

Medical Facilities Corporation CEO Rob Horrar on Q1 2021 Results - Earnings Call Transcript

Q1 2021 Earnings Conference Call May 13, 2021 8:30 AM ET

Company Participants

Rob Horrar - President and CEO

David Watson - CFO

Conference Call Participants

Endri Leno - National Bank

Paul Stewardson - IA Capital Markets

Doug Miehm - RBC Capital Markets

Operator

Good morning, everyone. Welcome to the Medical Facilities Corporation 2021 First Quarter Results Conference 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 certain statements made in today's call, including responses to questions may contain forward-looking statements within the meaning of the safe harbor provisions of Canadian Provincial Security 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 about the factors that may cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements, 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.

Please note that today's call is being broadcast live over the internet and the webcast will be available for replay beginning approximately one hour following the completion of the call. Details of how to access the webcast replay are available in this morning's news release announcing the Company's financial results.

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

Rob Horrar

Thank you. Good morning, and welcome to our first quarter earnings call. Joining me today is David Watson, our Chief Financial Officer. Earlier this morning, we released our first quarter results. Our news release, financial statements and MD&A may be accessed through our website at www.medicalfacilitiescorp.ca and have also been filed with SEDAR today.

Overall, we were pleased with our results for the first quarter. Our total revenue and other income was up 5.8%, largely the result of an additional \$4.1 million in government relief stimulus funds received by our facilities. We also benefited from favourable changes in payor mix and case mix. Perhaps the biggest takeaway for the quarter is that our volumes continue to normalize to pre-COVID levels.

If we look at the first quarter of last year, our numbers in both January and February compared favourably to the same months in 2019. However, in the final half of March of last year our business was impacted by the cessation of elective cases as the pandemic began to spread across the country. Fast forward to the first quarter of this year and COVID-19 continued to impact our volumes, particularly in January and February. However, by March we saw a strong rebound with volumes up more than 20% over January or February.

Importantly, none of our facilities are experiencing restrictions with regards to types of cases. With vaccines continuing to roll-out across the country, we are optimistic that our recovery will continue. We're also focused on growth including organic and inorganic opportunities. Near the end of the first quarter, we announced a 4,600 square foot expansion project underway at Arkansas Surgical Hospital. This follows the hiring of five new surgeons last year. The expansion will add two new operating rooms, bringing the total to 13 when completed, as well as three new recovery beds. The project is expected to be completed by the end of the year.

We remain focused on executing our ambulatory surgery center platform strategy, growing through a mix of de novo and acquisition opportunities.

An increasing and aging population are among the key drivers of growth in the U.S. healthcare market, and a disproportionate share of this growth has been in and is

expected to continue to be in ambulatory settings. The ASC market was already a very attractive growth market prior to the pandemic, and the pandemic seems to have accelerated the interest in ambulatory care. The space remains fragmented, with many smaller operators. Therefore, we anticipate more consolidation and de novo growth opportunities.

We have a strong balance sheet and are in a good position to evaluate the right growth opportunities as the pandemic subsides, hopefully in the back half of the year.

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

David Watson

Thanks, Rob and good morning, everyone. I will discuss our first quarter financial performance then provided an update on our balance sheet and liquidity. But first, I would like to remind everyone that all dollar amounts expressed in today's call are in US dollars, unless stated otherwise.

Our facilities service revenue for the first quarter was \$94 million, which was up 1.3% from the \$92.8 million in the first quarter of 2020. The increase was due mainly to favourable changes in case and payor mix. Overall same-store surgical case volumes were on par with first quarter of last year. While outpatient cases increased by 2.6% and observation cases by 15.4%, inpatient cases were down 15.1%.

Total revenue and other income, which includes an additional \$4.1 million in government stimulus was \$98.1 million for the quarter. We did not receive any government stimulus funding in first quarter of last year. Operating expenses for the quarter decreased 2.4% to \$79.8 million. As a percentage of total revenue and other income, operating expenses decreased to 81.3% from 88.1% in the first quarter of last year.

Adjusted EBITDA for the quarter was \$25.1 million dollars, or 25.6% of revenue, compared to \$18.6 million, or 20%, in the first quarter of last year. In first quarter of this year, we generated cash available for distribution totaling \$7.9 million Canadian dollars, resulting in a payout ratio of 27.6%.

Our balance sheet remains strong. At quarter end, we had cash and cash equivalents of \$58 million and consolidated net working capital of \$42.7 million compared to \$45 million at year-end.

The outstanding balance on our corporate line of credit was \$31 million. Inclusive of lease liabilities as per IFRS 16, our net debt to equity stands at 0.51 times. We are well resourced to capitalize on potential growth opportunities and our leverage remains significantly lower than our U.S. trading peers.

This concludes my financial review for the quarter. For additional detail on our financial results, including specific results for each facility, please refer to our MD&A.

With that, we'd now like to open the line for questions.

Question-and-Answer Session

Operator

We'll pause for just a moment to compile the Q&A roster. Our first question comes from the line of Endri Leno with National Bank.

Endri Leno

Hi, good morning. Thanks for taking my question. First one for me. I just wanted to ask and I apologize if I missed it. But overall case volume for the quarter. How does it compare to your more normalized level, let's say in 2019. And as a second part to this question, the 26% recovery you saw in March versus January and February. How is that trending into April?

David Watson

Yes. Hi, Endri good morning. The case volumes are still running below normalized. We were about 8.7%, below first quarter 2019.

Rob Horrar

Then the second part of that Endri is that the March volume strength we see continuing into April.

Endri Leno

Okay. Great. And on that 8% that is below 2019 that I would assume also includes the weather events in Arkansas. Is there any way to normalize for those or is that tough to do?

Rob Horrar

It's tough. A part of this we say January was again impacted by COVID. February was also COVID and weather. But in the middle part of the country, and there of course Arkansas as well. So yes, it's hard to really normalize for all of that activity.

Endri Leno

Okay, thank you for that. My second question is more on... We've talked about these postponed cases and potentially a backlog building there. Do you think there is still any

sort of a backlog left? Or how do you see recovering if it's still there? Or do you think these cases are sort of permanently postponed let's say?

Rob Horrar

Well, it's very difficult to say. As we said last quarter and continue to say, and among all of our peers as well, it's difficult to predict what that is, we did see some return of cases. Some of that was just earlier in the year. We believe that there will be some additional cases in demand. Hard to tell what that will be, but the back half of the year, we're expecting to have some -- the scope of which is hard to determine or predict but we do expect some strengthening from that demand and deferred care.

Endri Leno

Okay, great. One more for me. And I'll jump into queue in case there's any other questions, but perhaps more for David, but the NCI cash flow to the facilities was a little bit high in the quarter at 9.5. Does it contain any government support there as well or with the government support goes only to the corporation?

David Watson

No, the government support. The government support is coming into the individual facilities.

Endri Leno

Okay, so if we're to look at it, I mean, about 50/50, more or less would be kind of a good guideline of how much that goes to the corporation, how much to the facilities?

David Watson

Well, stimulus funds come in and facilities to support the operations, to the extent the facilities are then making distributions. At some point, those distributions are may based on ownership percentages. So yes, roughly 50/50.

Endri Leno

Okay. Thank you. That's it for me for now. I'll jump in the queue. Thanks.

David Watson

Thank you.

Operator

Your next question is from the line of Paul Stewardson with IA Capital Markets.

Paul Stewardson

Hi, guys congrats on the quarter, just calling in for Chelsea. Just a couple of quick ones here. So in terms of Black Hills and Sioux Falls there's some really nice revenue growth there with case mix and so forth. How much of that is sort of the government stimulus side of it? And how much of it is the case mix?

David Watson

Yes, so of the \$4.1 million government stimulus, it went primarily to those two facilities with little more than half of that going to Black Hills.

Paul Stewardson

Okay, perfect. That's helpful. And just in terms of the case mix, there that you've been seeing, is this something that we can look at as sort of continuing to trend in the same direction? Or is this tend to be more of a -- this quarter is maybe taken on its own? And how do you see the trends there?

Rob Hollar

Yes, that's really hard to say, I don't think that's a trend per se. I mean, the impact, of course, that the early part of the quarter set up a stronger payer or case mix, rather. So you saw more of an urgent higher case mix acuity in that mix for March. The second thing we also -- the benefit of payer mix to that stronger on the commercial than on the Medicare. So both those sort of set up for a quarter, even without the stimulus was on par to the prior -- exceeding the prior year so. I don't think that's necessarily a carry forward trend for the rest of the year on -- for the first quarter, but...

Paul Stewardson

Okay, perfect. Yes. That's very helpful. Thank you.

Operator

Your next question is from the line of Doug Miehm with RBC Capital Markets.

Doug Miehm

Yes, good morning. First question has to do with the potential loan forgiveness. I noted that in the MD&A, you've taken up the wording of reasonable assurance that the stimulus loans will be forgiven. Was that by design or was it just changed? What are the chances that you actually have to pay back those loans today versus last quarter?

David Watson

Yes. Hey, Doug, it's David. I don't think the likelihood has changed from prior quarter, we're -- the facilities have submitted their applications and like most healthcare providers that have done that are just waiting. But we don't see that there's any change in likelihood.

Doug Miehm

Okay, so there's no reason for taking that or changing that wording. Okay, that's good. Second thing just has to do with about the opportunities around acquisitions. Are they looking more like ASCs or is there still the potential for a specialty surgical hospital? Maybe you can tell us what the landscape looks like with respect to the acquisition front today?

Rob Horrar

We'll be happy to. I'll take that on. This is Rob. The most of the growth opportunity for us on the pipeline and coming, especially coming out of COVID is in the ASC space, it is extremely dynamic as we called out in the script fractured, the pandemic highlighted that need to have a safe, separate place to do necessary cases outside the four walls of the acute care setting. So, a lot of opportunity not only in the existing ASC space, but we've mentioned over the year that we expect over the next say 5 to 10 years that this space for the ambulatory surgery centers is extremely dynamic set up for growth and will likely double over the next 10 years. So predominantly, Doug it's going to be in the ASC space,

Doug Miehm

And no change to multiples or anything that you're seeing right now, as we come out of the COVID situation anything you want comment there --

Rob Horrar

Yes. A slight uptick in the existing multiple on the acquisition side, not appreciably, we like the de novo opportunities, where you're getting in a higher return on investment. So, we see a lot of that development will be in the de novo space, where you've got a better return, but we do see some opportunities in both acquisitions and the de novo.

Doug Miehm

Excellent. And then last question, and just has to do with the dividend/distribution. Given your low payout ratio right now, have you given any consideration to a moderate increase at some point?

Rob Horrar

Doug, we don't have plans at this point to raise the dividend. But coming out of COVID, we're going to continue to evaluate that best method to optimize our shareholder return.

Doug Mieh

Excellent. Okay. Thanks very much.

Rob Horrar

Thank you.

Operator

We do have a follow up question from the line of Endri Leno with National Bank.

Endri Leno

Hi, good morning. Thanks for the follow up. I was wondering you guys can talk a little bit about cost inflation. What you're seeing out there be it in labor be it in supplies. And the second part to that any labor shortages, particularly on the medical staff side of things?

David Watson

Endri, we saw some impact on pricing last year. It's a little early -- this year we haven't really seen any significant change on that front. And on the labor side, no we're not experiencing any labor shortages.

Endri Leno

Okay. Great, thank you. And one more or two more actually for me, but on the divestment of that PRSC from MFC Nuetera. I was wondering is it possible to quantify what the contribution was in the previous quarter so that we can have an apples-to-apples comparison?

David Watson

No, I don't. I don't have that at the moment. But we can follow up with you.

Endri Leno

Okay, great. Thank you. And then one last one at the St Luke's ASC, how is it trending in the first year or is that -- on this -- is this quarter actually compared to the previous quarter? Have you seen any uptick or any improvements here or any comments?

Rob Horrar

Yes, comment is that we -- it opened late due to COVID. Certainly, we're pleased to see it to get open and fully functioning and operational. In the first quarter, we saw month-over-month sequential growth. So we're off to a good start there. And it's fully invested and the partnership is heavily engaged. And we're pleased with the trajectory right now.

Endri Leno

Okay, great. Thank you. That's it for me. Thanks very much.

Rob Horrar

Okay. Thank you.

Operator

That was our final question. I would like to hand the call back over for closing remarks.

Rob Horrar

Thank you, Operator. And thank you to everyone for spending time with us today. We thank our physician partners, nurses and all staff who deliver outstanding care to patients each day. As always, we look forward to reporting on our progress again next quarter. Thank you.

Operator

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