

Medical Facilities Corporation (DR) CEO Rob Horrar on Q1 2020 Results - Earnings Call Transcript

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Medical Facilities Corporation Q1 2020 Results Earnings Conference Call

May 14, 2020 8:30 AM ET

Company Participants

Rob Horrar - President & Chief Executive Officer

David Watson - Chief Financial Officer

Jim Rolfe - Chief Development Officer

John Schario - Chief Operating Officer

Conference Call Participants

Operator

Good morning, everyone. Welcome to the Medical Facilities Corporation 2020 First Quarter Earnings 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 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 about 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, 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, operator, and good morning everyone. With me this morning is David Watson, our Chief Financial Officer; Jim Rolfe, our Chief Development Officer; and John Schario, our COO.

This morning, we released our first 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.

The COVID-19 pandemic has had an impact on our first quarter results. For this morning's call, I will start by discussing our experiences during and following quarter. We'll move on to our near-term outlook and provide a brief update on our initiatives.

Looking at our result, we had a strong start to our first quarter. Net revenue from continuing operations was up 6% for the first two months of 2020 when compared to the same period last year.

However, in the final half of March conditions began to change quickly as stay-at-home orders and cessation of elective cases in advance of the pandemic spread across the country. The impact from COVID-19 has varied at each of our facilities and the situation continues to change as the crisis developed.

Near the end of the first quarter three of our ASCs were closed due to local state mandates and have only recently begun to reopen. We continue to evaluate and adjust our policies and procedures to address the constantly evolving situation.

While the U.S. Federal and State Government and local Department of Health have recommended or in some cases mandated the limitation of nonessential surgeries. The ultimate medical decision currently lies with the discretion of the physician providers and subject matter experts in consultation with patients.

Our facilities continue to screen patients and evaluate on a case-by-case basis to determine which cases can be safely delayed and which should not, as well as take every precaution to ensure our facilities remain safe places for physicians, staff and patients.

We continue to see a reduction in case volumes so far in the second quarter. But it's important to keep in mind that a decision to delay a procedure does not mean that the procedure is not medically necessary. These procedures may still need to be performed just in an appropriate time.

As a result, we expect there will be a significant backlog of surgeries that will need to be scheduled once there is clarity on the pandemic. This surge may occur in the second half of the year, but the risk and impact of a second wave of the virus is hard to predict at this time.

Nevertheless, despite the immediate challenges from our pandemic crisis, we have dramatically improved our financial position over the past six months. The changes to our dividend and as the transactions for Unity and Central Arkansas provide us with increased flexibility, allowing us to pursue long-term value maximizing opportunities as they become available.

While this would be a good point in the call to provide an update on the new ASC under development in Chesterfield, Missouri. Construction for St. Luke's Surgery Center of Chesterfield commenced last November. We were planning to open in June, but construction has been delayed slightly due to COVID-19. We now expect to perform cases in the third quarter.

The St. Luke's ASC will initially offer five specialties including orthopedics, gynecology, gastroenterology, plastic surgery and general surgery. St. Luke will be one of our larger ASCs and will have extended care rooms to support total knee and hip replacements.

In addition to de novo opportunities such as this, we continue to have a pipeline of potential acquisition opportunities. Again with the crisis still ongoing and situation changing daily, our primary focus is on supporting our existing partners.

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. As usual a few reminders before I get started. First, all dollar amounts expressed in today's call are in U.S. dollars unless otherwise stated. Second, following the sale, the majority of our interest in Unity back in February, we no longer consolidate Unity's financial and operating results in the Corporation's financial statements.

The Corporation accounts for its interest in Unity under the equity method of accounting. The following comments are for continuing operations and exclude the results of the Unity's discontinued operation.

Our revenue for the first quarter was \$92.8 million which was down 0.7% from \$93.4 million we recorded in the first quarter of 2019. As Rob mentioned, we had a late quarter decline in case volume as a result of the COVID-19 pandemic as facilities postponed elective procedures and some of our ASCs were temporarily closed.

Overall surgical cases were down by 8.6% as outpatient cases decreased by 11%, inpatient cases decreased by 0.8% and observation cases decreased by 3.8%. Revenue decrease due to the following case volumes and was partly offset by favorable changes in case and payer mix, as well as an increase in other revenue including pain and imaging.

Operating expenses for the quarter increased 1.5% to \$81.7 million. Of note, operating expenses at OSH were up 12.1% mostly due to higher rents, equipment purchases and increased pain management and other staffing.

Adjusted EBITDA for the quarter was \$18.6 million or 20% of revenue compared to \$20.7 million or 22.2% in the first quarter of last year. In the first quarter we generated cash available for distribution totaling 8.8 million Canadian dollars resulting in a payout ratio of 24.6%.

Our balance sheet is sound and our liquidity position was strong going into the crisis. At the end of the first quarter, we had cash and cash equivalents of \$39.4 million and consolidated net working capital of \$63.1 million compared to \$71.5 million a year end.

The change from year end was primarily due to the decrease in assets held for sale and the liabilities associated with assets held for sale as a result of the sale of our controlling interest in Unity. 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. Operator?

Question-and-Answer Session

Operator

Rob Horrar

Thank you, operator. I want to take this opportunity to express my gratitude to our team, our physician partners and all medical professionals, employees for their hard work, support and partnership during this extraordinary period. And I would like to thank our investors and everyone on this call for their support and continued interest in MFC. As always, we look forward to reporting on our progress again next quarter. Keep well and be safe. Thank you.