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Medical Facilities Corp. (DR.CA)

Q4 2023 Earnings Call

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CORPORATE PARTICIPANTS

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President, Chief Executive Officer & Director, Medical Facilities Corp.

David N. T. Watson
Chief Financial Officer, Medical Facilities Corp.

OTHER PARTICIPANTS

Sahil Dhingra
Analyst, RBC Capital Markets

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone. Welcome to Medical Facilities Corporation's 2023 Fourth Quarter Earnings Call. After management's remarks, this call will include a question-and-answer session in which 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 the Canadian provincial services 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 contact – 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
President, Chief Executive Officer & Director, Medical Facilities Corp.

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 fourth quarter and year-end results. Our news release, financial statements and MD&A are available on our website and have been filed on SEDAR+.

Throughout 2023, we remained disciplined both operationally and financially. We executed our strategy to focus on our core operations, drive financial performance and unlock additional shareholder value. We completed the divestiture of the MFC Nueterra ASCs and successfully achieved overhead cost reductions. We reduced our corporate debt and returned additional capital to shareholders through a normal course issuer bid.

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The fourth quarter was a very solid finish to a strong year. Higher surgical volumes helped drive revenue increases and profitability for the quarter. Excluding the divested ASCs, surgical case volumes were up 4.9%, contributing to a 7.8% increase in facility service revenue compared to the fourth quarter of the year prior. Similarly, when excluding the results from the divested ASCs as well as the prior-year impairment charge relating to those ASCs, our income from operations for the quarter was up 144% to $25.6 million, and adjusted EBITDA increased 97.3% to $30.5 million.

We used our cash flow to pay down the outstanding balance on our corporate credit facility by $8 million in the quarter and $20 million for the year.

During the quarter, MFC returned an additional $2 million to shareholders to the repurchase of close to 300,000 common shares under our normal course issuer bid. For the year, we repurchased approximately 1.19 million common shares for total consideration of $7.4 million.

As we look back on 2023, it is clear that our deliberate and focused approach has made MFC stronger and better positioned for 2024 and beyond.

Speaking of positioning, our surgical hospitals continue to rank among the best hospitals in the nation for high quality of care. Last month, for the second year in a row, Black Hills Surgical Hospital was named the number one hospital in the US for major orthopedic surgery in both medical excellence and patient safety categories by CareChex. Around the same time, Sioux Falls Specialty Hospital received the 2024 Outpatient Orthopedic Surgery Excellence Award from Healthgrades and was ranked amongst the best hospitals in the US for outpatient and joint replacement surgery.

And in January, Arkansas Surgical Hospital ranked in the top 5% of healthcare providers for patient experience over the last year, being named a Human Experience Guardian of Excellence Award winner for the fifth year in a row by Press Ganey. We are proud and thankful for the dedication and high quality of care provided by the teams at each of our facilities.

On that note, I'll turn the call over to David to review our financial results in more detail. David?

David N. T. Watson

Chief Financial Officer, Medical Facilities Corp.

Thank you, Jason. Good morning, everyone. Before I begin, please note that all dollar amounts that follow are in US dollars unless stated otherwise. Also note that the year-over-year income statement variances I will discuss exclude the results from the divested MFC Nueterra ASCs.

Starting with our income statement, total revenue and other income for the quarter increased $20.2 million or 19.9% to $122.3 million. The increase is mostly attributable to the $12.3 million reduction in government stimulus income in the prior-year quarter due to reversal of PPP income. The remainder of the variance was due to a 7.8% increase in facility service revenue in Q4 2023. The growth in facility service revenue was due to changes in case mix from a higher proportion of orthopedic and spine cases and a 4.9% increase in surgical case volumes. Sioux Falls moving its anesthesia service and related billing in-house in 2023 also contributed $1.1 million to the increase.

Looking at our surgical cases for the quarter, observation cases were up 28.8%, and outpatient cases increased by 4.2%, but inpatient cases were down 13.9%. Operating expenses for the quarter totaled $96.6 million, which is

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down $11.4 million or 10.6% from the same period in 2022. However, as you may recall, in the fourth quarter of 2022, we recorded an impairment charge of $16.5 million relating to the MFC Nueterra ASCs. Excluding the prior-year impairment charge, operating expenses increased $5.1 million or 5.6%. As a percentage of total revenue and other income, operating expenses decreased to 79% from 105.9% in Q4 2022.

Consolidated salaries and benefits were up 8.3%, primarily due to annual merit increases, full-time equivalent increases and market wage pressures, as well as the impact of Sioux Falls moving its anesthesia service and related billing in-house during the year.

Consolidated drugs and supplies were up 1.9% in the quarter due to the higher surgical case volume. Consolidated G&A increased to 11.6%. This swing was mainly due to non-controllable corporate level costs related to share-based compensation plans resulting from the decrease in our share price in Q4 of 2022 versus Q4 2023, as well as increases in both contracted services and other facility-related expenses.

As Jason mentioned earlier, when excluding the prior-year impairment charge, our income from operations was up 144% to $25.6 million and adjusted EBITDA increased 97.3% to $30.5 million. The higher facility service revenue contributed to these increases, but again, in the prior year we were affected by the reversal of PPP income.

In the fourth quarter, we generated cash available for distribution of approximately CAD 12.8 million, up from CAD 9.9 million in Q4 of the prior year. This increase and our lower share count year-over-year decreased our payout ratio to 15.6% for the quarter from 21.2% in Q4 2022. On a full-year basis, our payout ratio decreased to 26.7% from 33.8% in the prior year.

Looking at our balance sheet, at the end of 2023, we had consolidated net working capital of $19.8 million and cash and cash equivalents of $24.1 million. For reference, at the end of 2022, our net working capital stood at $32.5 million and we had cash and cash equivalents of $34.9 million. Among other things, the variations reflect our $20 million pay down of the corporate credit facility and share repurchases of $7.4 million under the NCIB program.

At year-end, our corporate credit facility had an outstanding balance of $16 million, compared with $36 million at the end of 2022. Inclusive of lease liabilities, our net debt to equity remains low at 0.78 times as compared to 0.94 times at December 31, 2022.

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

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QUESTION AND ANSWER SECTION

Operator: Excuse me. Thank you. [Operator Instructions] There'll be a brief pause now whilst you register your questions. Our first question comes from the line of Sahil Dhingra who's an analyst from RBC. Please go ahead. Your line is open.

Sahil Dhingra
Analyst, RBC Capital Markets

Q

Hi. Thank you. This is Sahil for Doug Miehm. Thank you for taking our questions. My first question is, are you facing any impact from the Change Healthcare cybersecurity event that was reported in February?

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

A

Yeah. I can. I can take that. Hi, Sahil. How are you doing?

Sahil Dhingra
Analyst, RBC Capital Markets

Q

I'm good. Thanks.

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

A

Okay. So, we're not seeing any material impact of the event that's happened with Change.

Sahil Dhingra
Analyst, RBC Capital Markets

Q

Okay. Great. Then my second question is, can you provide us an update on the competitive dynamics? And also related to this, I saw the pain cases were again down this year – down this quarter on a year-over-year basis and it has been the case for last couple of quarters. Can you provide us some additional color on this dynamic as well?

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

A

Yeah. So, I'll talk to the competitive environment and I'll let David talk to pain cases. We're not seeing any significant changes in the competitive environment. Our hospitals continued to perform very well. Our surgical cases were up. We're doing a good job at retaining and attracting talent. So, we continually watch the environments which we operate, but we haven't seen any strong competitive threats emerge.

David N. T. Watson
Chief Financial Officer, Medical Facilities Corp.

A

And then, Sahil, with respect to the pain cases, it certainly varies by facility, but in some cases it's been related to the departure of a pain physician. In other cases, you got pain doctors that are in later stages of their career, maybe winding down what they're doing. So, we're continually looking to replenish and recruit new pain doctors, so it's just part of the normal cycle.

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Sahil Dhingra
Analyst, RBC Capital Markets

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Thanks. And my last question is on capital deployment. So what's the latest thinking on capital deployment as we go forward, if you could comment on the split between either a dividend increase or share buybacks or further debt reduction? Thank you.

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

A

Yeah. Thanks, Sahil. As we've said previously, it's a combination of the three. So, we continually look at how we allocate that capital. We have been active in the NCIB program, so we continue to remain active and that's our intention going forward. The board hasn't made any decision with respect to altering the dividend. And in terms of corporate payment of debt, that's something that's – that we still intend to proceed with. But we constantly evaluate where to allocate the capital amongst those three priorities.

Sahil Dhingra
Analyst, RBC Capital Markets

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Great. Thank you so much for taking our questions.

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

A

Thank you.

Operator: Thank you. [Operator Instructions] Okay. There seems to be currently no further questions from the phones at this time. So, I'll hand the call back to our speakers for the closing comments.

Jason Redman
President, Chief Executive Officer & Director, Medical Facilities Corp.

Thank you, operator, and thank you to everyone joining our call this morning. We look forward to updating you again next quarter.

Operator: Thank you. This now concludes the conference. Thank you all very much for attending. You may now disconnect your lines.

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