



Transcript

Annual Meeting of Shareholders

May 11, 2023

Operator: Hello, and welcome to the Annual Meeting of Shareholders of Medical Facilities Corporation. Please note that today's meeting is being recorded. If you participate in today's meeting and disclose personal information, you will be deemed to consent to the recording, transfer, and use of same. If you disclose personal information of another person in today's meeting, you will be deemed to represent and warrant to Computershare and Medical Facilities Corporation, that you first obtained all required consents for disclosure, recording, transfer, and use of such personal information from all appropriate persons before your disclosure. It is now my pleasure to turn today's meeting over to Michael Gisser, Chair of the Board of Directors of Medical Facilities Corporation. The floor is yours.

Michael Gisser, Chair of the Board of Directors, Medical Facilities Corporation:

Good morning. It is now 11:00 A.M. Eastern Time and I ask that the annual general meeting of shareholders come to order. Ladies and gentlemen, my name is Michael Gisser. As Chair, I would like to welcome you to the 2023 Annual General Meeting of Shareholders of Medical Facilities Corporation. Before we begin the formal portion of the meeting, let me introduce the other speakers, Mr. Jason Redman, the company's Interim President and Chief Executive Officer and Mr. David Watson, the company's Chief Financial Officer.

As this meeting is held virtually via live webcast, please note the following rules for the orderly conduct of the meeting. Questions in respect of a motion can be submitted by any registered shareholder or duly appointed proxyholder using the Q&A feature on the virtual interface. Questions will be addressed during the question period at the end of the meeting, provided that questions regarding procedural matters or directly related to the motions before the meeting may be addressed during the meeting.

For the purposes of the meeting today, voting on all matters will be conducted by electronic ballot. Registered shareholders and duly appointed proxyholders will be asked to vote on each business item after the presentation of all business items. When you are asked to vote, you may do so using the "vote" feature on the virtual interface. You will only have a certain amount of time to do so once the polls are open.

I will act as Chair of the meeting. I will ask David Watson to act as Secretary of the meeting and Bernadette Villarica of Computershare Investor Services, Inc. to act as scrutineer.

In view of the need to attend to a number of formal matters certain shareholders or their proxies have volunteered to move and second resolutions where required. While this procedure will facilitate the handling of the formal matters, any shareholder or proxyholder may ask questions. I would also like to remind you that only registered shareholders or duly appointed proxyholders that have logged into the meeting using their previously obtained control number or username are entitled to vote or submit questions in this meeting in the designated field on the virtual interface.

The last Annual and Special Meeting of Shareholders was held on June 21, 2022. Any shareholder who wishes to review the minutes of that meeting may contact us by using the Q& A feature on the virtual interface. I am also tabling a copy of the 2022 audited financial statements. These are publicly available, as are the proxy materials, and are posted on our website and SEDAR.

Please note that upon completion of the meeting, the CEO and CFO will be making a presentation. Following their presentation, they will endeavor to address questions you may have that are submitted using the Q&A feature on the virtual interface. Accordingly, during the formal portion of this meeting I ask you to limit your submitted questions to the specific matters being considered.

Shareholders have been provided with notice and proxy materials for this meeting in accordance with applicable laws, and these are publicly available and are posted on our website and SEDAR. I have been advised by the scrutineer that prior to the meeting, proxies were received from the holders of 11,871,040 shares, or approximately 46 percent of all shares entitled to be voted. As a result, we have a quorum for this meeting and the meeting is properly constituted for the transaction of business. We will now proceed with the formal part of our agenda.

Before we consider the business of the meeting, I would like to outline the voting procedures to be used at today's meeting. We will conduct each vote by way of the vote feature on the virtual interface, as well as those submitted by proxy. If you have voted your shares by proxy prior to the start of the meeting, your vote has been received by the scrutineer and there is no need to vote those shares during the meeting unless you wish to revoke or change your vote. Polls on the individual business items will be open for voting once the motions are put forth for the business items to be considered at the meeting. Registered shareholders who have not submitted a proxy and wish to vote their shares or wish to change their vote may do so by clicking on the poll button on the screen. Duly appointed and registered proxyholders may also vote using the same method.

I will now present the three resolutions that will be considered at this meeting. The first item of business for which this meeting has been called is the election of six directors to hold office until the next annual meeting of shareholders of the company, or until their successors are duly elected and appointed. The management information circular states that there are six candidates proposed by management. The Secretary will now read their names – David.

David Watson, Chief Financial Officer, Medical Facilities Corporation:

The names of the nominees are Yanick Blanchard, Erin Enright, Michael Gisser, Jason Redman, Reza Shahim, Adina Storch.

Michael Gisser: Thank you. Since no further nominations have been received in the required time period, I declare the nominations closed. Six persons have been nominated as directors and there are six directors to be elected. Can I please have a motion for the election of directors?

Speaker: Mr. Chair, I hereby move that each of the six persons whose names have been read to this meeting by the Secretary for election as a director of the company be elected to serve until the annual meeting of shareholders to be held in 2024 or until his or her successor is duly elected or appointed or he or she otherwise ceases to hold office.

Speaker: Mr. Chair, I second the motion.

Michael Gisser: Thank you. The next item of business for which this meeting has been called is to consider and, if thought appropriate, to approve a resolution appointing Grant Thornton LLP as auditors of the company and authorize the board of directors to fix the remuneration of the auditors. In order to be approved, the resolution must be passed by a majority of the votes cast thereon. Could I please have a motion for the appointment of the auditors?

Speaker: Mr. Chair, I hereby by move that Grant Thornton LLP be appointed as auditors of the company, at a remuneration to be fixed by the board of directors of the company.

Speaker: Mr. Chair, I second the motion.

Michael Gisser: Thank you. Are there any questions regarding the two motions to be voted upon? I now invite Trevor Heisler of MBC Capital Markets Advisors to read any questions submitted.

Trevor Heisler: Thank you, Michael. Please wait while I look at the Q& A feature and see if there are any questions on the portal. There do not appear to be any questions at this time Michael, please go ahead.

Michael Gisser: Thank you, Trevor. The polls are now open to vote on the election of directors and the appointment of auditors. At this point, all registered shareholders and duly appointed proxyholders who have properly logged in with their control number or username and wish to vote will be able to see on the screen all motions being brought forth at this meeting.

Please register your votes by accessing the voting page and selecting the "For" or "Withhold" buttons next to the name of each proposed director and next to the resolution with respect to the appointment of Grant Thornton LLP as the company's auditors.

We will provide registered shareholders and duly appointed proxyholders approximately one more minute to complete the electronic ballots. Once the electronic balloting closes, the voting page will disappear and your votes will automatically be submitted. Now that everyone has had the opportunity to vote, I declare the polls for each item to be voted upon to be closed.

I have been advised by the scrutineer that all of the ballots and proxies deposited for the meeting have been counted and the two motions have passed.

In respect of the election of directors, the board of directors of Medical Facilities Corporation has adopted what is commonly referred to as a majority voting policy. Under that policy, a director is required to tender his or her resignation if he or she receives more "Withhold" votes than votes cast "For" his or her election. The scrutineer's report on the vote regarding the election of directors shows that each of the nominees would receive a greater number of votes "For" his or her election than would than would be "Withheld" from his or her election, and none of the nominees would be required to tender their resignation under Medical Facilities Corporation's majority voting policy. Therefore, I declare that each of the six nominees whose name has been read by the Secretary has been elected a director of the company to hold office until the close of the next annual meeting of shareholders, or until his or her successor is duly elected or he or she otherwise ceases to hold office. Congratulations.

In respect of the appointment of auditors, the scrutineer's report on the vote regarding the appointment of the auditors shows that the resolution has passed. Therefore, I declare that Grant Thornton LLP has been appointed as the auditors of the company and that the board of directors is authorized to fix the remuneration of the auditors.

As we have not received any requests for further business to come before the meeting. I declare the meeting terminated.

I would now like to ask Jason Redman and David Watson, the company's CEO and CFO, to make a presentation and address your questions for them. Over to you, Jason and David.

Jason Redman, Interim President and Chief Executive Officer, Medical Facilities Corporation:

Thank you, Michael and good morning, everyone. I want to quickly go over the key highlights from last year and spend some time talking about the strength of our core assets. Then David will touch on our Q1 2023 results and provide an update on our balance sheet and liquidity. But first, I would like to direct you to our disclaimer regarding forward-looking statements.

Despite the challenging macro-economic backdrop, our core business remained strong throughout 2022 and our facility service revenue increased 6.5 percent to \$424.6 million, which was an all-time high for MFC. The increase was largely due to our surgical case volumes continuing to grow and nearing pre pandemic levels. In fact, our surgical case volumes in 2022 were the highest they've been since before the pandemic. We continued to reinvest in our facilities in 2022, making further investments in surgical robotics systems at each of our four hospitals.

We also returned significant capital to our shareholders. Last year, we returned approximately \$38 million to shareholders, through the repurchase of just under 4.9 million shares, which represented about 16 percent of our total shares in 2022. This included 3.1 million shares through our substantial issuer bid back in October at an aggregate purchase price of \$25.5 million with remainder being through our ongoing NCIB program. We also paid dividends totaling \$32.02 per common share, which was a 10.8 percent increase over 2021.

MFC remains committed to providing the best care possible. This means investing in our hospitals to ensure they have advanced technology, equipment, and facilities, in addition to high quality staff and top tier physicians. This commitment is reflected in the high patient satisfaction readings

for our hospitals and numerous safety awards over the years. Earlier this year, Black Hills Surgical Hospital was named the number one hospital in the US for major orthopedic surgery by CareChex. The ranking is a result of Black Hills having the lowest incidence of patient mortality or complications and the highest level of patient safety, service and surgical quality when compared to nearly 5,000 US hospitals. Meanwhile, Sioux Falls Specialty Hospital ranked in the top 4 percent of hospitals in the US for orthopedics by the Women's Choice Award, which is relevant as women account for approximately 90 percent of family health care decisions. Black Hills and Sioux Falls also shared the title of leading hospital in South Dakota for joint replacements, according to Healthgrades. In 2022, Arkansas Surgical Hospital received the prestigious Press Ganey Human Experience Guardian of Excellence Award for the 4th year in a row and was recently ranked as the number one hospital in Arkansas for joint replacements according to Healthgrades. Finally, Oklahoma Spine Hospital was named the number one hospital in this market for 2023 and listed in the top 10 percent in the US for major orthopedic surgery, spinal fusion and spinal surgery by CareChex. We believe the investments we continue to make in our hospitals will result in ongoing strong demand in each of their markets while allowing our healthcare teams to provide the highest quality of care to our patients.

With that, I would like to turn the presentation over to David.

David Watson: Thank you, Jason. Good morning, everyone. I would like to start by reminding everyone that all dollar amounts will be discussing are in US dollars, unless stated otherwise.

Earlier this morning we reported solid revenue and earnings numbers for the 1st quarter of 2023. Our facility service revenue increased by \$8.5 million or 8.4 percent to \$109.3 million largely due to the combined positive impact of case and payor mix, as well as higher combined surgical case volumes for our surgical hospitals, and Sioux Falls moving its anesthesia service, and related billing in house in the quarter. Operating expenses were up 8.9 percent compared to Q1 of last year. In addition to higher salaries and benefits, the increase is mainly attributable to the impact of case mix and higher surgical case volumes on drugs and supplies at our specialty surgical hospitals, as well as Sioux Falls bringing anesthesia services in house. Our income from operations was \$13.5 million and EBITDA was \$19.1 million, representing increases of 4.9 percent and 6.3 percent, respectively. When excluding the \$1.8 million in government stimulus income recorded in Q1 of last year, we generated cash available for distribution totaling 5.6 million Canadian Dollars, representing an increase of 20.6 percent on a per common share basis and a payout ratio of 36.9 percent compared to 44.4 percent in Q1 of last year. The cash available for distribution on a per common share basis and our payout ratio reflect a significant reduction in our share count due to last year's substantial issuer bid and our ongoing normal course issuer bid program.

Looking briefly at our key balance sheet metrics at the end of the quarter, we have \$35.3 million in cash and cash equivalents and consolidated net working capital of \$31.9 million, resulting in the current ratio of 1.40. Inclusive of lease liabilities, our net debt to equity ratio remains low, at 0.9 compared to 0.94 as of December 31, 2022. Our net debt to EBITDA ratio for the 12 months ended March 31, 2023, was 1.88, down slightly from a ratio of 1.94 at year end. We have a strong financial position for reinvesting in our core assets and returning capital to our shareholders, and we remain focused on divesting non-core assets and pursuing additional overhead cost reduction.

With that, we would like to address any questions you may have. I will call upon Trevor Heisler to read any questions that may have been submitted to the Q&A feature in the webcast platform.

Trevor Heisler: Thank you, David. Please wait a moment while I gather any questions submitted. There do not appear to be any questions at this time. Please go ahead, David.

David Watson: Thank you for joining us today. We all look forward to keeping you apprised of progress throughout the balance of the year. That concludes management's presentation. I return the meeting to you, Mr. Chair.

Michael Gisser: Thank you so much, Jason and David. I ask that all registered shareholders and duly appointed proxyholders who would like to ask a question use the Q&A feature on the virtual interface to do so. We will answer as many of your questions as time permits. Please limit your questions to topics relating to today's subject matter and keep your questions short and to the point.

We will now give attendees a moment to type in their questions. For each question we answer, we will summarize the question and read out loud the name of person who asks such question and, if applicable, the entity this person represents. We would like to remind you that questions which were already answered or that are redundant or repetitive will not be addressed.

We now invite Trevor Heisler of MBC Capital Markets Advisors to read any questions submitted.

Trevor Heisler: Thank you, Michael. Please wait a moment while I gather any questions submitted through the Q&A feature. There do not appear to be any questions at this time. Please go ahead, Michael.

Michael Gisser: In conclusion, I would like to thank all of you very much for attending. Thank you.

Operator: This concludes the meeting. You may now disconnect.