



**MEDICAL  
FACILITIES**  
CORPORATION

QUALITY OF CARE  
■ IS OUR ■  
CORE BUSINESS

ANNUAL REPORT 2022



IN 2022 WE CONTINUED TO RECOVER FROM THE COVID-19 PANDEMIC DESPITE CHALLENGING MACROECONOMIC CONDITIONS. OUR SURGICAL CASE VOLUMES WERE HIGHER THAN EACH OF THE TWO PRIOR YEARS, AND OUR FACILITY SERVICE REVENUE INCREASED 6.5% TO REACH AN ALL TIME HIGH.

During the year, we announced a change in corporate strategy and had changes on our management team and on our Board of Directors. We also returned significant capital to shareholders through a substantial issuer bid and our normal course issuer bid programs.

While there have been a number of changes over the past several months, our core business remains strong, and we remain focused on delivering the utmost quality of care to our patients and optimizing shareholder returns.



## Facility Service Revenue

(\$ millions)

2022	<b>424.6</b>
2021	<b>398.6</b>
2020	<b>363.9</b>

## Surgical Case Volume

2022	<b>44,107</b>
2021	<b>42,596</b>
2020	<b>39,107</b>

## Total Revenue and Other Income<sup>1</sup>

(\$ millions)

2022	<b>414.4</b>
2021	<b>411.7</b>
2020	<b>389.9</b>

## Income from Operations<sup>1</sup>

(\$ millions)

2022	<b>34.9</b>
2021	<b>77.4</b>
2020	<b>67.8</b>

## Adjusted EBITDA<sup>1,2</sup>

(\$ millions)

2022	<b>72.3</b>
2021	<b>104.1</b>
2020	<b>96.1</b>



## Current Ratio

**1.37x**

## Net Debt<sup>3</sup> / Equity

**0.94**

## Net Debt<sup>3</sup> / Adjusted EBITDA

**1.50**

<sup>1</sup> Total Revenue and Other Income, Income from Operations and Adjusted EBITDA in 2022 were impacted by the reversal of \$12.3 million in Paycheck Protection Program income recognized in prior periods; Income from Operations in 2022 was also impacted by a non-cash impairment charge of \$16.5 million relating to the MFC Nueterra ambulatory surgery centers.

<sup>2</sup> Adjusted EBITDA is a Non-IFRS Financial Measure. Refer to the Management's Discussion and Analysis for the year ended December 31, 2022.

<sup>3</sup> Inclusive of lease liabilities per IFRS 16.

# FOCUSED

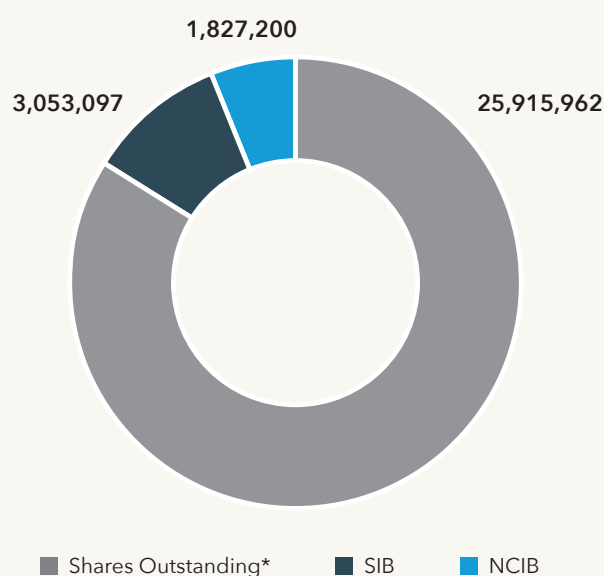
## ON SHAREHOLDER VALUE

In 2022, we returned approximately \$38 million to shareholders by repurchasing 4,880,297 of our common shares, or about 16% of our total shares. We also paid our shareholders dividends totaling \$0.322 per common share, which was a 10.8% increase over 2021.

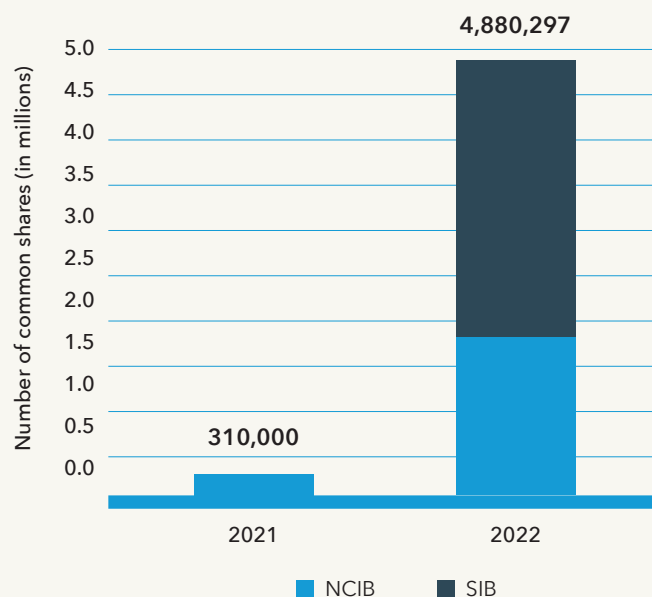


On October 31, 2022, MFC completed the purchase and cancellation of 3,053,097 of our common shares under the terms of a Substantial Issuer Bid, at a price of Cdn\$11.30 per common share, representing an aggregate purchase price of \$25.5 million. Through our Normal Course Issuer Bid programs, we repurchased 1,827,200 common shares from the open market for \$12.5 million. Combined, our 2022 share repurchases represented more than an eighteen-fold increase over the \$2.1 million returned to shareholders through share repurchases in 2021.

**MFC Common Shares Repurchased in 2022**



**MFC Common Shares Repurchased in 2022 vs 2021**



\* Total shares outstanding as at December 31, 2022





## BEST-IN-CLASS FACILITIES

Representing approximately 92.1% of facility service revenue in fiscal 2022, MFC's four specialty surgical hospitals continue to rank among the best hospitals in the nation in terms of patient satisfaction and high quality of care. Our hospitals focus on short duration, non-emergency surgical, diagnostic, imaging, and pain management procedures. While the case mix varies and is dependent on the clinical specialties of the physicians at each facility, orthopedic and neurosurgical procedures represent the majority of the case volumes at the hospitals.







# ARKANSAS SURGICAL HOSPITAL

## North Little Rock, Arkansas

Arkansas Surgical Hospital (“ASH”) has been operating as a licensed surgical hospital since April 2005 and specializes predominantly in orthopedics, spine and pain management procedures. In 2020, ASH acquired the second-generation ROSA robot designed to help surgeons tailor the placement of patients’ knee implants, providing a higher level of surgical outcomes for ASH’s patients. In 2021, ASH completed a 4,590 square foot expansion project, adding two operating rooms and three recovery beds in its post-anesthesia care unit.

In 2022, ASH was named a Human Experience Guardian of Excellence Award winner by Press Ganey for the fourth year in a row. ASH was the only hospital in Arkansas to receive this award for top-ranking hospitals based on direct feedback from patients.

Square footage

**126,000**

Operating rooms

**13**

Overnight rooms

**41**

Procedure rooms

**2**



# BLACK HILLS SURGICAL HOSPITAL

Rapid City, South Dakota

Black Hills Surgical Hospital (“BHSH”) is located in Rapid City, South Dakota’s second largest city. Operating as a licensed specialty hospital since 1997, BHSH’s primary specialties include orthopedics, neurosurgery, and pain management. In 2021, BHSH acquired two Mako robots, which use 3D CT based planning software. By guiding the surgeon during surgery, the technology allows the surgeon to be more precise with fewer incisions, protecting healthy bone.

BHSH’s award-winning expert medical care is nationally recognized for quality, safety and experience. In 2023, BHSH was named the #1 hospital in the United States for Major Orthopedic Surgery for Medical Excellence by CareChex, which also ranked BHSH as the #1 hospital in its market for Overall Hospital Care, Overall Surgical Care, and General Surgery in both Medical Excellence and Patient Safety categories.

Square footage

**86,000**

Operating rooms

**11**

Overnight rooms

**26**

Procedure rooms

**1**





# SIOUX FALLS

## SPECIALTY HOSPITAL

### Sioux Falls, South Dakota

Opened in 1985, Sioux Falls Specialty Hospital ("SFSH") has established itself as the leader in both patient satisfaction and surgical outcomes within its region. Located in Sioux Falls, the largest city in South Dakota, SFSH is a multi-specialty hospital providing services in orthopedics, ear, nose and throat, urology, neurosurgery, gynecology, plastic surgery, gastroenterology, general surgery, ophthalmology, and dental and pain management procedures.

Patients from all over South Dakota and neighboring states travel to SFSH for medical services. In 2020, SFSH became the first facility in Sioux Falls and surrounding area to purchase the second-generation ROSA robot designed to help surgeons tailor the placement of patients' knee implants. SFSH also acquired a Mako robot in 2021. In 2023, SFSH was recognized by Healthgrades as one of America's best hospitals for joint replacement surgery for the third year in a row.

#### Square footage

**76,000**

#### Operating rooms

**15**

#### Overnight rooms

**33**

#### Procedure rooms

**1**





# OKLAHOMA

## SPINE HOSPITAL

### Oklahoma City, Oklahoma

One of the first physician-owned spine specialty hospitals in the United States, Oklahoma Spine Hospital (“OSH”) has been operating since December 1999. Located in one of the fastest growing areas of Oklahoma City, OSH has a primary service area that extends well beyond Oklahoma City into central and western Oklahoma. OSH focuses on a limited number of clinical and surgical specialties, including neurosurgery and pain management. OSH is the only facility in the Oklahoma City metropolitan area that focuses on the treatment of disorders of the spine. In 2022, OSH acquired a Mazor robot for robotic-guided spine surgery, allowing surgeons to quickly visualize anatomy and spinal structures in relation to one another, with the goal of increasing efficiencies and surgical precision.

In 2022, OSH was named the #1 hospital in its market and listed in the top 10% in the United States for Major Orthopedic Surgery, Spinal Fusion, and Spinal Surgery by CareChex.

Square footage

**61,000**

Operating rooms

**7**


Overnight rooms

**25**

Procedure rooms

**2**

# LETTER TO SHAREHOLDERS



Our core business remained strong throughout 2022. Increased surgical case volumes neared pre-pandemic levels and we had a record high \$424.6 million in annual Facility Service Revenue. While our business operations continued to normalize, we had several changes during the year, including updates to our management team and Board of Directors, and a change in corporate strategy. We also returned approximately \$38 million to shareholders through share repurchases, sold our remaining investment in Unity Medical and Surgical Hospital (“UMASH”), and continued to pursue opportunities to reduce expenses.

While pleased with our higher surgical volumes and Facility Service Revenue, we had to navigate challenging macroeconomic conditions, including a nationwide shortage of nurses and inflationary pressures. We also dealt with one-time items that adversely impacted our profitability for the year, including an impairment loss on the loan receivable from UMASH, a non-cash impairment charge on the MFC Nueterra ambulatory surgery centers, and the reversal of income pertaining to certain Paycheck Protection Program loans that have not yet definitively been resolved (refer to the Management’s Discussion and Analysis for the year ended December 31, 2022, for details). Excluding these one-time items, our Income from Operations and Adjusted EBITDA would have been \$63.8 million and \$84.6 million, respectively for the year.

## **CHANGE IN CORPORATE STRATEGY**

Last September we announced a change in our corporate strategy, moving away from an acquisition-centric growth strategy in favour of increasing our

focus on our core business. The change in strategy, which aims to drive financial performance and unlock additional shareholder value, also includes divesting non-core assets, pursuing overhead cost reductions, and evaluating and implementing plans to return capital to our shareholders. We continue to review all our expenses for opportunities to reduce them where appropriate. Recent changes to our senior management team will result in significant savings in salaries and benefits going forward. With regards to returning capital to shareholders, during the year MFC repurchased 4,880,297 of our common shares, or about 16% of our total shares, for a total consideration of approximately \$38 million.

## **BEST-IN-CLASS QUALITY OF CARE**

Our high-quality surgical facilities and industry-leading patient satisfaction ratings remain a competitive advantage and our hospitals continue to rank among the best in the U.S. for high quality of care. Among other accolades, Sioux Falls Specialty Hospital, Black Hills





## LETTER TO SHAREHOLDERS (continued)

Surgical Hospital, and Arkansas Surgical Hospital were each recognized by Healthgrades as one of America's best hospitals for joint replacement surgery in 2023.

We are proud of these accomplishments and continue to reinvest in our facilities to ensure that our patients receive the best care possible. Over the last three years we added operating rooms, made facility upgrades, and invested in the latest medical technologies and equipment, including robotic systems used in orthopedic procedures such as partial knee replacement, total knee replacement, and total hip replacement. These investments enable us to offer our patients the best possible outcomes while maintaining our facilities' leading reputations in their respective markets.

### STRONG FUNDAMENTALS AND OUTLOOK

We believe our outlook for 2023 and beyond is compelling. Our business remains well aligned with the expected growth in the U.S. healthcare market, driven by favorable trends that bode well for our future prospects. First and foremost, the U.S. population continues to grow, providing a steady stream of patients in need of medical care. This growth, coupled with an aging population, has led to a significant increase in demand for healthcare services. This trend is expected to continue in the years ahead, as the aging population will continue to require joint replacements and other orthopedic procedures to maintain their mobility and quality of life.

In 2023, we will continue to review opportunities to reinvest in our core business while also reducing our expenses where appropriate. At the same time, we remain committed to providing the highest quality of care to our patients and optimizing shareholder returns.

In closing, I would like to thank our physicians, nurses, other medical professionals, and all of our employees for helping us deliver the utmost quality of care to our patients. I would also like to thank our management team for their contributions and our Board of Directors for their valuable guidance and leadership throughout the year. Last but not least, I would like to thank you, our shareholders, for your continued support. I look forward to keeping you apprised of our progress throughout 2023.

Sincerely,

**Jason Redman**

President and Chief Executive Officer

# STRONG GOVERNANCE

MFC's Board of Directors recognizes that good governance is important to the proper functioning of our business, the creation of shareholder value, and maintaining the confidence of investors and other stakeholders. The Board and its various committees provide oversight and direction in the establishment of MFC's corporate governance practices, which are consistent with all applicable regulatory guidelines and standards. The Board has responsibility for the overall stewardship of the conduct of the business and discharges this responsibility both directly and by the delegation of certain authority to committees of the Board and senior management.

Our Board of Directors undertakes an annual review of our governance structures and practices in reference to all regulatory requirements and good practices.

## Independence

Independent	4
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Non-independent	2
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## Tenure

0 - 5 years	5
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6+ years	1
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## Diversity

Female	2
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Male	4
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## Geography

Canada	2
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U.S.	4
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## Age

40 - 60	4
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61 - 70	2
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