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First Quarter 2019 Earnings Call

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PRESENTATION

Operator:

Good day, and welcome to the Viemed First Quarter 2019 Earnings 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.

Todd Zehnder:

Okay. Thank you, Jessica, and 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 documents filed with the security regulatory authorities in certain provinces of Canada and are available at www.SEDAR.com. 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 by applicable law.

The first quarter financial results, news release, the related financial statements and the Management discussion and analysis are available on SEDAR.

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

Casey Hoyt:

Good morning, everyone, and thank you for participating on our call today. For the past few quarters, we have talked about how underserved the patients are in our market space and how critical it is for us to get to those patients through ramping up our recruiting, hiring and training efforts. We have also spoken about how the Company views the upcoming regulatory landscape as an opportunity to scale our business at an even faster rate. We will continue these discussions in this quarter's update, but know that the stage is set for Viemed to help a ton of patients in both the near and long term.

I couldn't be more thrilled to be at the helm of this organization, leading some of the most passionate, caring and capable health care professionals in the country. Furthermore, I'm extremely honored to have the opportunity to be reporting on yet another record-breaking quarter. We have regularly stated that if we are not experiencing between 2% and 3% of revenue growth per month, then we are digging in our entire operations to ask, why not? This quarter is no different than any other in terms of growth rate as we experienced another sequential quarter of revenue growth to a tune of 11%.

As many understand, the larger we get, the harder it is to maintain our historical growth rate. However, our staff has been up to the challenge and the numbers are reflecting their hard work. The continued effort of our sales managers, trainers and people in the field are fueling our success. We have been experiencing similar success with hiring registered nurses as we have with hiring respiratory therapists. These RNs come into our organization with clinical knowledge and the passion required to uncover our patients in the hospital. This new success with RNs opens another recruiting pool for us to help speed along the support of our growth. Our team was able to hire and train another nine reps in Q1. Our sales reps, along with our clinicians in the home, have been experiencing substantial growth with our subsidiary percussion vest product line. With an estimated 25% of our current patient base struggling with bronchiectasis, this product line is proven to be a nice complement to our vest business.

The vest product represents—represented close to 7% of our new patients for the quarter, and we fully expect these numbers to climb the more comfortable we get with the product line. Our KPMG study continues to add value in the field to our reps at every turn. We're looking forward to the release of our new clinical precision study, which is still on schedule to be published before the year's end. As expected, preliminary data is showing that the clinical mortality rate reduction—or reductions are in line and consistent with the KPMG data. We know that the more data we have to help educate physicians, the faster we can get our therapy to the 95% of qualified patients still struggling to access our care.

The compliance department continues to stay ahead of our expanding sales force. They now have us licensed to do business in 40 states and have Medicare approval in 31 states. With new reps hitting the ground running in South Dakota and Iowa, we expect to be doing business in 27 total states. The compliance team is also gearing us up to capitalize on bringing the oxygen business to certain areas around the country. The opportunity to offer oxygen around the country to our early stage patients is becoming evident with every advancement of the technology build-out. Our tech team has been meeting with our head clinicians, and we are looking at ways of offering earlier-stage solutions to our patients to help extend our length of stay.

Our tech team has done a wonderful job of inserting themselves to the clinical side of the business and have already begun modeling out prototypes that should eventually drive more revenue streams for the

Company and offer real-time outcomes for payers. Speaking of payers, the network development team had a very busy quarter as well. Our team added 20 new payer contracts in the first quarter. We now have over 400 product contracts across the country.

The network development team continues to add experienced talent to their team, and we expect the positive trend of contract conversions to continue throughout 2019. Their latest challenge is to assist our government relations clinical team with uncovering VA contract opportunities. The individual sales with the VA continued to expand, which puts us one step closer to getting the VAs to write a bid request for placing an RT in the home to service their COPD patients. All hands have been on deck for the VA expansion as we have had our government relations clinical team synergizing with our network development and sales teams. We recently educated and authorized our sales team around the country to begin the pursuit of every VA facility as if it were a standard facility. Our persistence with the VA will be relentless until we can mainstream our services to the military veterans in need of our care.

The announcement to include vets into competitive bidding in 2021 came in the first quarter as well. We have been very vocal with our investor base on how the Company views the competitive bidding environment as one that we will accelerate—that will accelerate our growth even faster.

Todd and I hosted a webinar to review our investor deck and open the floor up for all parties to ask questions about our business in general and the regulatory landscape. This webinar was recorded and proved to be a great resource for anyone trying to learn more about our Company's view of the competitive bidding program. The presentation can be found under the Investors section at www.viemed.com. Since the original competitive bidding announcement, CMS has offered no further education to providers to finalize the details of the program. Todd and I have been busy since the beginning of the year staying in front of both prospective and current investors.

Our efforts in the quarter had us presenting at the New York MicroCap Spring Investor Summit and Bloomberg conferences. We have made roadshows style trips to New York, Montréal and Toronto this year to keep our story in front of investors. Our focus will shift towards getting to more U.S. funds as we look to dual list onto a U.S. exchange and continue to get our story out to the masses.

For an update on our financials and our NCIB transactions for the quarter, I will turn the call back over to Chief Operating Officer, Todd Zehnder.

Todd Zehnder:

All right. Thank you, Casey. In reviewing the financial results, all figures are in U.S. dollars. And once again, the full results are available on SEDAR. We generated revenue of $20.4 million during the first quarter of 2019 as compared to revenues of $14.1 million in the first quarter of 2018, which equates to a 45% increase. Our revenues came in right at the high end of our previously guided range for the first quarter revenues. New vent patients continue to grow at a rapid pace as well as our other product lines that we see continued strong sales growth as we look to diversify the product revenue stream. Additionally, our gross margin percentage stayed flat at 75% for each period.1

Adjusted EBITDA, which excludes stock-based compensation, totaled $4.8 million for the quarter, which is a 23% margin, slightly lower than the last few quarters primarily as a result of variable compensation tied to our stock price as well as some additional cost in our income statement related to future growth. With the strong increase on our stock price during the first quarter, our phantom share plan had a larger expense than normal. Our annual Adjusted EBITDA percentage should remain relatively flat with prior years, although we might have quarter-to-quarter volatility.

We have once again redeployed a significant portion of this EBITDA during the current quarter as our cap ex totaled approximately $4.5 million for the first quarter of 2019 primarily driven by new vest (phon) purchases to support our growing patient base.

Our SG&A totaled approximately $11.5 million as compared to $7.3 million in the prior year's first quarter. As just mentioned, some of the variable comp is tied to the stock price of the Company. Therefore, we've seen fluctuations in SG&A with the volatility of our stock, and we recorded $1.9 million this quarter as compared to 0 in last year's first quarter.

We will continue to manage our cost structure as we are growing so rapidly and are making prudent investment into the future through our investment in technology and talent. As previously mentioned, we will continue to work diligently to becoming a dualistic Company during the current year as we see value to being on both the Canadian and U.S. exchanges. With all of that said, we will continue to expect revenues and gross margins to increase at a higher pace than SG&A expenses.

Our balance sheet remains strong as we ended with approximately $7.4 million in cash at quarter end, 11.6—$11.7 million of AR and an overall working capital balance of $4.7 million. Our AR rose during the current quarter due to the rapid increase in sales as well as our investment into a new workflow and billing software. That alone, with the time of the year that AR takes a little longer to collect with deductibles, increase our overall AR balance. Cash collections are strong so far in the second quarter, and we are progressing on finishing off the older audits that has been previously disclosed, all of which will increase cash and lower our AR at the time.

Our long-term debt, which is primarily made up of finance leases, is immaterial at $1.2 million and being serviced with operating cash flow. Of this amount, approximately $1 million is due to the new leasing standards that cost us to report operating leases on the balance sheet.

Moving on to the second quarter. We provided revenue guidance in the $22.2 million to $22.8 million range and feel that our gross margin and Adjusted EBITDA percentages will once again stay consistent with the prior year. We will reiterate that all of this expected growth is organic, and we are excited to push out our therapy to new patients every day. We continue to see significant growth in other equipment lines during 2019.

From a capital perspective, we continue to use our internally generated cash flow and capital leases with our major vendors, and we believe that we will be able to fund our future growth using the same financial instruments. We once again took the opportunity in the first quarter to use some of our liquidity to buy back stock under our NCIB. We used roughly $1.5 million to buy 365,100 shares during the first quarter. Our line of credit with Whitney Bank has increased to $10 million and remains fully undrawn. While we don't currently have a planned use for this line, it is nice to have the excess liquidity and think that we'll be able to grow this line over time as the Company has continued to grow.

As Casey mentioned, we continue to keep an active travel schedule, meeting with both the buy and sell side, as well as many bankers and industry peers. Casey and I have kept the capital markets on the front burner while never forgetting that the operations of the business remain at the top of our list so that we can continue to post our rapid growth rates.

Our efforts to dual list on the U.S. exchange are moving at a fast pace, and we hope to have a more definitive update as to our expected time line during our next quarter's conference call.

At this time, I'd like to turn the call back over to Casey to wrap things up.

Casey Hoyt:

Thank you, Todd. Our numbers are showing just how much of a growth story we are here at Viemed. While I'm pleased with how well our Company has executed in the past and currently, we are far from being complacent. Our thoughts and strategies turn towards developing what is next for Viemed. The obvious route for us to take is to leverage our superior network of clinicians and salespeople who are spending such valuable time in the home to offer more solutions beyond respiratory.

We are in the homes of these patients for 17 months. How can we be of more service? What technology solutions can we offer to physicians, payers, patients and caretakers? These are the questions that we are working diligently to answer.

We're developing the answers that will ultimately drive us to the solutions that will help diversify and solidify the Viemed brand as the nation's leader in home health care services and technology.

I appreciate your trust and interest as current and prospective investors and look forward to visiting with you in the future. This concludes our prepared remarks. We will now open the floor up for questions.

Operator:

Ladies and gentlemen, if you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question.

We will now take our first question from Brooks O'Neil of Lake Street Capital Market. Please go ahead.

Brooks O'Neil:

Thank you. Good morning, guys. Congratulations on a terrific start to the year.

Todd Zehnder:

Thank you.

Brooks O'Neil:

I was just going to ask you a couple of things. One, I noticed in your SEDAR release that bad debt expense was up a little bit quarter-over-quarter. Could you just talk about what you're seeing there or trends? Do you think that's likely to be a trend that will continue?

Todd Zehnder:

Well, I think the percentages are pretty close. Obviously, as our sales go up, Brooks, we're going to have a little bit higher notional bad debt just with the nature of our business. I think the percentages in general, we've always said that we trend ourselves against the rest of the DME industry and feel like we do a better job. We always say 9% to 13% is where we need to live, and we really anticipate living underneath 10%. Sometimes, the first quarter gets a little bit more difficult with interest changes and deductible season and just a lot of—a little bit of more nuances. But I don't think over time—I don't think, over time, we would see that trend going up.

We did mention that AR is up a little bit because we did implement a much more robust billing and workforce system where we have tablets in the home of our RTs and it's becoming much more integrated with our home office. But like any transition of a system that has 17,000 patients in it, it has difficulties that you work through. But we're on the right side of that. We're on the right side of that and things look to be going well. Long answer for me saying, I wouldn't think that the number goes up over time on a percentage basis.

Brooks O'Neil:

Cool. That's very helpful. Then just sort of in that same general category. Obviously, as you've talked about, the hiring with sales and clinical personnel, looked like employee salary and benefits expense was up a bunch. I think you might have mentioned in your prepared remarks that you made some further investment kind of in anticipation of growth. Is that when we might find that investment and can you just talk a little bit about what's going on there?

Todd Zehnder:

Yes. You'll see that—obviously, we're hiring more salespeople with the rapid growth. We're up to 345 employees now. We have more—that means we have more managers around the country. We're setting up the Company for rapid expansion, and we're spending a good amount of capital, the capital—good amount of expense on the technology division. That's a major investment and a major initiative of ours for the future. But I want to make sure, like last year, we did not have the phantom share plan in the first quarter. That came out—as our spin out happened, it came out into the expense items in the second quarter. You have to remember that, that's the way—instead of diluting the shareholders, we have a cash-based plan that's tied to the stock price. That probably has as much of an impact as some of the hiring that's happened.

Brooks O'Neil:

Okay. Okay. That's good. Then maybe at the risk of belaboring it, would you mind hitting sort of the super high points of why you think competitive bidding can be an opportunity for you guys to continue to enhance your growth?

Casey Hoyt:

Yes. I mean, the best way to get the conversation started is think about our current patients and where they're located right now. If you recall, Brooks, 75% of our patients are in the rural markets and only 25% are in these competitive bidding zones.

We expect to compete in these competitive bidding zones, and it's—we're going to submit bids and it's going to fast track us into these areas. The Manhattans of the world and the Los Angeles towns that we're not in today, we're going to have a shot at getting in there through the competitive bidding process.

Just keeping us on our toes and really expediting our growth is number one. But number two, there's the opportunity to compete against mom-and-pop as the largest independent provider in the vent space that has the most tenure in the business with the most sound financial health.

Those are all what we're hearing are going to be weighted factors in this round of competitive bidding. That's an opportunity for us to shine in whichever area that we are bidding on. We feel pretty bullish about being up—our ability to win these bids. Then even if we receive some pricing pressure in those specific areas, the volume that we'll generate will be the ultimate opportunity for growth for our business.

Brooks O'Neil:

Great. Are we still thinking the moratorium is going to last two years, and that's when it's likely we could see some element of competitive bidding come to your marketplace?

Casey Hoyt:

Yes. Still slated for 2021, and that could still see a (inaudible). They could change things along the way. But right now, we have no other indication that it's not going to be 2021.

Todd Zehnder:

Yes. They actually came out with a time line this morning reiterating that, that is the expectation but always subject to future change.

Brooks O'Neil:

Sure. Thanks again, and again, congratulations on all the progress you're making.

Todd Zehnder:

Thanks, Brooks.

Casey Hoyt:

Thanks, Brooks.

Operator:

Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star, one on your telephone keypad.

We will now take our next question from Doug Cooper of Beacon Securities. Please go ahead, sir.

Doug Cooper:

Hi. Good morning, guys. Great quarter. Todd, just wanted to reaffirm, you said Q2 guidance, $22.2 million to $22.8 million and margin is consistent with prior years and you would anticipate fiscal '19 being—EBITDA margin being consistent with prior years. Is that sort of in the $25 million, $26 million range? Is that what you were talking about?

Todd Zehnder:

Yes. That's where we kind of came out last year. Once again, we had some volatility last year from a quarter-to-quarter basis, so we think at the end of the year, we'll end up there.

Doug Cooper:

Okay. A couple hundred basis points higher than what you just did in Q1?

Todd Zehnder:

Right. Right. Once again, the stock price opened pretty low after the events at the end of last year. As we've got out and we've educated everybody about the health of the business, the run-up in the stock had a pretty unique large expense this quarter as a result of that.

Doug Cooper:

Right. Casey, can you just talk about geography? You mentioned it's—I think you're operating—did you say you're operating in 27 states but approved in 31 for Medicare reimbursement and approved in 40? Can you just talk about sort of the rollout of what you anticipated from a geographic perspective over the course of the year?

Casey Hoyt:

Yes. I mean, we're actively—we have some states in there, Doug, that aren't highlighted that we do have reps actually already up and trained and running. We don't talk about them until we're actually getting business out of them, which is why we started talking about South Dakota and Iowa. But expect to be in the lower 48 in the next 1.5 years, expect to be in another dozen or so by, hopefully, the next two quarters. The compliance department is really running ahead of the game. It's less about license. It's more about finding folks and getting them trained and up and running right now. That's why I was commenting on the RNs. They're a nice added twist to our strategy here for recruiting.

RNs have the clinical background to do—to handle the conversation—the clinical conversation the same way that the RTs do. We've got some up and running in areas around the country, and they're doing quite good. That opens up a new talent pool for our recruiters and our sales trainers to build off of around the country, and we hope that it helps us highlight states at a faster rate.

Doug Cooper:

Okay. Just on that, maybe just states like, say, California, Florida, for example, when would you expect sort of meaningful revenue out of some of these bigger states?

Casey Hoyt:

California, we're already getting—I mean, meaningful, it's hard to say. I can't comment on than, what's exactly coming out of California right now just because I don't know off the top of my head. But it's underway. We just have one rep, but it's—we're looking at other pockets in the state to expand into. Florida is still—we're just banging our head against the wall, it's kind of one of those things, we feel like it's any week now. But every time we get close, they figure out something else that they want to complain about with our application. They're being very, very tough. It's been difficult to get into that state, but it will happen at some point. I don't have a time line for you there. We're not going to really recruit until we start—until we officially have our licensed business.

Doug Cooper:

You said you hired nine reps in quarter one. How many reps do you have now?

Casey Hoyt:

We're at 70 right now. The reason for that is last quarter, we had a round of promotions. We had some folks that moved up from the sales ranks into manager ranks and got them up and trained, and some of them are now clinical trainers. But the good news is, these nine reps—we haven't really gotten rid of anyone. That's a testament to our training programs that are going on. We're a lot more efficient now with getting them up and running successfully. It's also a testament to our recruiting efforts. These guys are finding the right people and not wasting anyone's time when they come to our organization. We're very pleased with the way that these guys have been efficient. Look, at the end of the day, it's definitely part of the reason that you're seeing these growth numbers that we're experiencing right now.

Doug Cooper:

Yes. No doubt. I guess I'm just trying to get at how long does it take a rep to be productive, in one sense? You know what I mean? You're front-end loading the cost and you anticipate obviously getting the revenues later. How long is the lag? Is it a couple of quarters?

Casey Hoyt:

We usually know by 90 days if they're going to be successful or not. That time line has reduced the better we've gotten at bringing these folks on board. But at the 90-day mark, we'll know if they're going to make it or not. Look, the majority of them, if they don't make it, they slip back into a support mode. We can—they understand the business. They know our game. Then they might not be great at sales, but they'll be good at servicing patients, so we can kind of offer them a different type of opportunity within our organization.

Doug Cooper:

Okay. Last one for me. Rev per patient—the rev per active patient, all-time high this quarter, just under $3,200. Obviously, that had something to do with other products. Can you talk a little bit about the other products and what you anticipate? You said you're ramping up for—maybe diversify the brand and the product mix. Maybe you could just talk a little bit about that.

Casey Hoyt:

The percussion vest is really the biggest one that's taken off right now. We're experiencing a lot of success, I forgot what that number was, 8%?

Todd Zehnder:

Yes.

Casey Hoyt:

Seven percent, 8% of our revenue was coming from the percussion vest this quarter. It's been really nice. Our sales folks are experiencing a lot of success, just because they're uncovering a need out there, these patients that are—our patients are really struggling with the stiffening of the lungs, which is what bronchiectasis is. We're able to kind of—I don't want to say mine our existing patients, but we can uncover those folks that are in our organization right now that are struggling. That's one piece with the growth.

Then the next is really just getting out on the front end, educating these pulmonologists that, look, not only will we take care of these folks with the vest, but we can offer the percussion vest for them as well and handle all the training and the service with our RTs in the home, and that's a big differentiator for us. It's a nice product, if you will.

We hope that—look, I hope it to be 10% to 15% of our mix at the end of the year, but we'll see. As fast as vets are growing, it's kind of hard to keep up with that. But vests stand to compete for sure.

Doug Cooper:

Okay. I guess as sort of a final one for me. The KPMG study, how much do you think that has helped to grow the patient base? Or is that still—basically the big potential from that education for us, is that still to come? Then finally, you talked about product mix. Is there any acquisitions out there that are starting to look better?

Casey Hoyt:

A ton of our growth can be attributed to KPMG. There's no question about it. But that being said, the interesting opportunity is, I still feel like our sales folks are not 100% comfortable delivering the total story of KPMG, which to me is the opportunity for even further growth with our existing referral sources and prospective wins. Our sales manager and our VP of Sales have been diligent about just educating these guys, more on how to walk and talk and the signals to look for, for opportunities to explain it not only to physicians, but let's go ahead and start explaining it to office managers and any type of nurse that is in these physician offices that stands to receive the message. As far as acquisitions, there's nothing hot to trot for us right now. I mean, we still keep our head on a swivel for anything that makes sense strategically to be a nice bolt-on or adjacent product, but there's nothing to comment at this point in time.

Doug Cooper:

Okay, great. That's it for me. Thank you.

Casey Hoyt:

Thanks, Doug.

Operator:

We will now take our next question from Russell Sarachek of CPM LLC. Please go ahead.

Russell Sarachek:

Hey, guys. Actually, my question was answered. But just one other one I might throw at you, sort of more philosophical. But when you think about your network, two questions. One, can the RTs, can they do other things for the patient in the home that—blood or other things, testing or other therapies that they're not doing now? Two is, do you think about the ability with this network that you created to slot other services into the home outside of the RT community?

Casey Hoyt:

That's a good question, Russ. You're getting ahead of where we're thinking, for sure. But with the RN infrastructure that we are building up, those guys can offer more services for other disease states than the RTs.

Now RTs can administer different products and services as well, but it's more within the respiratory realm. Each state has its different rule, so that can vary from state to state. It's hard just comment blanket—as a blanket response. But the RN infrastructure that we're building, absolutely, will open us up to being able to deliver and administer more services and care.

Todd Zehnder:

Explicitly, Russell, we have looked at many different items of what can and can't be administered in the home by an RT. You're exactly on the product, that would be a diversification effort. Also just to be the best-in-class one-stop solution and extension of caregivers, which is what is all part of our mission and vision as the vet Company that we are.

Russell Sarachek:

Got it. Thank you.

Operator:

This concludes today's question-and-answer session. I would now like to turn it back to the host for any additional or closing remarks.

Todd Zehnder:

Yes. We'd like to thank everybody for participating on the call today. As always, if you have additional questions, reach out to us or to the folks at Bristol, and we will get back to you as soon as we can. Have a great day.

Operator:

This concludes today's conference. Thank you for your participation. You may now disconnect.