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COMPANY PARTICIPANTS

- Robert Horrar - Medical Facilities Corp., President, Chief Executive Officer & Director
- David N. T. Watson - Medical Facilities Corp., Chief Financial Officer

OTHER PARTICIPANTS

- Endri Leno - Analyst
- Chelsea Stellick - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone. Welcome to Medical Facilities Corporation 2021 Fourth 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 about factors that may cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements, 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 the date made.

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

Robert Horrar

Thank you, Jennifer. Good morning, and welcome to our fourth quarter earnings call. Joining me today is David Watson, our Chief Financial Officer. Earlier this morning, we released our fourth quarter and year-end 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.

We're pleased to report a solid fourth quarter to close out a much improved year compared to 2020. We're proud of our results, given that COVID was still widespread in the fourth quarter. As the Delta variant waned, it was replaced by the more transmissible Omicron variant. Our teams were able to respond to the ever-changing effects of the pandemic. However, COVID did continue to impact staffing and scheduling of cases in the fourth quarter and into 2022. We do expect pressures on supply and labor costs will continue to be a headwind in the near term. Total surgical volumes were up 1.5% for the quarter and 8.9% for the year over the same periods in 2020. Now, although we are still not back to pre-pandemic levels, we are certainly encouraged by the resilience of our physician partners, support of our employees and healthcare professionals, as well as the recent downward trend in COVID cases in the United States.

Rebounding surgical volumes, higher facility service revenue and the receipt of additional government stimulus income contributed to increases in operating income of 18.1% and 14.1% for the quarter and the year respectively. Cash available for distribution also increased for the quarter as a result of the higher income from facilities with the fourth quarter of 2021 having a highest generated cash since the fourth quarter of 2018. Our solid financial performance in 2021 and our ability to weather the impact of the pandemic overall are testaments to our physician-centric business model, and being well aligned with the ongoing market shift, favoring high-quality, low-cost care settings.

Our much improved cash flow performance and our strong financial position, we're confident in our ability to navigate challenges that lie ahead, while meeting our capital allocation goals, which include delivering shareholder returns through competitive dividends and share repurchases. Last quarter, we announced a 15% increase in our quarterly dividend, which commenced in the fourth quarter. At the same time, we announced our intent at subsequently the approval and implementation of a normal course issuer bid.

During the fourth quarter, we repurchased 310,000 common shares for a total consideration of $2.1 million from the open market. And today, we announced the TSX accepted our amendment to expand the normal course issuer bid, which will allow us to purchase up to 10% of our issued and outstanding common shares. In 2022, we remain committed to increasing shareholder value by focusing on responsible growth. In terms of organic growth, we are focused on expanding our existing facilities, like the expansion in Arkansas Surgical Hospital in 2021, as well as through the recruitment of new physicians. We additionally invested in robotics, adding five new systems companywide in the past year. Looking ahead, we will also continue to leverage our existing network to explore opportunities to create de novo ASCs, while remaining open to the right acquisition opportunities.

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

David N. T. Watson

Thanks, Rob, and good morning, everyone. 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 expressed in today's call are in US dollars unless stated otherwise.

Looking at our top line, facility service revenue for the quarter increased 3.3% to $110.7 million, compared to the same period in 2020. As Rob mentioned, our case volumes were up 1.5% from the same quarter last year. And although inpatient cases declined 21%, outpatient cases were up 5%, and observation cases increased by 31%. We recognized a further $5.7 million in government stimulus income during the quarter, resulting in total revenue and other income of $116.4 million, with an increase of 6.3% compared to Q4 2020.

Consolidated income from operations increased 18.1% to $25.5 million for the quarter. The increase was attributable to the higher facility service revenue and the higher government stimulus income during the period. EBITDA for the quarter was $32 million or 27.4% of revenue, compared to $28.4 million or 26% of revenue in the fourth quarter of 2020. During the quarter, we generated cash available for distribution totaling CAD 14.7 million, resulting in a payout ratio of 16.9% versus 21.5% in Q4 2020.

We finished the year with a strong balance sheet and improved financial flexibility. As of December 31st, we had consolidated net working capital of $67.4 million, including $61 million of cash and equivalents. This compares to working capital of $45 million, including cash and equivalents of $66.2 million at the end of 2020. Total cash includes $15.2 million of Medicare advances, which will be recouped by year-end. Year-end balance in our corporate line of credit was $26 million. Inclusive of lease liabilities, our net debt to equity stands at 0.44. Our leverage remains significantly lower than our US trading peers, and we are well-resourced to capitalize on both, growth opportunities and the return of capital to 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. Jennifer?

QUESTION AND ANSWER SECTION

Operator

Thank you. And we'll go first to Endri Leno with National Bank.

Analyst: Endri Leno

Question – Endri Leno: Hey. Good morning. Thanks for taking my questions. I'll start with the first one. I have a few, but I'll go back in the line as well, I mean, if I ask too (08:15) many. But the first one is, Rob, you mentioned in your prepared comment that you're exploring de novo opportunities, as well as open to the right acquisition one, I wonder if you can talk a little bit about them, anything sort of in the short term or any color that you can give around that?

Answer – Robert Horrar: Sure. We do continue to work a fairly robust pipeline of opportunities. And we're not, of course, interested in distressed or turnaround types of situations. So, we had quite a fair amount of looks. Those include de novo and acquisition opportunities. And that's just, again, there's a little bit of noise with the pandemic and trying to get to real run rates and opportunities. But no, we've got a fairly robust opportunity look, it's just finding that right situation. Of course, we've talked about de novo (09:06) Germany, so.

Question – Endri Leno: Okay. Yeah, thank you for that. And (09:15) of growth and more a bit of focus on the organic side, you completed the expansion in Arkansas, and congrats for that. When do you think it's fully ramped up in terms of producing and contributing to results?

Answer – Robert Horrar: Well, I mean, sort of in terms of the operating rooms, they're open and available, and they were in the fourth quarter. I think, for the most part, we've said, there's no barriers to that. Facilities continue to recruit. We've added robotics. We've got new physicians, new capacity. So it's ready to go and receive volumes for the year.

Question – Endri Leno: Okay, okay. Thank you. And one more for me, and then I'll jump in the queue. But you mentioned that you were still below 2019. So, two questions there. The first one, if you can quantify how much below or what percentage of 2019 you are? And the second part to that is that why do you think it's persistent, even towards the end of the year, and how do you think it develops in 2022?

Answer – Robert Horrar: Yeah. We talked about the fact that we had really a twin surge starting with Delta, and then replaced by Omicron and COVID continues to be the story here. We're mid-single-digit around – in terms of variants to 2019 volumes, around 6% below that. That, where we think a base run rate is. And it's improved since last year, but we'll still see that and we expect it to normalize again further this year, barring any other variants and surges on the COVID front.

Question – Endri Leno: Okay. Thank you. I'll get back in the queue. Thanks.

Answer – Robert Horrar: Okay. Thanks, Endri.

Operator

We'll take our next question from Chelsea Stellick with IA Capital Markets.

Analyst: Chelsea Stellick

Question – Chelsea Stellick: Hi. Good morning. Congratulations on the quarter. Just two questions for me. The main one being, just looking for additional color on the Black Hills closure, just any color on that would be great?

Answer – Robert Horrar: Are you talking about the urgent care?

Question – Chelsea Stellick: Yeah.

Answer – Robert Horrar: Yeah. So, in that market, we operate four urgent cares in a wider service area. And this particular urgent care, it's part of a larger outreach strategy. And so, the urgent care portion, not necessarily the outreach offices just was underperforming. And so, we decided to close it and focus the volumes on the others.

Question – Chelsea Stellick: Any material impact or likely not?

Answer – Robert Horrar: No.

Question – Chelsea Stellick: Okay. And my second question, just in terms of staffing shortages continuing, as you mentioned into the first quarter, what sort of impact will this have, I guess, in terms of magnitude compared to the fourth quarter? Obviously, the fourth quarter is seasonally stronger than Q1, so any offset in that?

Answer – Robert Horrar: Yeah. Luckily, we have a high retention in our staffing, and that's a secret ingredient to our success. So there's two parts to that, really. The (12:53) to retain staff in light of the shortages and competition has been an increase of cost, and it resulted in some retention bonuses and shift differential types of payments, which is a little bit of a headwind. Second has been, one, really more of absenteeism around COVID, which we saw at the very end of the fourth quarter and into the first quarter. So, we've been lucky to retain that and not have to use extraordinarily expensive contract labor. So, we do expect that that was going to continue into this year. We're not alone in that headwind, and is not limited to our geographies. It's fairly a national phenomenon. We're not going to put a figure to that. We do expect that we'll – hopefully to normalize it to more sort of the end of the year.

Question – Chelsea Stellick: Okay. Perfect. Thank you so much. I'll jump back in the queue.

Operator

We'll go back to Endri Leno with National Bank.

Analyst: Endri Leno

Question – Endri Leno: Hi. Thank you for the follow-up. I'll continue actually with the Black Hills. I have a question there. In terms of the medical imaging what was down in the quarter, can you elaborate what drove that, and whether we can expect a recovery in Q1?

Answer – Robert Horrar: No, I think that there's nothing systemic there. It really just is a matter, again, of some COVID and scheduling types of opportunities. There's nothing systemic that would have impacted the volume, nothing to call out on that. We would expect that to return.

Question – Endri Leno: Okay. Okay, thank you. And the other question is, there's been some potential competition activities in Arkansas. There's a new hospital coming there in a couple of years or so. Do you have any comment on that? I mean, how does that fit with your plan of growth, and the completion of the centers (15:08) Arkansas?

Answer – Robert Horrar: Yes. You're talking about, it's an existing competitor, UAMS, University of Arkansas Medical Sciences, and that's an expansion of their hospital campus. And we understand that to be more focused on trauma and oncology. But again, as we call out, we're in competitive markets. And (15:33) capital in our facilities, where we don't expect the competition to be static. But again, we've got very strong physician partnerships in that market. And we don't – we think we'll be just fine in the competitive profile in Little Rock, yeah.

Question – Endri Leno: Okay. Thank you. That's it for me.

Operator

And at this time, there are no further questions. I'll turn the call back to Mr. Rob Horrar for additional or closing comments.

Thank you, Jennifer. In closing, we thank our physician partners, nurses and all team members who deliver outstanding care to patients each and every day. And always, we look forward to reporting on our progress again throughout 2022. Thank you.

Operator

This does concludes today's conference. We thank you for your participation.