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VieMed Healthcare, Inc.

First Quarter 2018 Earnings Release Call

May 8, 2018

CORPORATE PARTICIPANTS

Todd Zehnder, *Chief Operating Officer*

Casey Hoyt, *Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Doug Cooper, *Beacon Securities*

Nick Corcoran, *Acumen Capital*

PRESENTATION

Operator:

Good day, everyone, and welcome to the VieMed First Quarter 2018 Earnings Release Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Todd Zehnder, Chief Operating Officer. Please go ahead, sir.

Todd Zehnder:

All right, thank you, Caroline. Good morning, everyone.

Please note that remarks in this conference call regarding our expectations, future plans and intentions may constitute forward-looking information as such term is defined in applicable Canadian securities legislation. All statements other than statements of historical fact may be forward-looking information. Such statements reflect the Company's current views and intentions with respect to future events and current information available to the Company and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements that may be expressed or implied by such forward-looking information to vary from those described herein, should one or more of these risks or uncertainties materialize. Examples of such risk factors are discussed or referred to in the Company's disclosure document filed with the security regulatory authorities in certain provinces of Canada and are available at SEDAR. Should any factor affect the Company in an unexpected manner, or should assumptions underlying the forward-looking information prove incorrect, the actual results or events may differ materially from the results or events predicted. Any such forward-looking information is expressly qualified in its entirety by this cautionary statement.

Moreover, the Company does not assume responsibility for the accuracy or completeness of such forward-looking information. The forward-looking information included in this conference call is made as of the date hereof, and the Company undertakes no obligation to publicly update or revise any forward-looking information, other than required by applicable law. The first quarter financial results, news release and the related financial statements and the Management's Discussion and Analysis are available on SEDAR.

Now I'll turn it over to Casey to get things started.

Casey Hoyt:

Good morning. Thank you, Todd. Thank you for joining us on our call today. Today, you'll hear from Todd and I reporting on another strong financial and operational quarter. I'm happy to report that we are executing our growth plan on schedule for 2018. Today, I will share with you more on our efforts and positive tailwinds that are driving our expansion, but first, let me provide a quick overview of VieMed for those that are new to our story.

At VieMed, we specialize in keeping patients comfortable in the home who are primarily struggling with respiratory illnesses. Our primary service offering puts respiratory therapists in the homes of patients across the country. We are the largest independent provider of non-invasive ventilation in the U.S. The need for our care comes at a very critical time in the patient's life, typically when they are at the end of their lifecycle and they are most prone to visiting the hospital. Our highly trained respiratory therapists provide an education process to these patients, as well as management of their technology and equipment. We not only provide peace of mind to patients, caretakers and families, but we also provide significant value to the payers struggling to reduce the cost of healthcare in an ever-growing marketplace.

The market is being driven by an aging baby boomer population inside the U.S. We have roughly 10,000 baby boomers turning 65 in the country every day for the next 19 years. The growing number of patients presents significant opportunities for value-based, quality providers delivering the high quality of care, such as VieMed.

I'm very pleased with our accomplishments in the first quarter. One of the areas of focus that was mentioned on our last call was the development of our clinical liaison program. As a reminder to some, the clinical liaison program is designed to help us recruit new talent and expand our sales force. Our goal at the beginning of the year was to bring on 16 new reps in 2018, which would result in a 40% increase to our current sales force. We have already hired four new reps in the first quarter and have added another 10 through the conversion of therapist to reps through the clinical liaison program, and we have a growing pipeline of new candidates in new areas across our coverage area. This puts us ahead of schedule of our current plan. I'd like to thank our Management team and sales managers who have been the ones responsible for executing this incremental organic growth strategy.

Our Company continues to provide resources to our network developments team and those initiatives are starting to come to fruition. Our team has landed 11 new payer contracts since the beginning of the year. We have also been successful in properly communicating our value-based provider pitch to the point where we've put ourselves in position to negotiate rate increases with the payers who understand the importance of our level of care to the lives that they serve. This type of increase will allow us to beef up our support systems and invest in new technology at a faster rate to better care for the patients in need. The use of the KPMG study findings will be another significant message to further payer discussions along. We will continue to invest in our network development team as they strive to expand our coverage universe.

The results of the KPMG findings continue to show very powerful data to support our therapy. The two most important factors to payers and physicians when discussing the value of our program and care are savings and reductions in mortality. The KPMG study is showing both. Early findings are reporting a 25,000 plus savings number per year on patients that are on our therapy. The good news is we are able to save significant money on these patients while decreasing their relative mortality rate by 42%. We appear to be saving the money on the Part A hospital side of the equation, which supports our claim of how we prevent hospital readmissions. The information in the study makes it really hard for a payer to not want to embrace VieMed's program. The more they use us, the more they save, the better quality of care they provide for their customers and we now have the data to prove it.

We have also been working very hard in increasing our exposure to institutional investors. With the help of our IR team at Bristol, Todd and I have been very active with telling our story to many institutions across Canada and the U.S. We have executed three road shows in Canada and presented and visited with multiple funds at a conference in New York. Beacon has just launched coverage on us, and we have about three to four other firms highly interested in doing the same.

We are also in the final stages of uplisting to the TSX, which should increase our exposure and give us further access to institutional investors that may have had previous restrictions. Our market cap is now up to $159 million and we have our stock price on the move. Todd and I will continue to get our story out to as many institutions as possible in an effort to help drive Shareholder value.

At this point in time, I'd like to turn the call over to Todd to provide a financial overview of the quarter. Todd?

Todd Zehnder:

All right, thanks, Casey. In reviewing the financial results, all figures are in U.S. dollars and, like I said earlier, the full results are available on SEDAR.

We generated revenue of $14 million during the first quarter of 2018, as compared to revenues of $10 million in the first quarter of 2017, which equates to approximately 41% increase. Our revenues came in within the previously guided range for the first quarter. Additionally, our gross margin percentage continued to increase to 75% during the current year, as compared to 72% last year.

Adjusted EBITDA, which excludes depreciation and stock-based comp, totaled $3.8 million for the quarter, which is approximately a 27% margin. We have, once again, redeployed a majority of this EBITDA during the current period, as our cap ex totaled $2.9 million, primarily driven by new vent purchases to support our ongoing growing patient base.

Our SG&A totaled approximately $7.3 million, as compared to $4.6 million in the prior year. As we previously disclosed, our 2017 results had certain items that could not be accrued until our legal spinout was made; therefore, quarterly comparisons will have some noise in certain areas. As we've also previously disclosed, we expect to be able to manage our cost structure during our ongoing growth trend, and we continue to expect revenue and gross margins to increase at a higher pace than SG&A expenses.

Our balance sheet remains solid, with approximately $4.6 million of cash at quarter end, $10.7 million of clean accounts receivable and an overall working capital balance of approximately $5.2 million. Our accounts receivable balance was, once again, higher at quarter-end than prior quarters, as the Company was undergoing a routine audit by Medicare. Subsequent to quarter-end, we began to receive some of the payments due to us and we, once again, will reiterate that we fully expect to collect substantially all of these receivables. Our long-term debt, which is primarily made up of capital leases, is very manageable and being serviced with operating cash flow.

Moving on to the second quarter, we have provided revenue guidance in the $14.8 million to $15.3 million range, and feel that our gross margin and Adjusted EBITDA percentages should stay consistent with this quarter. Once again, all of this expected growth is organic and we are excited to continue to push out our therapy to new patients every day.

From a capital perspective, we have, once again, financed a portion of our equipment purchases with leases with our major vendors, and we believe that we'll be able to fund our future growth using the same financial instruments. Our line of credit with Hancock Whitney Bank remains fully undrawn and serves as an easy way to finance any excess capital needs that might arise. While we don't have a currently planned use for this line, it is nice to have the excess liquidity.

We, once again, want to reiterate our commitment to the stakeholders of our Company, and Casey and I will remain active with marketing. Like Casey said, we recently had our first sell side initiation report and want to thank Doug Cooper for his report. We are actively telling our story to other shops and hope to have additional research in the coming quarters.

At this time, I'll turn it back over to Casey to wrap things up.

Casey Hoyt:

Thank you, Todd. I am very pleased with the cash growth that we are experiencing at VieMed. This, along with a clean balance sheet, will give us the muscle to expand our business at a rate that will make it difficult for the competition to maintain.

The things that keep me up at night is how underserved our marketplace is currently. With less than 5% market penetration, we have so many patients in need of our service in this country. This dry powder that we are generating will allow us to improve our turning programs, increase our technology platform and hire more superior clinicians to get to more patients faster. We are a growing company with a strategic growth plan, and we have not had any significant surprises or headwinds that stand to throw us off track. With every day that goes by, it becomes increasingly clear that the industry is pushing towards embracing home value-based programs such as VieMed's.

In closing, I'd like to thank our VieMed's family of employees and clinicians whose teamwork makes this dream work. Without your commitment and passion, none of this would be possible. I would also like to thank our shareholders and colleagues for joining us on the call today.

This will conclude our prepared remarks. We'll now open up the floor for questions. Thank you.

Operator:

Thank you. If anyone does have a question at this time, please press the star key, followed by the digit one on your touchtone telephone. Once again, everyone, that is star, one if you would like to ask a question.

We'll go first to Doug Cooper with Beacon Securities.

Doug Cooper:

Hi, good morning, guys. Great quarter. Couple of things on the growth. You guided—I think you grew patient count 7% this last quarter and, I guess, sequential revenue growth expected 7% in Q2. What's the —is there a limitation on growth? Obviously, the opportunity remains huge with penetration only 5% and physicians, as you indicated, are certainly becoming more amenable to prescribing the vent therapy. Is the bottleneck to growth beyond the sort of 7% sequential rate people, or is it balance sheet or—yes, maybe you can just talk about the potential to even accelerate from the already strong growth you're showing.

Casey Hoyt:

Yes, I mean, the—my short answer to that is that we feel like there's a huge potential for growth. I mean, the market penetration numbers certainly can kind of prove my claim there. But that's 2016 numbers, Doug, I mean, we expect the market penetration to grow some for 2017 once the numbers get posted for the non-invasive vent Medicare beneficiaries; we will update that number, but I expect it to stay in the 5% range ballpark just because of the number of patients that are actually growing. I mean, I always use the example of another way of looking at it is, our oldest markets, when we first got into business back in 2012 where our little, small town here at Lafayette, which has a population of 150,000, ballpark, and then Baton Rouge down the road, which is probably another 200-plus, these two markets are in the top 5% of all of our 25 states today. We're not seeing any market saturation from a standpoint of running out of patients to put the therapy on. From those two perspectives right there, I think that we've got a number of years of runway before we have to start worrying about running out of patients to serve.

Todd Zehnder:

Yes, and maybe just to expand a little bit on it, I don't think it's a matter of capital. We have no capital restrictions, as you can see from our balance sheet. It's just a matter of educating more physicians and case managers about the good therapy and just getting out there and just telling the story to these people. It also, as our patient count expands, growing percentage-wise, obviously becomes a little bit more challenging as your base grows, but we clearly that these growth rates are achievable and we're going to try to exceed them.

Doug Cooper:

When was that KPMG study released?

Todd Zehnder:

Well, we are releasing it to payers and the government in small doses. We're not going to go out there and publish it immediately. We're going to be using it for ourselves and keep a competitive advantage.

Doug Cooper:

Okay. This is—all this is a study that you guys commissioned?

Todd Zehnder:

That's correct.

Doug Cooper:

Okay. Just on the reimbursement side, I think, Casey, you said you signed up about 11 new payer contracts since the beginning of the year. What is the current split between government and private?

Casey Hoyt:

Twenty-five percent to 75% government to private, and I guess included in that would be Medicaid.

Todd Zehnder:

Medicaid in that, yes.

Casey Hoyt:

By about two-thirds Medicare, about 9% or 10% Medicaid and then the balance is commercial.

Doug Cooper:

Sorry, 65%, or 65% to 70% government and 30% private, is that ballpark?

Casey Hoyt:

No, I mean, Medicaid and Medicare make up roughly 75% combined.

Todd Zehnder:

That's right.

Doug Cooper:

Seventy-five percent and 25%, okay. I think, was there anything else I had? Think that's about it, guys. Great work. Keep it up. Thanks very much.

Todd Zehnder:

Thanks, Doug.

Casey Hoyt:

Thanks, Doug.

Operator:

As a reminder, if you do have a question, please press star, one at this time. We'll go next to Nick Corcoran with Acumen Capital.

Nick Corcoran:

Good morning. Great quarter and I just have a couple of questions to follow up. The first is margins. As your revenue and your scale grows, what do you expect for a margin expansion over time, and what can we expect in terms of operating leverage from the Company?

Todd Zehnder:

Yes, Nick, I mean, we said it before. We think that we're going to be able to push margins up slightly with incremental revenue because of the fixed component. We haven't guided an exact percentage, and obviously, it's—to move margins up materially becomes more and more challenging with the growth. But we do feel as though we have more upside potential to margin each quarter that comes by, especially as we grow roughly 7%.

The operating leverage, I would say, really comes in the form of our purchasing power and with what we've done over the last couple of years, we've been pretty transparent about it, that we've been moving to a major initiative to own as much of our equipment as possible, whether it's outright cash purchases or capital leases, and that's been driving our gross margins up as we've gotten more of our vents into the owned category versus operating leases. As we continue to development and execute on that strategy, the operating leverage is going to be huge from a cash flow basis, so while you might not exactly see it in the margins, when you look at free cash flow that we're spinning off and the fact that we're going to be owning so much more of our fleet, there's going to be a significant opportunity for us to continue to scoop up more growth.

Nick Corcoran:

All right, that's great. Then, what do you see in terms of the pipeline for acquisitions? I know you've talked in the past about the pediatric vents.

Casey Hoyt:

Yes. I mean, in the past couple of months, we've put the pediatric vent acquisition somewhat on the back burner. I mean, one of the main strategies behind acquiring the pediatric vent companies was to really get a new strategy to get into network with more payers, and as our network development team has really kind of been blossoming, they're more confident in the strategies that they've been currently using versus having to lean on acquiring a pediatric vent company just to get that competitive edge. From a clinical standpoint, a pediatric vent program is underway with our clinicians to start to develop to where we can treat more kids inside of our circle, but the need for us to acquire somebody is kind of—it's been put on the back burner, I would say.

It's not completely dead, but look, another thing to keep in mind, Nick, is we were never going to be in this position of just acquiring a number of different pediatric vent companies. There might be a time down the road when we get acquisitive. The pediatric vent company was more of a strategic fit for us that we're figuring out other ways to kind of skin that cat here internally. But there could be a VieMed junior or something there down the road, but we don't see that as a near-term strategy right now.

Nick Corcoran:

All right, that's great. That's all my questions for now.

Casey Hoyt:

Thanks, Nick.

Operator:

That is all the questions we have today. I'll turn things back to our speakers for any additional or closing remarks.

Todd Zehnder:

Yes, we just want to thank everybody for participating today. We obviously are available—as we've stated several times, Casey and I are available for follow-up calls and look forward to continuing to get our story out to the market.

Operator:

That will conclude today's conference call. Thank you, everyone, for your participation. You may now disconnect.