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DR.TO - Q1 2024 Medical Facilities Corp Earnings Call

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CORPORATE PARTICIPANTS

Jason Redman *Medical Facilities Corp - Interim President and Chief Executive Officer, Executive Director*

David Watson *Medical Facilities Corp - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Sahil Dhingra *RBC Capital Markets - Analyst*

PRESENTATION

Operator

Good morning, everyone, and welcome to Medical Facilities Corporation's 2024 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 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 implied 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 [service 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 - *Medical Facilities Corp - Interim President and Chief Executive Officer, Executive Director*

Thank you, operator, and good morning, everyone. With me on the call is our Chief Financial Officer, David Watson. Earlier this morning, we reported our first quarter results, our news release, financial statements, and MD&A are available on our website and have been filed on SEDAR plus. Also, please note that many of the income statement variances discussed by David and I this morning will exclude the results from the divested MFC Nueterra ASCs. For MFC [and short].

We had a solid start to the year. our surgical hospitals performed well, driving higher revenues through increased surgical case volumes. Excluding MFC revenues climbed to \$108.3 million, marking a solid 4.5% increase over the same period last year, while our surgical case volumes were up 4.3% in the quarter.

Excluding MFC's, our income from operations and EBITDA were up 29.6% and 19%, respectively during the quarter. The increases reflect the combination of higher facilities service revenue, which exceeded the increase in operating expenses, along with cost savings, at the corporate level. We continued to pay down our corporate credit facility, reducing the balance by a further \$5 million in the quarter, after reducing the balance by \$20 million in 2023. We also continued to buy back shares returning, an additional \$1.8 million to shareholders through the purchase of 253,900 common shares under our normal course issuer bid during the quarter.

Lastly, and recognition of our continued solid cash flow performance, we were pleased to announce this morning an 11.8% increase to our quarterly dividend, commencing with the second quarter dividend. The dividend remains an important part of our commitment to maximizing total shareholder returns and with today's announcement, MFC will have increased its dividend by 28.6% over the past 2.5 years.

I would now like to turn the call over to David to review our financial results in more detail. David?

David Watson - *Medical Facilities Corp - Chief Financial Officer*

Thank you, Jason. Good morning, everyone. As usual, please note that all dollar amounts had follow are in US dollars. As Jason mentioned, in excluding [MFCN], our first quarter revenue increased 4.5% to \$108.3 million. In addition to the higher surgical case volumes at our hospitals, the revenue increase was due to the combined impact of case and payor mix.

Total surgical cases increased by 4.3% observation cases were up 12.7% and outpatient cases increased by 8.2%, but inpatient cases were down 17.8%. In terms of case mix, we had a higher proportion of spine cases and higher acuity orthopedic procedures resulting in higher reimbursements per surgical case. Our operating expenses decreased 5.1% to \$90.9 million, with decrease attributable primarily to the MFCN. divestitures. When excluding MFCN, our operating expenses were up slightly by 0.7%.

Consolidated salaries and benefits were down 1.1%, primarily due to the MFCN and divestitures, along with cost saving initiatives at the corporate level and lower benefit costs from decreased health plan utilization. This is largely offset by higher salaries due to annual merit increases, full-time equivalent increases, market wage pressures and more employed physicians. Consolidated drugs and supplies decreased 5.9%, mainly due to the impact of the MFCN divestitures.

Consolidated G&A expenses were down 8%, mainly due to the impact of the MFCN divestitures, but also cost savings at the corporate level and a decrease in other various facility related expenses. It's already covered the increase to our operating income and EBITDA. So I'll move on to our balance sheet. At the end of the quarter, we had consolidated net working capital of \$7.8 million and cash and cash equivalents of \$25.7 million compared to net working capital of \$19.8 million and cash and cash equivalents were \$24.1 million at year end.

In addition to using cash to pay down corporate credit facility by \$5 million to purchase \$1.8 million shares under the NCIB. The decline in net working capital reflects a \$7.6 million increase in the obligation for purchase of common shares to \$9.7 million at the end of Q1, which reflects the maximum potential purchase liability under the automatic share purchase plan in relation to the NCIB. However, subsequent to quarter end through to May 3, we were only able to purchase 93,500 shares for total consideration of \$0.7 million on the automatic share purchase plan.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sahil Dhingra, RBC.

Sahil Dhingra - *RBC Capital Markets - Analyst*

Hi this is Sahil for Doug Miehm. Thank you for taking my questions congrats on the good quarter. My first question is on the pain cases that were down 6% year-over-year, and I think on the last call you alluded to that you were looking to replenish the physicians in that pain management cases. Can you provide us an update what's going on?

Jason Redman - *Medical Facilities Corp - Interim President and Chief Executive Officer, Executive Director*

Sure, Sahil, how you doing? Thanks for the question. As you know, we don't discuss the individual physician hires at the facilities, but it is a priority for us to addresses both at our level of each of the facilities. So it remains an ongoing item that we want to continue to addressing going forward.

Sahil Dhingra - RBC Capital Markets - Analyst

Okay. And my second question is related to the wage pressures that you commented on during the prepared remarks? Can you comment on the inflation dynamics currently. And are there any further our cost savings initiatives at the corporate level or are we fully done with those?

David Watson - Medical Facilities Corp - Chief Financial Officer

Sure, hi Sahil, it's David. Yeah, with respect to the wage pressure, we continue to be in competitive markets for staff as we mentioned, though, in the prior quarter, some of the significant wage inflation sign on bonuses, things like that have certainly slowed down. But that said, we do continue to see pressure on wages, but it's certainly better than it has been.

Sahil Dhingra - RBC Capital Markets - Analyst

Okay. Thank you. My another question is on the competitive dynamics in the marketplace. So we [ASCs] saw I think new hospitals at our concerns and previously a few in South Dakota, if you can update us on the competitive -- and the competition in those markets and also -- Sioux Falls revenues were quite strong. Was it just the case mix or are you also seeing higher volumes there? Thank you.

Jason Redman - Medical Facilities Corp - Interim President and Chief Executive Officer, Executive Director

Sure, let me just the ASCs the question first and let David address your Sioux Falls. So on the ASC side, we haven't we haven't seen the impact of the competitive environment meant that has always been a competitive area for us. We continue to remain strong in that market. And we haven't seen any adverse impact of the university hospital that was -- that's been in place.

David Watson - Medical Facilities Corp - Chief Financial Officer

And then with respect to your question about Sioux Falls. It's a couple of factors Revenue growth came both from case mix with higher acuity orthopedic cases as well as increased volume.

Sahil Dhingra - RBC Capital Markets - Analyst

Okay. I'm sorry, my last question is on capital allocation going forward. It was nice to see a dividend increase this quarter, but how are you going to prioritize among further debt repayment NCIB and dividend increases going forward?

Jason Redman - Medical Facilities Corp - Interim President and Chief Executive Officer, Executive Director

As, we've said previously, I feel it's a it's really a balance between those three components. We continue to be as active as we can in the NCIB, we want to continue to pay down our debt and the Board thought it was appropriate at this point in time to increase the dividend. We believe is sustainable, but it is a balancing act between the three and a lot of it depends on how active we can be under the NCIB program.

Sahil Dhingra - RBC Capital Markets - Analyst

Thank you for taking your questions.

Operator

(Operator Instructions) [Doug Fee].

Unidentified Participant

Yes, Doug good morning, gentlemen. Congratulations on a strong Q1. Quick question for me. Just with regard to your strong case volumes, the case mix in the quarter was just wondering you're still within shouting distance of the pandemic era during which some of your procedural volumes would have been curtailed by pandemic logistics. Just wondering, is there -- have you been able to quantify how much backlog from the deferred cases through the 2020 to 2023 period might actually impact the next several quarters across any of your facilities in South Dakota, Oklahoma, Arkansas?

Jason Redman - *Medical Facilities Corp - Interim President and Chief Executive Officer, Executive Director*

Yeah, hey, Doug good morning. I would say from a backlog perspective that backlogs work through at this stage here.

Unidentified Participant

Fair enough, Thanks Jason.

Operator

There are no questions at this time, please go ahead, Mr. Redman.

Jason Redman - *Medical Facilities Corp - Interim President and Chief Executive Officer, Executive Director*

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

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, you may now disconnect.

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