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DR.TO - Q4 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

**Douglas Miehme** *RBC Capital Markets Inc - Analyst*

## PRESENTATION

### Operator

Good morning, everyone. Welcome to Medical Facilities Corporation's 2025 fourth quarter and year-end results earning 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 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 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.

I would now like to turn the meeting over to Mr. Jason Redman, President and CEO of Medical Facilities. Please go ahead, Mr. Redman.

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### **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 Q4 and year-end 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 include the results from Oklahoma Spine Hospital and the Surgery Center of Newport Coast, but exclude government stimulus income, goodwill impairment and non-controllable noncash corporate level charges related to share-based compensation plans. As usual, all dollar amounts are in US dollars, unless otherwise specified.

We closed out 2025 with a strong fourth quarter, resulting in growth in facility service revenue, income from operations, and adjusted EBITDA, both for the quarter and for the full year. For the year, our top line grew 3.2% to \$342.2 million, including growth of 6.9% in the fourth quarter. Income from operations was up 6.1% to \$58 million, including a 20.1% increase in Q4, while adjusted EBITDA increased 3.1% to \$73.7 million with 12% growth in the quarter.

In addition to strong case volumes and favorable case and payer mixes, these results reflect disciplined execution and continued focus on operational efficiency.

2025 was also a year of meaningful shareholder returns. Following the sale of Black Hills Surgical Hospital in November of 2024, we completed a substantial issuer bid in March of 2025. That, combined with our ongoing normal course issuer bid, saw us return \$61.8 million to shareholders through the repurchase of more than 5.1 million shares, reducing our share count by approximately 22% in the year.

At the end of the year, we completed the sale of the surgery center of Newport Coast, receiving \$1.5 million in cash proceeds for our 51% ownership interest. In parallel, negotiations were well underway for the sale of Oklahoma Spine Hospital, which subsequently closed on January 30, 2026. We received \$46 million in cash proceeds for our 64% ownership interest.

At year-end, we held a corporate cash balance of \$34.2 million, which included \$1.5 million in proceeds from the sale of the surgery center of Newport Coast. The subsequent sale of Oklahoma Spine Hospital added a further \$46 million to our corporate cash balance. In order to return capital to shareholders in the most tax-efficient manner, we continue to explore the repurchase of shares under our normal course issuer bid, making a substantial issuer bid, and/or making a special distribution to shareholders.

Before turning the call over to David, I want to give a special shout-out to the team at Sioux Falls Specialty Hospital as the hospital was recently named a Blue Distinction Centers+ for knee and hip replacement by Wellmark Blue Cross and Blue Shield, recognizing its superior outcomes, strong patient safety performance, and cost-efficient care.

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

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

Thanks, Jason, and good morning, everyone. Looking at the quarter, facility service revenue came in at \$97.3 million, representing 6.9% growth, driven by the combined impact of case and payer mix, a 2.6% increase in surgical case volumes. Outpatient cases were up 6.6%, with inpatient cases decreased by 10.8%, and observation cases were down 3.8%.

Pain management cases were down 13.5% in the quarter, mainly due to decreases at Arkansas Surgical Hospital, as discussed previously. Offsetting this, a new pain doctor started at ASH back in August 2025, and an active recruitment campaign is underway to attract additional pain doctors. Additionally, a new spine surgeon joined referral group's practice in September.

Moving on to operating expenses, which were up \$2.8 million or 3.8% for the quarter. Consolidated salaries and benefits rose 2.7%, driven by annual merit increases, market wage pressures, and higher benefit costs associated with increased health plan utilization. These impacts were partially offset by a reduction in salaried physicians and clinical staff. Drugs and supplies were up 7.1%, mainly reflecting a case mix with more orthopedic cases along with higher surgical volume.

Meanwhile, G&A expenses were up 3.5% due to higher costs for contracted services, physician guarantees, and repairs and maintenance. Profitability strengthened in the quarter with income from operations increasing 20.1% to \$20.9 million and adjusted EBITDA rising 12% to \$24.4 million.

Turning to our balance sheet at the end of December and including Oklahoma Spine Hospital for comparison purposes, we had consolidated net working capital of \$38.1 million, with cash and cash equivalents of about \$43.4 million. This compares to net working capital of \$76.4 million and cash and cash equivalents of \$108.5 million at the end of 2024. The decrease in consolidated net working capital was primarily driven by the completion of the \$42.3 million substantial issuer bid last March and subsequent share repurchases totaling \$19.5 million under our NCIB.

Finally, we remain free of corporate-level bank debt having fully repaid our corporate credit facility near the end of 2024.

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

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Doug Miehm, RBC Capital Markets.

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### Douglas Miehm - RBC Capital Markets Inc - Analyst

So just a couple of housekeeping items. Can we talk a little bit about Oklahoma Spine? And with respect to that process, were you approached by SSM? Or did you run a broader process?

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

Doug, it's Jason. Yes. So in terms of the process, I think it was -- there was not a broader process that was involved. It was a collaborative discussion amongst ourselves, SSM, and our physician partners.

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### Douglas Miehm - RBC Capital Markets Inc - Analyst

Okay. Perfect. And then, as you finalize the details of that sale, can you talk about the projected tax liability? It looked like it was around 10% for the smaller Newport situation. I'm just wondering if you're thinking about a similar situation here.

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

Yes. Doug, it's David. We haven't disclosed the net proceeds after tax yet because we're still in the process of finalizing it. Obviously, we're working with our tax advisers to optimize the taxes on the transaction. So we'll be disclosing that with first quarter results.

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### Douglas Miehm - RBC Capital Markets Inc - Analyst

Okay. And then finally, just on site neutrality legislation or other Medicare policy changes, do you see that having any impact on the business or payer mix? And also, maybe you could comment on Sanford's new orthopedic hospital in terms of that similar dynamic around competition? And I'll leave it there.

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

Thanks, Doug. So we haven't seen an impact yet in terms of the site neutrality implications on our facilities. It's something that we are watching very, very closely though. And obviously, we'll try to -- we'll accommodate and adjust our strategies as we need to. Obviously, our focus is try to keep as much inpatient service as we can, but it's something that we continue to evaluate with our physician partners.

Your second question in terms of Sanford, we haven't seen an impact on the Sanford's operations on our Sioux Falls results. It's always been a very competitive market, and we continue to perform well. And I think that's a credit to the very capable team that we have in place there.

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### Douglas Miehm - RBC Capital Markets Inc - Analyst

Yes. It seems to be the case.

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**Operator**

(Operator Instructions) We have reached the end of the question-and-answer session. Let me turn the call over to Mr. Jason Redman, President and CEO of Medical Facilities, for closing remarks. Please go ahead, sir.

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

Thank you, operator, and thanks to everyone that joined us this morning. We appreciate your continued support and look forward to keeping you updated on our progress. Have a great day.

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**Operator**

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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