But we will expect that -- at least in the near-term to continue, much like the rest is of economy, the pressures there.

Paul Stewardson

Okay, okay. And maybe just any more color you can give on how you're looking at over the balance of the year, potentially de novo development or acquisitions? Any recent developments in your sort of growth pipeline from that perspective?

Rob Horrar

Yes, so a couple things. Organically, we've seen, and I called that out in the first quarter, a recovery in volumes – they are coming back to pre-COVID levels. So, that's very positive. Going forward, we expect that will continue. On the pipeline side, we've got a robust pipeline of opportunities, especially in the ASC space and we continue to diligence those and find the right fit for the company. So, there's certainly robust activity in that sector.

Paul Stewardson

And is anything near-term or is that just sort of ongoing?

Rob Horrar

Ongoing.

Paul Stewardson

Okay. Okay, great. That's all for me. Thanks so much for taking my questions.

Rob Horrar

Absolutely. Thank you, Paul.

Operator

We will now take our next question from Endri Leno from National Bank. Please go ahead.

Ronaldo Garcia

Hi, good morning. This is Ronaldo Garcia talking on behalf of Endri. Thank you for taking my questions. I have a couple here. The first one is on the higher G&A, I was wondering if you can give more color, how do you see these expenses going forward, besides share-based compensation increases?

David Watson

Sure, and we do provide a little more detail on the G&A expenses in the MD&A. But for the quarter, we included about $1.5 million of share-based compensation. That fluctuates based on changes in the share price. So, with a 21% increase in share price for the quarter, there's a commensurate increase in those expenses that are accrued.

But I'd point out that those are non-cash expenses and that accrual will fluctuate based on those market changes. There's also $1.2 million of anesthesia-related expenses for

Arkansas. That's new as they brought those services in house, but they're largely offset by increases in revenue. So, they're now providing billing for those services.

There was a reclassification of about $800,000 of expenses for Sioux Falls ACO. Those were previously recorded in drugs and supplies on a comparative basis. Again, not new expenses, just a reclassification. And then the balance of the increases is largely administrative and facility costs, and professional and billing fees. So, as revenue increases the billing fees also increase commensurately based on collections.

Ronaldo Garcia

Okay, thank you very much. And a follow-up question. On ASH, were there any one-time costs as part of that $1.2 million that you refer to in the MD&A, or should I assume a run rate of $1.2 million, or adjusted?

David Watson

Those will be continuing costs, as well corresponding revenues.

Ronaldo Garcia

Okay. And how do you reconcile it with the revenue of $1 million that you bring into the company?

David Watson

Yes, so there's a net expense component. You've got $1 million of revenue, $1.2 million of related expenses. There's effectively a net cost of $200,000.

Ronaldo Garcia

Okay. Thank you very much for the color. And now moving to the [indiscernible] you mentioned that there were a fewer spine cases. What drove the decrease in these cases? And I was wondering what was the current status, how are they performing right now?

David Watson

So, the decrease in spine cases were really just driven by fewer cases coming to those surgeons and a surgeon, it's primarily COVID-related. It's just a timing issue. We would expect to see increases in those types of cases later in the year.

Ronaldo Garcia

Okay, thank you for that. And have a one last one for me. For -- I was wondering, what was the SBA reasoning for denying forgiveness of PPP loan? And can you appeal the decision?

David Watson

It was really based on technical matters related to qualifying for the loan. So, the facility believes that they've met the qualifications and we'll be appealing that decision.

Ronaldo Garcia

Okay, and how long do you think it's going to take for the appeal?

David Watson

It's a fairly lengthy process, I would say at least seven to eight months.

Ronaldo Garcia

And do you expect the remaining 6.4 to be at risk, or that will not be the case?

David Watson

We've mentioned that those are under review. They were forgiven, but there's a continued review. So, we can't really opine on what the outcome of that process may be.

Ronaldo Garcia

Okay. Thank you very much for your answers.

David Watson

Great, thank you.

Operator

It appears there are no further questions. At this time, I would like to turn the conference back to Mr. Horrar for any additional or closing remarks.

Rob Horrar

Thank you, operator. In closing, we thank our physician partners, our nurses, and all team members who deliver outstanding care to patients each and every day. We look forward to reporting on our progress throughout the rest of the year. Thank you.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.