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DR.TO - Q1 2026 Medical Facilities Corp Earnings Call

EVENT DATE/TIME: MAY 07, 2026 / 12:30PM GMT

CORPORATE PARTICIPANTS

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

David Watson *Medical Facilities Corp - Chief Financial Officer*

PRESENTATION

Operator

Hello. Good morning, everyone. Welcome to Medical Facilities Corporation's 2026 first-quarter earnings call. (Operator Instructions)

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 law. 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 may differ in actual material 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, except as required by law. Such statements speak only as of the date made. And now I would like to turn the meeting over to Mr.

Jason Redman, President and CEO of Medical Facilities. Please go ahead, sir.

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

Good morning, everyone, and thank you for joining us. On the call with me 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+. Before we begin, I'd like to point out that the income statement variances David and I will be discussing this morning relate only to continuing operations, and therefore, exclude Oklahoma Spine Hospital and the Surgery Center of Newport Coast.

The variances also exclude noncontrollable noncash corporate level charges related to share-based compensation plans. As usual, all dollar amounts are in US dollars, unless otherwise specified. We had a positive and eventful start to the year. In the first quarter, we delivered double-digit percentage growth in facility service revenue, income from operations and EBITDA.

Our top line increased 10.8% to $67.1 million, thanks to a favorable payer mix as well as higher volumes of orthopedic and spine procedures. Our income from operations was up 17.6% to $12.8 million, and our EBITDA grew 13.8% to $15.7 million. We also continued our multiyear track record of returning capital to shareholders.

During the quarter, we repurchased 318,400 common shares through a normal course issuer bid, returning $3.8 million to shareholders. In addition, as previously disclosed, the most significant development this quarter occurred in January when we completed the sale of our 64% ownership interest in Oklahoma Spine Hospital for gross cash proceeds of approximately $46 million, subject to customary adjustments.

This transaction was fully aligned with our strategic direction, has allowed us to maximize value for our shareholders and focus on our remaining core assets. Our financial position at quarter end underscores the strength of our business. We closed the period with a very strong consolidated cash balance of $86.3 million, including $78.1 million at the corporate level.

This gives us significant flexibility to continue investing in our hospitals and to further return capital to shareholders. We're currently evaluating alternatives to returning capital, and we look forward to updating you once any decisions are made.

Speaking of our hospitals, during the quarter, Arkansas Surgical Hospital earned the 2025 Human Experience Guardian of Excellence Award for the sixth consecutive year, placing them in the top 5% of hospitals nationwide for exceptional patient experience. The hospital was also voted Best Doctor-owned Hospital by AY Magazine readers.

That recognition will be featuring the Arkansas focused lifestyle publication's Best of the Best edition in June. Additionally, last quarter, I mentioned that Sioux Falls Specialty Hospital had received the Blue Distinction Center Plus designation for knee and hip replacement by Wellmark Blue Cross and Blue Shield. Since then, they have also received the Blue Distinction Center Plus recognition for spine surgery. We're very proud of both hospitals and of our strong start to the year. We remain focused on executing our strategy, driving operational performance and delivering long-term value.

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

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

Thanks, Jason, and good morning, everyone. As Jason mentioned earlier, we had facility service revenue of $67.1 million for the quarter, which was an increase of 10.8% from Q1 of last year. The growth came from the combined impact of case and payer mix, which included more orthopedic and spine procedures, although total surgical cases were down 0.6% in the quarter, this was due to a decline in low-margin dental procedures. Excluding dental, our surgical cases were up 1.3% in the quarter. Outpatient cases were up 2.6%, but inpatient cases decreased by 2.7% and observation cases were down 8.9%.

Pain management cases were down 21.6%, with the decrease again stemming from Arkansas Surgical Hospital as discussed in prior calls. The pain doctor that started at ASH last August continues to ramp up, and both hospitals have active recruitment campaigns to attract additional pain doctors. Our operating expenses were up approximately $4.7 million or 9.3%.

More than half of the increase came from consolidated drugs and supplies, which climbed 13.5%, mostly due to case mix and higher surgical volumes outside of dental. Also contributing to the increase were consolidated salaries and benefits, which rose 9.1%, reflecting annual merit increases and elevated market-driven compensation for anesthesia nurse practitioners.

Additionally, our G&A expenses were up 5.8%, primarily due to higher costs for contracted anesthesia services, physician guarantees and repairs and maintenance. As Jason mentioned earlier, our profitability improved year over year, with income from operations increasing 17.6% to $12.8 million and EBITDA rising 13.8% to $15.7 million.

Looking at our balance sheet. At the end of March, we had consolidated net working capital of $67.1 million, with cash and cash equivalents of $86.3 million. This compares to net working capital of $54 million and cash and cash equivalents of $43.4 million at the end of December.

The change in consolidated net working capital was driven largely by the sale of Oklahoma Spine Hospital, which removed Oklahoma Spine-related current assets and liabilities and boosted cash and cash equivalents from the sale proceeds. Finally, we remain free of corporate level bank debt since paying off our corporate credit facility back in 2024. This concludes our prepared remarks.

We'd now like to open up the call for questions. Operator?

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions)

There are no questions at this time. I will now turn the call back over to Jason for the closing remarks.

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

Thank you, operator, and thank you to everyone joining us this morning. We value your ongoing support and look forward to continuing to share updates on our progress. Have a great day.

Operator

Ladies and gentlemen, this concludes this conference call. Thank you, everyone, for joining. You may now disconnect.
