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Company: **Medical Facilities Corp.**

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#### COMPANY PARTICIPANTS

Robert Horrar - Medical Facilities Corp., President, Chief Executive Officer & Director

David N. T. Watson - Medical Facilities Corp., Chief Financial Officer

#### OTHER PARTICIPANTS

Endri Leno - Analyst

Douglas Miehm - Analyst

Chelsea Stellick - Analyst

### MANAGEMENT DISCUSSION SECTION

#### Operator

Good morning, everyone. Welcome to the Medical Facilities Corporation's 2021 Second 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 Securities law. 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, 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 call – meeting over to Mr. Rob Horrar, President and CEO of Medical Facilities.

#### Robert Horrar

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

Our second quarter was highlighted by continued strong recovery case volumes on a sequential and year-over-year basis. Surgical case volumes were up at each of our facilities. With Sioux Falls Specialty Hospital, MFC Nuetera ASC and the Black Hills Surgical Hospital experiencing the largest increases. Our facility service revenue was up 44.2% from the second quarter of last year. In line with the higher surgical case volume across all facilities, we also saw an increase in operating expenses partly offset by the impact of the sale of Two Rivers Surgical Center in September 2020.

Our EBITDA for the quarter was down 3.7% from the second quarter of last year. But as a reminder, we recognized just over \$21 million in government stimulus income in the second quarter of last year versus \$572,000 this past quarter. Importantly, compared to 2019 as a baseline, second quarter EBITDA excluding government stimulus income increased 12.7%. Looking ahead to the back half of the year, we remain cautiously optimistic in our outlook. While we are pleased with the continued volume recovery in the second quarter and encouraged by the continued rollout of vaccines across the US, there are still a lot of uncertainty due to the Delta variant in many parts of the country.

COVID-19 cases have been on the rise so far throughout the summer. And we continue to support the vaccination rollout in each of our facilities and in general. Regardless, all of our facilities are open. We have sufficient PPP – PPE on hand and continue to take all necessary precautions, and we have a strong base from which to grow both organically and by way of strategic acquisitions. On the topic of organic growth, the 4,500 square foot expansion at Arkansas Surgical Hospital is moving forward as expected remains on track for completion before the end of the year. We also look to capitalize on the strong ASC market with potential acquisitions or de novo opportunities like St. Luke's ASC which we opened last year and continues to ramp up volumes.

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

### **David N. T. Watson**

Thanks, Rob, and good morning, everyone. I will discuss our financial performance for the quarter then provide an update on our balance sheet and liquidity. But first, I would like remind everyone that all dollars announced, expressed in today's call are US dollars unless stated otherwise. Our facility service revenue for the second quarter was \$97.6 million which was up 44.2% from the \$67.7 million in the second quarter 2020. The increase was primarily due to higher case volume as prior year volumes and case mix were impacted significantly by the pandemic. Overall surgical case volumes increased by 51.1% (05:18). Outpatient cases increased by 62.1%, in-patient cases increased 15.6%. Although second quarter surgical case volumes from continuing operations increased significantly compared to 2020, it was still about 6% below the second quarter 2019.

Total revenue and other income was \$98.1 million for the quarter, an increase of 10.5% from \$88.8 million for the same period in 2020. As Rob mentioned, facilities received an additional \$572,000 in government stimulus during the quarter while they received just over \$21 million in the second quarter of last year. Operating expenses for the quarter increased by 14% to \$81.2 million to a more normalized level driven by the growth in case volume. As a percentage of total revenue and other income, operating expenses increased to 82.7% from 80.2% in the prior year but compared favorably to 86.4% in the second quarter of 2019.

EBITDA for the quarter was \$23.7 million or 24.1% of revenue compared to \$24.6 million or 27.7% a year earlier. Compared to 2019 as a baseline, second quarter 2021 EBITDA excluding government stimulus income increased 12.7% and the margin was 23.7% compared to 21.8% in second quarter 2019. In the second quarter this year, we generated cash available for distribution totaling CAD 7.5 million resulting in a payout ratio of 29.2%. This is a slight increase from second quarter last year due to the strengthening of the Canadian dollar relative to US dollar.

Turning to our balance sheet. At quarter end, we had cash and cash equivalents to \$61.5 million and consolidated net working capital of \$48.1 million compared to \$45 million at year-end. Cash and cash equivalents included \$20.8 million of Medicare advances after \$2.3 million was recouped in the second quarter. The outstanding balance in our corporate line of credit was \$31 million at quarter end. Inclusive of lease liabilities, our net debt to equity stands at 0.49. We continue to be very well-resourced to capitalize on potential growth opportunities. And our leverage remains significantly lower than our US trading peers. For additional detail on our financial results, including specific results for each facility, please refer to our MD&A.

With that, we would like to now open the line for questions. Operator?

### **QUESTION AND ANSWER SECTION**

#### **Operator**

Thank you. We'll go first to Endri Leno with National Bank.

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**Analyst:**Endri Leno

**Question – Endri Leno:** Hey. Good morning. Thanks for taking my questions. (08:59). I mean, you said the volumes are generally recovered and/or have recovered. (09:04) – I was wondering if you can talk a bit about how is it trending versus historical levels and what are you seeing so far in Q3?

**Answer – Robert Horrar:** Yeah. Hey, Endri. Thanks for the question. The volumes have continued to improve. We saw in the first quarter that it's certainly up significantly compared to 2020. Still a little bit below the same period in 2019. But that continued to improve in the second quarter. We were about 6% below second quarter 2019. And we're cautiously optimistic. I think all things being equal, we'd expect that trend to continue. But obviously, with the potential impact of Delta variant, we're cautious on that.

**Question – Endri Leno:** Okay. No. For sure. And as a follow-up there, I mean, does the caution come from a general sense of caution that cases are increasing or are you seeing anything in terms of cancellations or postponements?

**Answer – Robert Horrar:** It's a general caution at this point.

**Question – Endri Leno:** Okay. Okay. Great. Thank you. The second question I have, you mentioned, Rob, rather in the prepared remarks and it was in your press release as well into exploring growth opportunities in the second half of the year the de novo and acquisition. So I was wondering if you can talk a little bit about what would kind of sway you one way or another to a de novo or to an acquisition. And if you can talk – what kind of size are you considering to be more of a sort of a tuck-in kind of situation or would you even look for something of the size?

**Answer – Robert Horrar:** Well, in general, Endri, we've talked about our growth opportunities in the ASC side are significant, listed in terms of the looks that we're getting in our pipeline. Our pipeline is active. We continue to look at both de novo development opportunities as well as those acquisitions and so we see that market starting to pick up in terms of activity. Clearly, we've talked about that. And so we see a lot of activity right there. It takes a while, of course, to work through development opportunities and to diligence acquisitions and the size, generally, of what we've got about now in terms of the ASC portfolio for that two to four OR (11:34) size.

**Question – Endri Leno:** Okay. Great. That's good color. Thank you. And my next questions – and I have a follow-up. And I'll jump in the queue after. Just wondering if you can talk a bit about the TMS (11:44) reschedule for this year. Any impact with the procedures or like what impact would it have to Medical Facilities if at all?

**Answer – Robert Horrar:** Yeah. I think the overall lift on the schedule is 2.3%. The expectation is that from our specifics it should be in line with that.

**Question – Endri Leno:** Okay. Great. And the follow-up to that is that the reinstatement of the in-patient list, any active to Medical Facilities at all or any thoughts you might have on that?

**Answer – Robert Horrar:** I believe you're talking about the in-patient-only list. At CMS (12:29) I think it's pulled back from that this year. And just in general – I'll just say in general our volumes continue to improve across the board. So at this point, I would say that's not been the impact.

**Question – Endri Leno:** Okay. Okay. So no changes there, right? So it should be more or less...

**Answer – Robert Horrar:** No, no, no. That's right.

**Question – Endri Leno:** Okay. Great. Thanks. I'll jump in the queue. Thank you.

**Answer – Robert Horrar:** Thank you.

**Operator**

We'll go next to Doug Miehm with RBC Capital Markets.

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**Analyst:**Douglas Miehm

**Question – Douglas Miehm:** Yeah. Thank you and good morning. First question just has to do with the surgical case volume increases that you're seeing. And you noted around that large part of that 68% is coming from Medicare (13:21) growth. And then I think it was 38% from Blue Cross Blue Shield. Can you talk about why you're sort over-indexed right now to Medicare growth? I'm just curious about that.

**Answer – Robert Horrar:** Yeah. Doug, I appreciate the question. This is Rob. What we've seen coming out of recovery is that most of – a large part to a large part the deferred cases were Medicare, so you're starting to see that come back. And now, as COVID and vaccinations rollout, so we've seen a little bit more growth in that area. And of course, Blue Cross being in our commercial (14:05) is also – was a part of that, but that's really the reason behind it.

**Question – Douglas Miehm:** Okay. Okay. That makes perfect sense.

**Answer – Robert Horrar:** Right.

**Question – Douglas Miehm:** The other thing that I was wondering about is do you think that the company and other surgical hospitals just in general are benefiting from what may be perception that there's safer place to have procedures done versus a community hospital where they could get exposure to COVID et cetera et cetera or do you still feel that it's simply a function of the quality of the care and those sorts of things that you can provide relative to a community hospital?

**Answer – Robert Horrar:** Well, Doug, and that's a really good question, I think for the – primarily it's the quality of the outcomes and things like that win the day. Secondly, I tell you that – I think that's primarily what wins the day here. Now, I would tell you we've benefited over the time from being a safe place not treating COVID patients that we have seen some volume pickups from that especially from physicians in the community, they're not (15:33) owners. We've called that – we've talked about that in previous calls and to some degree, there may be some benefit from that. But for the large part, it's the reputation of each of the centers and the quality.

**Question – Douglas Mieh:** Yeah. Okay. Good. And then finally from me, just with respect to multiples and those sorts of things as you look at your acquisitions. Now, de novo is one thing, but the acquisition multiples, are you seeing any price inflation in those whether they'd be a surgical hospital or I guess it'd be mostly ASCs in this case? But anything you've observed there through the period?

**Answer – Robert Horrar:** What we're seeing right now is fairly stable multiples. We haven't seen any expansion of that over the past – really the past year. So it's been fairly stable on the multiple side.

**Question – Douglas Mieh:** Okay. Great. That's it for me. Thanks very much.

**Answer – Robert Horrar:** Thank you.

**Answer – David N. T. Watson:** Thanks.

**Operator**

We'll go next to Chelsea Stellick with IA Capital Markets.

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**Analyst:**Chelsea Stellick

**Question – Chelsea Stellick:** Hello. Good morning. I just have a couple of questions. I guess what I'm just curious on the outlook of government stimulus. I know that you mentioned potential stimulus from your packages. I just kind of want to get a sense of where you expect things to roll out for the remainder of the year?

**Answer – Robert Horrar:** Based on the stimulus that's been received to date, Chelsea, we still have some deferred that we'll be recognizing in the third and fourth quarters.

**Question – Chelsea Stellick:** Okay.

**Answer – Robert Horrar:** But not at the same level that we've seen in past quarters.

**Question – Chelsea Stellick:** Okay. And then I guess just my last question, I know that you mentioned there's been a larger proportional increase in surgical cases at MFC and SFSH. Just kind of more color on the larger increases there and if that's going to continue moving forward at the delta (18:02) between certain facilities?

**Answer – Robert Horrar:** Well, we just called out those were the, I guess, the best performers in terms of the volume through the quarter. I don't – I think overall, we're pleased in general with that trend across the portfolio. As David called out Chelsea, we've been – we continue to close the gap to the 2019 levels. Even within the third quarter, we saw almost a continued positive closure rate. So delta (18:36), COVID aside, we're pretty optimistic of that continuing.

**Question – Chelsea Stellick:** Okay. Yeah. That's great. That's it for me. Thank you.

**Answer – Robert Horrar:** Okay. Thank you.

**Operator**

And we'll go next to Endri Leno with National Bank.

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**Analyst:**Endri Leno

**Question – Endri Leno:** Hey. Good morning. Thanks for the follow-up. Just one for me. Can you guys talk if you're seeing anything in terms of inflation be it in – within your current staff or even labor pressures in the US and that has impacted higher (19:17)?

**Answer – Robert Horrar:** Yeah. Good question, Endri. We were – in competitive markets, we've always seen competitive labor market niche for our markets. We have seen increased pressure this year but nothing that's impact our ability to maintain staffing level for operation.

**Question – Endri Leno:** Thank you. And is there any way like (19:47) to the increased pressure actually, is it more in terms of recruiting or is it more in term of compensation or keeping staff in-house?

**Answer – Robert Horrar:** Yeah. It's actually both because they end up playing off on one another.

**Question – Endri Leno:** Okay. Okay. Is there – is the impact quantifiable that you might want to call out or not really quantifiable impact at this point?

**Answer – Robert Horrar:** No, not at this time.

**Question – Endri Leno:** Okay. Okay. Great. Thank you. That's it for me.

**Answer – David N. T. Watson:** Okay.

**Answer – Robert Horrar:** Okay.

**Operator**

And at this time, there are no further questions. I will turn the call back to Mr. Rob Horrar.

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

**Operator**

This does conclude today's conference. We thank you for your participation.