Medical Facilities Corporation
Q4 2024 Earnings Call Transcript

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Company Participants
Jason Redman - President & CEO
David Watson - CFO

Conference Call Participants
Sahil Dhingra - RBC

Operator

Good morning, everyone. Welcome to Medical Facilities Corporation's 2024 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 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 filing 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.

Jason Redman

Thank you, operator, and good morning, everyone. Joining me on the call is our Chief Financial Officer, David Watson.

Earlier this morning, we reported our fourth quarter and year-end results. News release, financial statements, and MD&A are available on our website and have been filed on SEDAR+.

MFC had a very strong year in 2024. We had solid increases in income from operations, adjusted EBITDA and net income for the year. But it should be no surprise that the biggest highlight was the sale of Black Hills to Sanford Health in November. While we weren't necessarily looking to sale of Black Hills, the opportunity to enhance value for our shareholders and physicians was simply too compelling. For MFC's majority ownership position of Black Hills, we received cash proceeds of $96.1 million, net of transaction costs of $0.9 million. Additionally, we recorded a net receivable of $0.7 million for working capital adjustments and escrow reserve, which was collected subsequent to year-end.

The transaction also significantly strengthened our balance sheet. It resulted in the elimination of the exchangeable interest related to Black Hills in the amount of $17 million and drove our year-end cash balance to a record high of $108.5 million, enhancing our ability to return capital to shareholders, while allowing us to refine our focus on the remaining core assets.

Throughout the year, we continue to prioritize shareholder returns and under our normal course issuer bid, we repurchased approximately 1.7 million common shares or about 6.9% of the total shares outstanding we had at the start of 2024, returning $16.6 million to our shareholders.

We also continued our substantial debt repayments. In 2023, we repaid $20 million on our corporate credit facility, which reduced the balance to $16 million by the start of 2024. This past year, we repaid the entire $16 million in full, bringing the balance to zero.

In addition, at the close of business yesterday, we announced the results from our substantial issuer bid, which we initially launched in January of 2025. Under the SIB, we repurchased approximately 3.4 million shares for an aggregate purchase price of CAD60.7 million. The shares repurchased under the SIB represented approximately 14.7% of our issued and outstanding common shares on a non-diluted basis as at February 24, 2025, when the revised terms of the offer were announced.

Now that the SIB has concluded, any remaining cash not utilized to repurchase common shares will be distributed to shareholders by way of a special dividend. We are very proud to report that following the closing of this SIB since 2022, MFC has been able to return $126.2 million to our shareholders through a combination of SIBs, NCIBs and dividend payments.

Looking ahead, we remain focused on operational excellence and delivering the highest quality of care to our patients while continuing to evaluate options to optimize shareholder returns.

And briefly on the topic of quality of care, I just wanted to give a quick shout-out to the team at Arkansas Surgical Hospital for recently receiving the 2024 Press Ganey Human Experience Guardian of Excellence Award for the fifth year in a row placing them on the top 5% of hospitals across the U.S. for outstanding patient experience. Additionally, our Arkansas and Sioux Falls facilities were recently recognized as among the top orthopedic hospitals for women in the U.S. by marketing research company Women's Choice.

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.

Please note that the income statement variances that we'll be discussing this morning exclude the results from Black Hills Surgical Hospital, which was sold during the quarter and included in discontinued operations as well as the divested MFC Nueterra ASCs, $12 million of government stimulus income, and non-controllable non-cash corporate level charges related to share-based compensation plans. As usual, please note that all dollar amounts that follow are in U.S. dollars unless otherwise specified.

As Jason mentioned, we produced solid financial results in 2024. Full year facility service revenue was up 1.1% to $331.5 million. Income from operations grew 10.5% to $54.7 million when excluding impairment of goodwill and adjusted EBITDA increased 7.3% to $71.4 million. However, as usual, I will focus mostly on the results for the quarter.

Fourth quarter, facility service revenue was down $1 million or 1.1% to $91.1 million. This is mainly due to slightly lower surgical case volumes, which were impacted by both physician absences by the temporary and industry-wide intravenous saline fluid shortage caused by Hurricane Helene last fall. Lower surgical case volumes were partly offset by favorable case and premixes.

Total surgical cases were down 0.2% with inpatient cases decreasing 5.3% and observation cases decreasing 4.3%, partly offset by a 2% increase in outpatient cases in the quarter. Pain management cases were up 2.4% in the quarter.

Total operating expenses were essentially flat declining $0.1 million as higher consolidated salaries and benefits were mostly offset by reductions to drugs and supplies and G&A expenses.

Consolidated salaries and benefits were up 4.8% mainly due to higher clinical and non-clinical salaries and wages resulting from annual merit increases, full time equivalent increases, and market wage pressures, as well as higher benefit costs from increased health plan utilization and a one-time cash settlement of stock options in the current period.

Drugs and supplies were down 4% largely due to less orthopedic and spine cases and improved implant cost savings at certain facilities. Lower surgical volume and higher vendor rebates also contributed to the decrease.

Lastly, G&A expenses were down 1.2% when excluding the $0.5 million increase in corporate level costs related to the mark-to-market adjustment on share-based compensation plans driven by the increase in our share price in the quarter as compared to Q4 of the prior year.

Although not included in the total operating expense variance just discussed during the quarter, we recorded a $2.3 million impairment charge against goodwill related to our Newport ASC to reflect a continued competitive environment and local dynamics. As a result of the items I've noted, income from operations was down 4.9% to $17.4 million and adjusted EBITDA was down 2.8% to $21.7 million.

Turning to our balance sheet. At the end of December, we had consolidated net working capital of $76.4 million and cash and cash equivalents of $108.5 million compared to net working capital of $19.8 million and cash and cash equivalents of $24.1 million at the end of 2023. The increases in net working capital and cash and cash equivalents were primarily driven by the sale of Black Hills.

Other notable variances included an increase in the primarily non-cash obligation for the purchase of common shares under our NCIB, partly offset by a $12 million decrease in government stimulus funds repayable.

During 2024, we paid $6.1 million in dividends, retired the balance on our corporate credit facility, including the $4 million repayment in the fourth quarter, and returned $16.6 million to shareholders through our NCIB, including $5.3 million in the quarter.

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

Question-and-Answer Session

Operator

Thank you, ladies and gentlemen. We will now begin the question-and-answer session. [Operator Instructions].

There's a first question from Sahil Dhingra from RBC. Please go ahead.

Sahil Dhingra

Hi, this is Sahil for Doug Miehm. Thank you for taking our questions. My first question is on the sale of the Black Hills Surgical Hospital. I think in the prepared remarks you said, you are not actively looking for the sale, but could you please provide us with some more information how did the process came to fruition? And what is -- and how is the company thinking about the other facilities? Are you planning to sell those as well?

Jason Redman

I'll take that one. Hi Sahil, how you're doing? Yes. To answer your question, we've always maintained that we don't have a for sale sign on our assets. But if an opportunity arises that that's attractive to both ourselves and the physicians, then that's something that the Board will definitely look at. And that's what happened with the Black Hills transaction. It was just discussions that culminated over time and it was a very attractive offer and something that the Board and the doctors wanted to pursue.

Sahil Dhingra

Okay. Great. Thank you. That is helpful. And then my second question is I noticed that Q4 had some one-time impacts that you said, like physician absence and also IV fluid shortages. So is it fully resolved now or do you see any further impact in Q1?

David Watson

Yes. On the saline shortage, Sahil, that does appear to be resolved. The manufacturers back online and other sources have also made themselves available. So we don't anticipate a significant impact from that going forward. With respect to physician absences, that that really varies on a quarter-by-quarter basis depending on vacation schedules and that one's difficult to predict.

Sahil Dhingra

Okay, okay. And then, as it relates to your corporate expenses, are you fully optimized there or do you see room for further savings? And I also noticed the corporate expense was higher year-over-year. Can you comment on that, please as well?

David Watson

With respect to the corporate expenses, there was a -- the impact, the non-cash impact of the mark-to-market adjustment for share-based comp of about $0.5 million and that was the most significant factor on that front.

Jason Redman

And just to answer the other part of your question, Sahil, I do think from a corporate perspective, I mean we've done a very good job over the last couple years, rightsizing our expenses for the business that we have. But I don't see a lot of opportunities going forward. We will obviously continue to focus on it and we have been focusing, but the majority of the corporate cost savings have already been realized.

Sahil Dhingra

Okay. Great. Thanks. And then the last question is, if you can speak to any changes in competition for any of the facilities and then also do you see any potential impact from like neutrality legislation or any other policy from the new administration? Thank you.

Jason Redman

In terms of the competitive environment, we haven't seen any material change amongst our facilities so relative stability there. On the site neutrality, it is something that we’re watching very carefully. This has been floated around for a number of years. It's not new, but it's something that we ourselves and our local facilities are trying to monitor and assess what the impact could potentially be going forward. I think it's too early to predict what that impact is because no one knows what the legislation could be, but it definitely is on our radar.

Sahil Dhingra

Great. Thank you so much for taking our questions.

Jason Redman

Thank you, Sahil.

Operator

[Operator Instructions].

At this time, we have no other questions. I will turn the conference back to Jason Redman for any closing remarks.

Jason Redman

Thank you, operator, and thank you all for joining us this morning. We appreciate your continued support and look forward to updating you on our progress in the coming quarters. Have a great day everyone.

Operator

Ladies and gentlemen, this concludes the conference. You may disconnect your lines.