

Medical Facilities Corporation

Q2 2024 Earnings Call Transcript

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Company Participants

Jason Redman - President and Chief Executive Officer

David Watson - Chief Financial Officer

Conference Call Participants

Douglas Miehm - RBC Capital Markets

Doug Loe - Leede Financial

Operator

Good morning, everyone. Welcome to Medical Facilities Corporation's 2024 Second Quarter Earnings Call. [Operator Instructions]

Before turning the call over to management, listeners are reminded that today's call may contain forward-looking statements with 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, and good morning, everyone. With me on the call is our Chief Financial Officer, David Watson. Earlier this morning, we reported our second quarter results. Our news release, financial statements and MD&A are available on our website and have been filed on SEDAR+. Please note that the income statement variance as discussed by Dave and I this morning will exclude the results from the divested MFC Nueterra ASCs and non-controllable non-cash corporate level charges related to share-based compensation plans.

Overall, our hospitals continue to perform well in the quarter, benefiting from higher surgical and pain management case volumes as well as favorable case in payer mixes. These factors resulted in a 2.4% increase in facility service revenue and combined with savings at the corporate level, helped drive a 21% increase in income from operations and a 13.7% increase in EBITDA.

While on the topic of our hospitals back in early June, we announced that our Black Hills facility will expand its services to include heart and vascular care with the opening of the Black Hills Heart & Vascular Institute. The Institute will provide a comprehensive range of services from preventive care to interventional cardiac, vascular and vein procedures. To support the Institute, Black Hills plans to build a state-of-the-art cardiac catheterization lab for advanced cardiac and coronary procedures. The clinical lab will be situated next to Black Hills Surgical Hospital. MFC is excited to partner with Black Hills team to meet the increasing demand for quality heart and vascular care in Rapid City and its surrounding areas.

In addition to our solid financial results for the quarter, we made further progress in paying down corporate debt and repurchasing shares under a normal course issuer bid. In the quarter, we reduced our corporate credit facility by a further \$5 million and returned another \$3.9 million to shareholders through the purchase of 421,800 common shares under the NCIB.

Subsequent to quarter end, we received favorable news regarding the U.S. Small Business Administration review of \$6.9 million of the \$12 million in Paycheck Protection Program loans issued to certain facilities during the pandemic.

The SBA completed its review of these particular loans and confirmed full forgiveness. As a result, we will record the \$6.9 million as government stimulus income in the third quarter and reversed a corresponding liability previously recorded under government stimulus funds repayable. For the \$5.1 million in PPP loans that remain, we will continue to diligently pursue all reasonably available channels to reverse any remaining denials for the outstanding PPP loans.

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

David Watson

Thank you, Jason. Good morning, everyone. As usual, please note that all dollar amounts that follow are in U.S. dollars. Second quarter facility service revenue grew 2.4% to \$107.2 million. The increase of \$2.5 million was attributable to higher surgical and pain management case volumes as well as favorable case and payer mixes. Total surgical cases were up 2.8% as observation cases increased by 13.1%, and outpatient cases were 6.1% higher, but inpatient cases were down 21.7%. Pain management cases were up 2.2%.

Total operating expenses declined 0.9% to \$88.3 million with reductions in drugs and supplies and G&A expenses, mostly offset by the increase in salaries and benefits. Consolidated salaries and benefits increased 5.4%, primarily due to higher clinical and non-clinical salaries and wages as a result of annual merit increases, full-time equivalent increases and market wage pressures. This was partly offset by the impact of the sale of Black Hills Surgical Hospital's Gillette Urgent Care center during the quarter and cost-saving initiatives at the corporate level.

Consolidated drugs and supplies decreased 3.6% due to a case mix that reflected lower acuity cases and improved cost savings at certain facilities. Consolidated G&A expenses were down 4.8% due to lower equipment rentals and purchases, lower physician guarantees, cost savings at the corporate level and the sale of the Gillette Urgent Care Clinic in April. And as Jason highlighted earlier, EBITDA increased 13.7% to \$23.8 million.

Looking quickly at our balance sheet. At the end of the quarter, we had consolidated net working capital of \$8.7 million and cash and cash equivalents of \$18 million compared to net working capital of \$19.8 million and cash and cash equivalents of \$24.1 million at year-end. The reductions in net working capital and cash and cash equivalents are the result of the continuing return of capital to shareholders through dividends and share purchases under the NCIB program as well as further reductions in corporate debt.

Through the first six months of the year, we have paid \$3 million in dividends, reduced the outstanding balance of our corporate credit facility by a total of \$10 million, including \$5 million during the second quarter and returned \$5.7 million to shareholders through the purchase of 675,700 common shares under the NCIB. This concludes our prepared remarks. We would now like to open up the call for questions. Operator?

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question comes from Douglas Miehm of RBC Capital Markets. Please go ahead. Your line is open.

Douglas Miehm, RBC Capital Markets

Hey, good morning. Thank you for taking my questions. First question just has to do with two specific hospitals. I guess Sioux Falls and Oklahoma. And Sioux Falls was exceptionally strong this quarter, up 9% overall in terms of revenues. And perhaps you can expand on the reason for that. And then maybe the same for Oklahoma, but the other way, considerably weaker than anticipated. I know that you talked about the combined impact and case in payer mix. But has got a move or a change that it could be sustained going forward? Or would you expect a rebound just based on quarterly pacing?

David Watson

Hey, Doug, so with respect to Sioux Falls, as we mentioned, they had higher surgical case volume. The mix was good. They saw more higher acuity spine cases. As well as the ENT procedures. So overall, that's what was driving that. They did have a strong – very strong quarter. On the OSH side, they saw – a lot of it was case mix, so less on the inpatient, more on the outpatient side. However, I think that's more of a quarterly, and we'll have to see how that goes.

Douglas Miehm, RBC Capital Markets

Okay. And then my other question is just, it sounds like one of your much larger competitors is on the block. I am curious about how you think about your business and if there were ever an opportunity for you to do the same thing or if the company were approached. Is there any way that the minority shareholders here are required to buy into any potential sale of the company, or is it completely up to current shareholders, management and the Board?

Jason Redman

Hi Doug, appreciate the question. I mean look, if there was an opportunity for a potential transaction, as you know, the Board has an obligation to consider that and will do so accordingly. And that's a decision that the Board and the current shareholders would have to make.

Douglas Miehm, RBC Capital Markets

And there is nothing that the doctors could do to prevent that from happening?

Jason Redman

I think obviously, I mean anyone who is going to be interested in our assets would want the doctors' support. And that's the main revenue generator. So, I think they would want to have alignment on any transaction that would happen.

Douglas Miehm, RBC Capital Markets

Okay. That's great. Okay. Thank you.

Jason Redman

Thanks Doug.

Operator

And your next question comes from Doug Loe of Leede Financial. Please go ahead. Your line is open.

Doug Loe, Leede Financial

Yes. Thank you, operator and Jason, thanks for taking my call. Just kind of looking retrospectively back to your announcement on the opening of the Black Hills Heart & Vascular Institute. And I appreciate you gave a few general comments in that press release and in your MD&A this morning, on just what the breadth of services might be that you might offer within that new initiative. I mean it's a pretty broad category. And you specifically mentioned catheterization, I assume you might do the ablation for heart arrhythmia. You mentioned vein procedures, which multiple varicose veins procedures that they are currently FDA approved. So, those are just two ideas that just kind of popped into my head, just kind of define the breadth of services that you might provide within that institute and whether that platform if sort of successful in the first few quarters might be expandable to you a few other hospitals. And I will leave it there. Thanks.

Jason Redman

Yes. So, thanks. I mean this right now is unique to Black Hills. If there is an opportunity for other areas, I mean we have stated that we are always going to be looking for ways to add service lines to our other facilities. But for now, it's focused on the Black Hills area. I think the range of services will continue to evolve over time as these doctors, the three physicians get in place and start to build out their practice. We can see this evolving. But for now, it's really what we have mentioned, the

cardiovascular and the vein procedures. That's going to be the main focus. But we are – well, as I have said, we are building on the state-of-the-art cath lab in our facility to accommodate a range of different services.

Doug Loe, Leede Financial

Okay. Fair enough. Thanks.

Operator

[Operator Instructions] And there are no further questions at this time. I would now like to turn the call back over to Mr. Redman for closing comments.

Jason Redman

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

Operator

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