Medical Facilities Corporation
Q2 2022 Results - Earnings Call Transcript

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Company Participants

Robert Horrar - President and Chief Executive Officer

David Watson - Chief Financial Officer

Conference Call Participants

Christopher Pu - iA Capital Markets

Stephen Kwai - National Bank Financial

Operator

Good morning, everyone. Welcome to the Medical Facilities Corporation's 2022 Second Quarter Earnings Call. Today's call is being recorded. After management's remarks, the 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 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. Rob Horrar, President and CEO of Medical Facilities. Please go ahead, Mr. Horrar.

Robert Horrar

Thank you, operator. Good morning, everyone and welcome to our second quarter earnings call. Joining me today is David Watson, our Chief Financial Officer.

We reported our second quarter results earlier this morning. Our news release, financial statements and MD&A maybe accessed through our website at www.medicalfacilitiescorp.ca and have been filed with SEDAR today.

Our surgical case volume continued to improve in the second quarter, which helped drive a 4.7% increase in facility service revenue for the quarter. Surgical cases were up 5.6% for the quarter. The month of June was particularly strong with volumes climbing 8.1% compared to June of last year. Importantly, our June 2022 volumes were up 8.9% compared to those of June 2019, which was before the pandemic and is a positive trend.

While our volumes and revenues were up for the quarter, we were not immune to the increased cost pressures faced by everyone else in our industry. Much like our peers, our profitability was impacted by higher labor costs and other operating expenses. Clinical and non-clinical wages and salaries were higher due to annual increases and market wage pressures, resulting from an overall shortage of nurses.

Against the backdrop of recent cost pressures and ongoing uncertainty pertaining to COVID-19, we continue to take a balanced approach to the business. We are paying a higher dividend per share than this time last year. By the end of the second quarter, we have purchased nearly 1.3 million common shares since the commencement of our normal course issuer bid last December. While we are certainly focused on managing costs, our cash flow and balance sheet remains strong.

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

David Watson

Thanks, Rob, and good morning, everyone. I would like to start by reminding everyone that all dollar amounts I'm about to discuss are in U.S. dollars unless stated otherwise. Total revenue and other income for the quarter, including government stimulus income of $363 thousand, was $102.5 million, an increase of 4.5% compared to Q2 of last year, despite a $209 thousand decrease in government stimulus.

As Rob mentioned, our higher revenue is primarily attributable to our higher surgical case volume, along with the impact of Arkansas Surgical Hospital moving its anesthesia service and related billing in-house in Q1. Total surgical cases were up 5.6%, as outpatient cases increased by 6.2% and observation cases increased by 50.8%, while inpatient cases decreased by 14.9%. Pain cases were also up by 16%.

On the expense side, operating expenses were up 6% to $86.1 million. The increase was due to several factors, including higher salaries and benefits costs that Rob just mentioned, which increased by $2.3 million or 7.8%; higher drugs and supplies costs, which increased $2.5 million or 8% due to volume and case mix; as well as increases in other general and administrative expenses. As a percentage of total revenue and other income, consolidated salaries and benefits increased to 30.6% from 29.6% a year earlier, while consolidated cost of drugs and supplies increased to 33.2% from 32.2%.

General and administrative expenses increased by $1.7 million or 12.6%. The largest contributed to the increase was the $1.2 million impact from Arkansas Surgical Hospital moving its anesthesia service and related billing in-house in the first quarter of this year. These costs were largely offset by $1 million of revenue recognized in the second quarter for these services.

Another factor contributing to the increase was the reclassification of Sioux Falls Specialty Hospital's Accountable Care Organization costs to G&A expenses beginning in Q1 of this year. These costs totaled $0.8 million in the second quarter compared to $0.6 million in the prior year when they were recorded in drugs and supplies. As a percentage of total revenue and other income, consolidated G&A increased to 15.2% from 14.1% a year earlier.

With the higher operating expenses and the decrease in government stimulus income during the quarter, our income from operations decreased 2.8% to $16.5 million. EBITDA for the quarter was $21.5 million or 21% of revenue and other income compared to $23.7 million or 24.1% of revenue and other income in Q2 of last year.

In the second quarter, we generated cash available for distribution totaling C$8.4 million resulting in a payout ratio of 28.8% versus 29.2% in Q2 of last year. We ended the quarter from a balance sheet perspective in a position of strength. At the end of June, we had consolidated net working capital of $62.4 million, including $47.7 million of cash and equivalents. This compares to working capital of $67.4 million, including cash and equivalents of $61 million at the end of 2021.

Total cash includes $6.3 million in Medicare advances, which will be recouped by year-end. During the quarter, we purchased 576,000 shares for $3.9 million under our NCIB program. This brings total shares purchased to 1.3 million as of June 30 at a cost of $8.9 million since the commencement of the program last December.

At the end of June, we had $21 million outstanding on our corporate credit facility. Inclusive of lease liabilities, our net debt-to-equity stands at 0.47, which remains well below that of our U.S. listed peers. We remain well-resourced to capitalize on growth opportunities and returning capital to shareholders.

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 would now like to open the line for questions. Sarah?

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We will take our first question from Christopher Pu with iA Capital Markets.

Christopher Pu

Hi. Thank you. Hi, Robert, hi, David. Can you hear me?

David Watson

Yes, we can. Good morning.

Christopher Pu

Okay. Thanks. Great. Good morning. Congrats on the quarter. I just have a few questions regarding the macro environment with the interest rates going up. How does that impact your trajectory for M&A and perhaps the growth pipeline in terms of organic versus M&A?

David Watson

Good question, Christopher. Fortunately, and as I mentioned, we're in a very strong position from a balance sheet perspective. We continue to have a fairly significant cash balance, low debt and the overall impact of the increase in interest rates while a negative factor is not a significant factor for us with respect to continuing to pursue those growth opportunities as well as other return of capital to shareholders.

Christopher Pu

Okay. Now regards to the NCIB program, is that kind of like on a consistent basis or is it more like an opportunistic plan when depending on like the share price?

David Watson

It's been a fairly consistent program since we implemented it.

Christopher Pu

Okay. I just got one more question. My last question is regarding The Inflation Reduction Act, which still requires a House vote, but it's getting closer, include things like capping out of pocket drug costs and extending subsidies for health insurance. I'm just wondering how do you see that, if it passes, to affect your business.

David Watson

I think to the extent it gives more people access to health insurance, that's always a positive for our sector.

Christopher Pu

Okay. That's great. Yes. I was calling on behalf of Chelsea, she's not around, so just thought I'd let you know that. But yes, thanks for answering my questions. And I'll jump back in the queue. Thank you.

David Watson

Great. Thank you.

Operator

Thank you. And next we'll move on to Stephen Kwai with National Bank Financial.

Stephen Kwai

Good morning, guys. Thanks for taking my questions. Congrats on the quarter. Just a few for me. So, you highlighted inflationary pressures and obviously that's been something the entire industry has been seeing. Just wondering how is your strategy on mitigating those pressures going and how do you see that progressing in H2 of this year?

Robert Horrar

Yeah, that’s a good question. We saw on the – really on the labor salary and wages, we're seeing clearly some inflation and a large part of that is increase in salary to retain our nurses. And then there's some component of that related to bonusing and shift differential pays. And we've been fortunate to retain most of our staff and we haven't had any impacts to our volumes, but that comes with the costs. And so, we see some of that will normalize in terms of the non-fixed component of that. We've also been very fortunate not to have expenses at this point in contract labor. So we'll see on the back half a little normalization, but some of that is baked in for retention just to keep our high quality staff and volumes continuing.

Stephen Kwai

Great. Thank you. And sticking to the labor tightness, I know you mentioned nurses specifically, but just curious, is there any – also any impact on the onboarding of new doctors or looking for new doctors?

Robert Horrar

No. This is really the clinical and non-clinical we talk about or just pretty much our nursing staff, our technicians and then really all physicians, it's been a very – we're not immune to that in the healthcare industry. As a matter of fact, it's probably a little bit more on the clinical side, but not so much on the physician side. And we don't – for the most part employees and physicians, they are independent.

Stephen Kwai

Okay, perfect. And moving more, I guess, to the regulatory topics. Just on the Medicare proposal hospital rates and outpatient rates. Do you guys see any impact or expecting any impact from any changes?

Robert Horrar

Well, sure, I think what we've seen is that the interim rules looks very positive and when that's finalized, it's probably a little bit larger than it has been in subsequent years. So it's a positive for us.

Stephen Kwai

And I guess you can't give any guidance or outlook on any kind of percentage impact that may have?

Robert Horrar

No, not at this time, but overall, you can see the impact to the – and this is on the Medicare reimbursement, it's almost 4%. So it's a good strong increase on that line of business, which we do a fair amount of. So it's a positive for our company.

Stephen Kwai

Perfect. Thanks. And my last one, I think you mentioned in the last quarter, and also, I think I saw an update in the MD&A that some of the loan forgiveness, one of them in particular, I believe, the rejection was now rescinded and it's under review. Just wondering overall for those, is there any update or any status on maybe when you might hear back?

David Watson

Unfortunately, no. The SBA is working through this process. It's our understanding that there are at least 1 million loans under review. So it's very difficult to estimate when that process will be wrapped up.

Stephen Kwai

Okay. Great. That's all my questions. Thanks guys.

Robert Horrar

You're welcome.

David Watson

Thank you.

Operator

Thank you. [Operator Instructions] And it appears there are no further questions. So I'd like to turn the conference back over to Mr. Horrar for any additional or closing remarks.

Robert Horrar

Thank you operator. In closing, we thank our physician partners, nurses, and all team members who deliver outstanding care to our patients each and every day. We look forward to reporting on our progress again, next quarter. Thank you.

Operator

Thank you. And that does conclude today's teleconference. We do appreciate your participation. You may now disconnect.