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DR.TO - Q2 2025 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

Saheel Dinga *RBC - Investor Relation*

PRESENTATION

Operator

Good morning everyone.

Welcome to Medical Facilities Corporation's 2025 2nd 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 MDNA 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 applicable law.

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*

In crew operator, and good morning everyone.

On the call with me is the Chief Financial Officer David Watson.

This morning we report our 2nd quarter results. Our news releases, financial statements, and MDNA are available on our website and have been filed on Cedar Plus.

As usual, please note that all dollar amounts that fall in US dollars unless otherwise specified.

During the 2nd quarter, we continued our focus on improving operating performance and returning capital to shareholders. Unfortunately, our consolidated results were negatively impacted by the headwinds at Sioux Falls Specialty Hospital. The relocation of the primary physician group's clinic, which is the hospital's largest orthopedic referral base, impacted surgical case volume along with case impairments in a quarter.

In particular, the case notes at the hospital reflected fewer complex surgical cases partially offset by an increase in lower acuity cases.

Although this affected both facilities, service revenue and income from operations for the quarter, we look forward to Sioux Falls' return to more normalized operations in the back half of the year.

In addition, I'm pleased to call out that Sioux Falls continues to be recognized as the best in class.

In May, Sioux Falls was one of just 66 hospitals across the United States and one of only 2 in South Dakota to receive both the 2025 Outstanding Patient Experience and Patient Safety Excellence Awards and health grades.

This was the 3rd year in a row for Sioux Falls as a testament to the exceptional care delivered by our dedicated partners, and we couldn't be proud of this recognition.

Elsewhere, our other hospitals made strong contributions in the quarter and year-to-date, delivering improved profitability in the back of higher volumes, favorable case on payer mix, and payer rate increases.

On the capital allocation side, we returned \$6.9 million to shareholders to the repurchase of 609000 common shares in the quarter under a normal course issuer bid.

In the first six months of the year, including our normal course issuer bid and our substantial issuer bid, we repurchased approximately 4.2 million shares, returning \$52.2 million to shareholders and reducing our outstanding shares by 18%.

And lastly, subsequent to the quarter end, we finalize a new 3 year \$40 million credit agreement with CIBC on favorable terms. This agreement provides us with enhanced flexibility as includes an option to increase the credit facility by up to \$25 million subject to certain conditions being met.

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

David Watson - Medical Facilities Corp - Chief Financial Officer

Thank you, Jason. Good morning, everyone. Please note that the income statement variances I will be discussing this morning are for continuing operations and exclude Black Hills Surgical Hospital, which was treated as discontinued operations in the financial results for the 3 and 6 months end of June 30, 2024.

Facility service revenue for the quarter was down 1.3%. To 80.6 million with the decrease being attributable to the headwinds at Sioux Falls as Jason already discussed. Excluding Sioux Falls, facility service revenue increased 6.5%, as are other hospitals contributed higher volumes and benefited from negotiated payer rate increases and favorable case and payer mix.

Surgical case volumes are down 0.9%. However, when you exclude Sioux Falls, they were up marginally or 0.1%. Overall, inpatient cases were down 8.6%, and observation cases decreased by 1.8%, while outpatient cases increased by 0.7%. Pain management cases were down 4.5% compared to the same period last year, mainly due to a decline at Arkansas surgical Hospital following the departure of a pain doctor in Q4 2024. However, the recruiting process at IASH remains strong, with a new pain doctor beginning this month, in addition to a new spine surgeon joining a referral group's practice in September 2025.

Total operating expenses were down \$5 million as higher consolidated salaries and benefits were more than offset by reductions to drugs and supplies and GNA expenses.

Consolidated salaries and benefits were up 3.9%, mainly due to annual merit increases, market wage pressures, and higher benefit costs from increased health plan utilization.

This increase was partially offset by a corresponding reduction in salaried physicians, with one of the formerly employed physicians opting to become a full owner.

Drugs and supplies were down 2.4%, reflecting the lower surgical case volume and lower acuity procedures in the quarter, as well as the improved cost savings at certain facilities.

Finally, G&A expenses were down 3.4%, mainly due to lower corporate level costs related to shared-based compensation plans, as well as lower contracted service costs. These decreases were partially offset by higher professional fees and various other facility related expenses.

Looking at our profitability for the quarter, income from operations was down 5% to just shy of \$12 million. However, when excluding Sioux Falls, income from operations was up 98.9%. Even the dot for the quarter was \$16 million which was down 4.7% from the prior year period.

Turning to our balance sheet, a quarter end, consolidated networking capital stood at 36.6 million with cash and cash equivalents totaling \$49 million. This compares the net networking capital of \$76.4 million and cash and cash equivalent of \$108.5 million at the end of 2024.

The decline in consolidated network and capital was primarily driven by the completion of the substantial issuer bid in March, which reduced cash and cash equivalents by \$4030.7 million. Other significant drivers with a \$14.4 million tax payment in April related to the gain on the sale of Blackfield Surgical Hospital and repurchasing \$9 million worth of shares under our normal course issuer bid.

We continue to have no corporate level bank debt after retiring the balance on our corporate credit facility near the end of last year.

As Jason highlighted on August 6th, we executed a new credit agreement with Canadian Imperial Bank of Commerce for a \$40 million revolving credit facility that matures on August 4th, 2028.

The agreement includes an option to increase the facility by up to \$25 million contingent upon meeting specified conditions. The agreement supersedes our previous \$50 million dollar credit agreement with National Bank. The facility is secured through general security agreements.

Securities pledge agreements and guarantees issued by MSC and each of its wholly owned subsidiaries.

This concludes our prepared remarks. We'd now like to open up the call for questions, operator.

QUESTIONS AND ANSWERS

Operator

Thank you.

Ladies and gentlemen, we will now begin the question-and-answer session.

Should you have a question, please press star one on your touchstone phone.

You will hear a prompt that your hand has been raised.

Should you wish to decline from the polling process, please press * 2.

If you're using a speaker phone, please lift the handset before pressing any keys.

One moment please for your first question.

Your first question comes from Saheel Dinga of RBC.

Your line is already open.

Saheel Dinga - RBC - Investor Relation

Hi, good morning. This is Sahil forag.

Thank you for taking your questions. My first question is on, the impact at Sioux Falls. Can you quantify how much the impact was?

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

Yeah, hi, thanks for the question.

If you look at the impact on the revenue overall, it was certainly down about \$3.9 million for the quarter.

It's really driven by the combination of the case and paer mix, predominantly driven by a decrease in the higher QD cases.

Saheel Dinga - RBC - Investor Relation

Okay, and do you anticipate some impact in Q3 as well before fully normalizing?

David Watson - Medical Facilities Corp - Chief Financial Officer

No, I, so, no, I think at this point in time we think that the relocation impact is behind us. The most that was felt in the early part of the quarter.

Obviously when you transfer a clinic that's been in operation for over 20 years since a new facility and impacting almost in excess of 20 physicians had a significant impact in the quarter, but that impact is primarily behind us now.

Saheel Dinga - RBC - Investor Relation

Okay, that is helpful. And then, in terms of this new credit facility, can you, elaborate a bit more on like you repaid the previous, credit facility? Why are we, why.

What is the need for the new credit facility is what I'm trying to ask.

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

So the current credit facility was expiring at the end of this month, so we needed to either renew or replace that credit facility. So it's really just making sure that we've got adequate access to capital.

With the continuing line.

David Watson - Medical Facilities Corp - Chief Financial Officer

Okay, great, and then, I have a few more. I'll lump them together. One is, if you can provide us an update on the competition, and the second one I have is on the, any risks that you're monitoring as it relates to reimbursement, under the current administration, and I'll leave it there.

Thank you.

Saheel Dinga - RBC - Investor Relation

Right, yes, let me, so in competition is there any specific market, you feel that you're referring to?

David Watson - Medical Facilities Corp - Chief Financial Officer

Yeah, our concerns, I was wondering more about that.

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

Yeah, so nothing no impact that we're seeing right now. That's always been a very competitive market. We've had discussion before. We monitor that closely with the St. Bats and St. Vincent, and we haven't seen any significant impact on operations. You'll see the performance of Ash continues to improve and it has an improvement over time. We continue to recruit doctors as David mentioned, so we haven't seen any.

Back so far.

Saheel Dinga - RBC - Investor Relation

Okay, great. And then any update on reimbursement that that any risk that you're currently monitoring.

David Watson - Medical Facilities Corp - Chief Financial Officer

Yes, I'm assuming your question with respect to impacts on Medicaid, and I, first off, I guess I'd say that the, Medicaid ramifications have been pushed out to the end of 27 or perhaps early 208 would be the earliest that those would actually take effect.

And with respect to the impact on our business, Medicaid really represents an immaterial portion of our business.

Saheel Dinga - RBC - Investor Relation

You know.

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

That that we we'll continue to monitor the situation closely and, see how that evolves.

Saheel Dinga - RBC - Investor Relation

And there is no update on that site neutrality legislation correct?

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

No, that's correct. It's a topic that's been floated for a number of years, but we really haven't seen, significant movement allud yet.

Saheel Dinga - RBC - Investor Relation

Okay, great, thank you again so much for taking my questions.

Thank you.

Operator

Ladies and gentlemen, as a reminder, if you have a question, please press one.

There are no further questions at this time.

I would hand over the call to Jason Redman for closing remarks. Please go ahead.

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

Thank you, operator, and thank you to everyone for joining us this morning. We appreciate your continued support and look forward to updating our progress throughout the balance of the year. Have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call.

Thank you for your participation and you may now disconnect.

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