



**VieMed Healthcare, Inc.**

**Third Quarter Earnings Call**

**November 5, 2018**

## C O R P O R A T E P A R T I C I P A N T S

**Todd Zehnder**, *Chief Operating Officer*

**Casey Hoyt**, *Chief Executive Officer*

## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Brooks O'Neil**, *Lake Street Capital Markets*

**Doug Cooper**, *Beacon Securities*

**Michael Eisner**, *Private Investor*

## P R E S E N T A T I O N

**Operator:**

Good day, and welcome to the VieMed Third Quarter's 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:**

Hi. Thank you, John. 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 securities regulatory authorities in certain provinces of Canada and are available at [sedar.com](http://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 publically update or revise any forward-looking information, other than as required by applicable law.

The third quarter financial results, news release and related financial statements and the MD&A are available on SEDAR.

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

**Casey Hoyt:**

All right, thanks, Todd. Good morning, and thank you for joining us on our call today. Once again, I am pleased that Todd and I have the opportunity to report to our current and prospective investors on yet another record quarter at VieMed. I will spend this morning updating our audience on the many initiatives that have been responsible for driving our growth, which led to us beating our guidance.

Before I begin the update on the quarter, let me first review, for our first time listeners, what we do here at VieMed. At VieMed, we place respiratory therapists inside the home to treat patients with very sick lungs. These first-in-class therapists provide around-the-clock care and offer education and peace of mind to a growing population of patients struggling with various chronic respiratory illnesses. Many of our patients are unfortunately at the end stage of their life, at a time when they are most likely to visit the hospital. Our service prevents these costly hospital readmissions from occurring. We treat patients struggling with a variety of disease states, including chronic obstructive pulmonary disease, neuromuscular diseases, sleep apnea and many more. The most common piece of equipment we use is a non-invasive ventilator, which allows us to ventilate the patient with a mask versus forcing them to be intubated.

The U.S. healthcare system has 11,000 new people qualifying for Medicare every day for the next 19 years, which is forcing our country to find and embrace more cost effective, value-based healthcare solutions. Our Company has been in position to offer this solution, and as a result, we have experienced rapid growth for the past six years. We are a very patient-centered business, dedicated to increasing the quality of life for our patients. This commitment from our people has proven to generate healthcare savings and reduces overall mortality for those under our care. A recent KPMG report shows that for every six patients we put on therapy, we save a life.

Now, let me transition into updating our listeners more specifically on the activity inside the third quarter. We spent a lot of the third quarter getting the KPMG message out to the referral sources and to the rest of the country. We've always felt that there is a lack of education and understanding amongst payers and physicians on the benefits of non-invasive ventilation therapy. This feeling could not have been more supported after we analyzed the recent release of the Medicare utilization numbers for 2017. As predicted, we are at 5% market penetration as an entire industry, which means that we still have 95% of the folks who qualify and need our care returning to the hospital as they do not have another alternative.

Our real competitors are not our two large national providers, nor are they the local mom-and-pop (inaudible). Our real competition are the physicians who need to see proof that our care works. The KPMG report is the first study of its kind inside of the U.S. that shows what we have been doing for the past six years reduces mortality and reduces hospitalizations. With the release of the KPMG report, we are already seeing a positive response from doctors and payers. Payers are now reaching out to us to understand the findings of the KPMG report a little clearer. This is making it a whole lot easier for our network development team to close insurance contracts. Our team closed an additional 24 contracts in third quarter, which is a drastic increase from the 18 closed in the first half of the year. We expect this momentum to compound as we have invested in key personnel to deliver the KPMG story to many payers across the country.

Investing in talent was also a major theme of the third quarter. We conducted a diligent search for a Chief Technology Officer, wherein we hired John Collier, who comes to us with 24 years of technology experience. He has built several cloud-based web platforms, telephony infrastructures, machine learning platforms and offer (phon) a high scale computing platforms. He maintains industry standards of rapid

development and security as he builds highly interactive global teams. John has experience building out extensive technology and business analytic teams as well. With John's new skill set, VieMed will have the ability to optimize our care model, by utilizing technology platforms that offer remote patient monitoring and solutions for our physicians to better manage their patients.

We have also beefed up our HR department with the hiring of assistants and full time recruiters to assist our sales managers in the hunt for more clinical liaisons, therapists and salespeople. These guys have been doing a fantastic job all year long, and in the third quarter, they were they able to add another 10 salespeople, four of which were clinical liaisons. This brings our total salespeople and liaison count to 27 at the end of the third quarter, which puts us well ahead of achieving our goal of 16 by year's end.

In the compliance department, we executed licensing in three new states, Nebraska, Utah and California. Recruiting is well underway in all three of these new territories, and we expect these three new states to add to our geographical expansion and active patient growth in the near term.

Our managed care team exhibited at the CHES Conference, which is the number one pulmonary conference in the country. They received nothing but positive feedback from the KPMG results but did hear that we needed to push for more of a clinical publishable study. Our Chief Medical Officer, Dr. William Frazier, has been working with another group to achieve a more clinically focused study, which should be set up and published by the end of Q2 in 2019.

On the capital market front, we spent a lot of time focusing on telling our story to as many U.S. investors as we could. Lake Street Capital launched coverage on VieMed and invited us to participate at their conference in New York. We saw much more interest from U.S. investors through many phone calls and face-to-face meetings and feel the stock price has reflected our efforts to spend time with the institution. Our market cap grew from approximately US\$140 million to approximately US\$200 million during the third quarter.

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

**Todd Zehnder:**

All right, thanks, Casey. In reviewing all these financial results, the figures are in U.S. dollars and as mentioned, full results are available on SEDAR.

We generated revenue of \$17.2 million during the third quarter of 2018 as compared to revenues of \$12.5 million in the third quarter of 2017, which equates to a 37% increase. Our revenues came in slightly higher than our previously-guided range for the third quarter revenues, as a result of continuing to outperform our new patient expectations and realizations per patient. Additionally, our gross margin percentage was 76% during the current quarter as compared to 75% last year.

Adjusted EBITDA, which excludes depreciation and stock-based compensation, totaled \$4.4 million for the quarter, which is a 25% margin, relatively consistent with the last few quarters. We have, once again, redeployed a significant portion of this EBITDA during the current year period, as our cap ex totaled \$3.1 million, primarily driven by new vent purchases to support our going growing patient base.

Our SG&A totaled approximately \$9.5 million for the—as compared to \$5.1 million in the prior year. As we have 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. Additionally, some of the variable compensation is tied to stock price of the Company; therefore, we have seen an increase in SG&A with the rapid increase in our stock price. We will continue to manage our cost structure as we are growing so rapidly, but we continue to expand in both sales infrastructure, as well as new ways to grow. We continue to hire key positions that are setting the Company up for future growth, and we'll continue to invest in our people and our shareholders, as evidenced by our recent hiring of a national

recruiter, as well as investing in a new CTO, as Casey mentioned. With all that said, we will continue to expect revenue and gross margins to increase at a higher pace than SG&A expenses.

We further strengthened our solid balance sheet and it remains with approximately \$10.2 million of cash at quarter end, \$8.4 million of clean AR and an overall working capital balance of \$7.2 million, which is up \$1.6 million in the last quarter. Our AR balance was, once again, higher at quarter end than our expectation going forward, as we finish off collections of our previously-disclosed audit, but we have received a significant portion of the money, which helped with our rapid cash growth during the current year. Our long-term debt, which is primarily made up of capital leases, is immaterial at \$700,000 and being serviced with operating cash flow.

Moving on to the fourth quarter, we have provided revenue guidance in the \$17.9 million to \$18.4 million range and feel that our gross margin and Adjusted EBITDA percentages will, once again, stay consistent with this quarter. We will reiterate that all 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 continue to use our internally-generated cash flow and capital lease with major vendors, and we believe that we will be able to fund our future growth using the same financial instruments. Our line of credit with Whitney Bank remains fully undrawn and serves as an easy way to finance any excess liquidity needs that might arise. While we don't currently have a planned use for the line, it is a nice—it is nice to have the excess liquidity.

We continue to meet with both the buy and sell side, as well as many bankers and industry peers, while at the front of our mind is serving our patients every day and ultimately doing what is best for our shareholders. As Casey mentioned earlier, we now have U.S. sell side coverage and are looking to expand our sell side in both Canada and the U.S. We continue to move forward on potentially dual listing on the U.S. exchange at some point in the next year or two. There is a significant amount of work to accomplish this task and we are taking the right steps behind the scenes to accomplish this goal.

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

**Casey Hoyt:**

Okay, thank you, Todd. As we enter into the colder months of respiratory season, our team always tends to get really energized on achieving year-end goals, which usually leads to us finishing the year strong. While the majority of our folks continued down the path of organically growing our footprint and continuing to get to the 95% of the Medicare patients that need us, myself, Todd, Mike and the rest of our executive team are really focused on additional incremental ways of growing our business in 2019, such as through acquisitions and getting another large payer on board.

The VA remains on the top of the priority list as the largest payer that needs VieMed. We have market data that shows an additional 500,000 patients inside of their system that qualify for our therapy but have no way of getting it. Our pursuit will remain relentless until we have a way of getting our care to these military veterans.

In closing, I'd like to thank our listeners and investors for joining us on the call today. As always, I'd also like to thank our group of passionate employees that we call the VieMed family. At the end of the day, it's our people who drive the performance that build our partnerships. I am blessed to be leading a group of professionals whose commitment to care leads to lives being saved. Thank you.

This will conclude our prepared remarks. We will now open up the floor for further questions.

**Operator:**

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are 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 pause for just a moment to allow everyone an opportunity to signal for questions.

We will take our first question from Brooks O'Neil of Lake Street Capital Markets. Please go ahead; your line is open.

**Brooks O'Neil:**

Thank you very much. Good morning, guys. Congratulations on the terrific quarter.

**Casey Hoyt:**

Thank you.

**Brooks O'Neil:**

I have a few questions. First, I'd like to just follow on with your comment, Casey, on the VA opportunity. Obviously, that's a huge number in relation to your current patient population. What do you believe are the key items that the VA needs to open the door to VieMed in servicing veterans?

**Casey Hoyt:**

Yes, the strategy is two-pronged. You have to come from the—work from the top and start at the bottom as well. When you're in there talking to the case manager, similar to the way that we talk to case managers at any hospital, Brooks, they understand the machine, they understand the benefits of therapy, but they just don't have a way of ordering it inside of their system. So, when you have to go work on getting a code for treating COPD patients with a ventilator, then you have to start from the top, and start from the top with a vendor relations department, and then you go on down to talking to the chiefs, Medical Officers and making sure that they understand the therapy and agree with it.

Having the KPMG data and report really has already started to help fast track some of these conversations and meetings. We have a team built out that work in both from the top and the bottom right now, and we feel confident that it's not if; it's just when. So, we're going to get to those patients. There's too many people inside of the system that really need us. I mean, COPD is 15% more prevalent than the Medicare population and we're—again, we're guesstimating that there's 500,000 patients that actually qualify for our therapy, and right now, they're being mistreated. They're being put on a BiPAP and then they're circling back through the prosthetics department, which is the sleep apnea division, so there's a lot of folks that are in need and there's nobody more motivated to do it really than these case managers because they're the ones that are getting burdened with all of these readmissions, so they're graciously helping us try to navigate the waters.

**Brooks O'Neil:**

Well, keep up the good work there. Second question I have is, obviously, gross margin bounced up sequentially nicely this quarter and year-over-year, and I see in the third quarter last year, it bounced up meaningfully as well. Is there something seasonal going on that affects the gross margin now and—or is it more related to the things you guys are doing to improve the health of your business?

**Casey Hoyt:**

It's really the latter, Brooks. The main thing that—the main things that are driving the margins up are, one, scale and you're going to—and I've mentioned this on the call before; you're not going to see it jump too drastically just because of scale but it'll have some relative contribution. The second thing is, as we continue to move out our leased operating fleet and bring in more owned ventilator fleets, just the margins should improve on that. So, that's the main reason. There shouldn't be much of a way in cyclical nature to the gross margin.

**Brooks O'Neil:**

Okay, that's very helpful. Just speaking about that, have there been in any meaningful changes in relation to reimbursement for the services you provide?

**Casey Hoyt:**

Nothing that we've heard of. There's no whispers or anything that we're hearing about reimbursement on (inaudible), so all things are positive from this point.

**Brooks O'Neil:**

Great. So, I wanted to ask just a little detail question. I think you said in your release that your patient count grew 7% sequentially and your revenue grew 11% sequentially, so I was just—wanted to be sure I understood what was driving the slightly faster revenue growth relative to patient growth?

**Todd Zehnder:**

So, it's twofold, if you think about it. Most of our time, we're sliding (phon) vents and so in our release, you see that we are talking about our vent patient growth grew 7%. The reason there's a delta is twofold. Like Casey mentioned, our network development group has had some wins this year to where we've been able to increase our realization on some of those vent contracts, and so that will drive, that will drive some inherent higher numbers. Then probably the second which may have more of an impact is some of our other product lines are growing as well and those aren't being cited, so our vest (phon) business, our PAP business and our home sleep business are growing pretty dramatically. So, those go into the total revenue, but they wouldn't increase the 7% vent growth.

**Brooks O'Neil:**

Okay, that makes a ton of sense. I think that's my main questions for now. Thanks for taking my questions, and again, congratulations on terrific progress.

**Todd Zehnder:**

All right, Brooks.

**Casey Hoyt:**

Thank you.

**Todd Zehnder:**

Have a good day.

**Operator:**

Again, 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; your line is open.

**Doug Cooper:**

Hey, good morning, guys. Couple of things, first of all, Casey, could you just remind us how many states you're in now?

**Casey Hoyt:**

We're in 25 states right now. We're licensed to go and there's the three additional ones.

**Doug Cooper:**

So, up to 28?

**Casey Hoyt:**

Correct.

**Doug Cooper:**

Okay. When would we expect—how quickly can you roll out to Nebraska, Utah, California? What—like, when would we expect the first patients from those states?

**Casey Hoyt:**

We're in recruiting mode right now. For the time that we get somebody hired, we usually have patients within the first two to three weeks and get them up and running, so it kind of all depends on how fast these recruits come on board. So, we hope to have patients in those three states by next quarter.

**Doug Cooper:**

By this quarter you're in here, currently for Q4?

**Casey Hoyt:**

(Inaudible). Yes, by the—well, we're halfway through Q4, so just...

**Doug Cooper:**

Yes.

**Casey Hoyt:**

...let's just say halfway through calendar Q1.

**Doug Cooper:**

Okay. Just in California, obviously the biggest state in the U.S., 40 million people, what would the—of the—maybe it's a more healthy state, if I can call it that. Like, how many patients would there be in California that would qualify for your therapy?

**Casey Hoyt:**

We really don't have that number because most of the data that we look at, Doug, is it starts with national numbers. I mean, we could ballpark it. I would have to guess there's at least 100,000 to maybe a couple hundred thousand throughout the state, but we don't have real good data state-by-state when it comes to the total population. We know what utilization is, at least for CMS purposes in California, but we're not exactly sure what the total market is.

**Doug Cooper:**

Right. So, I guess is it fair to say that of the patients who would qualify for your therapy, would it be the biggest state to date potentially of all the ones you have?

**Casey Hoyt:**

Yes, it would, but I mean what you got to remember is, it's spread out over a huge area.

**Doug Cooper:**

Sure:

**Casey Hoyt:**

So, just because you're in a state, it doesn't mean that it's this—we would rather probably go into a smaller state that has a high concentration with less competition. But, yes...

**Doug Cooper:**

Yes.

**Casey Hoyt:**

...correct, and that's why, I mean you've heard us say, we look at total population but we're really looking at COPD prevalence match as well and then utilization and all the other ways that we look at where we should go next. So, just because we're in California, there's a lot of different areas that we can go into within California that our reps wouldn't touch each other.

**Doug Cooper:**

Right. Just moving on to the new payers added in this—in the quarter, Casey, you said 24?

**Casey Hoyt:**

Twenty-four new contracts, yes.

**Doug Cooper:**

You said that was versus 18 (inaudible).

**Casey Hoyt:**

Spread out across (inaudible)—yes, spread out across our 25 states.

**Doug Cooper:**

Yes. If I just look back through my notes, I had 11 adds in Q1 and seven in Q2, that would get to the 18 that you had in first half, is that right?

**Casey Hoyt:**

That's correct.

**Doug Cooper:**

So, what do you attribute—I mean, this is a huge—looks like a huge number, obviously. Is this attributable to the KPMG study, or what do you attribute it to? This is a huge number coming on board.

**Todd Zehnder:**

Yes. KPMG definitely has something to do with it. That's definitely a tool in their toolbox that our team's using, but it's really the build out of our team and getting the right people with the right knowledge base, getting aggressive, calling on folks, handling the conversation a whole lot more professionally and getting organized in that department as well to hit them at the right moment in time and whatnot. We just—we really put a large focus on building out our network development team at the beginning of the year, and those guys are just finally start to get their groove; and yes, the KPMG results help and that's on the tip of their tongue any time they got anybody on the phone.

**Doug Cooper:**

Right. So, these would be mostly private payers or what?

**Todd Zehnder:**

Private payers, yes.

**Doug Cooper:**

Yes, okay. I think just my last question, guys, it's just on the bad debt provision. It was 10.5% this quarter versus 6.8% in Q2 and 10.9% of revenue in Q1. What is the sort of normalized numbers here to be moving around just a little bit?

**Todd Zehnder:**

Yes, like we've said in the past, 9% to 13% is where we hope to be live (phon), and we want it low as possible but we think that anywhere in the 9% to 13% range sort of is industry in line. We had a real good quarter in Q2. As everybody may remember, we had the frozen money through the Medicare audit at the end of the year, and in the second quarter, we had the majority of that money come through. So, while we

always felt very comfortable that we were going to collect it, our processes and procedures are to leave bad debt allowances on that, and so when it came through, we had an uplift in our profitability as a result of it. So, this 10% range, we're not content with it. We understand that that's probably industry norm. We're working to get it lower every quarter, but I think it's within the range that we say is reasonable.

**Doug Cooper:**

Okay. Sorry, one last question. On the rep per patient that was alluded to earlier, just over \$3,153 in the quarter, annualized \$12,600. Do you feel that's—you talk about the vent reimbursements are sort of relatively flat and the other, for lack of a better word, ancillary revenues are driving that higher. Do you still—do you think that can continue to move higher if the CPAP business or the sleep business continues to grow, I guess, right?

**Casey Hoyt:**

Yes. I think between the home sleep, which yields much more fruit on the PAPs, I think that business is growing and we continue to see it growing, and then we've been pushing hard on percussion vests (phon) and we see that growing as well. So, most of our ancillary product lines are in growth mode as well, and so we would hope that, over time, we can continue to push the realizations for per vent up as a result of that.

**Doug Cooper:**

Okay, great. Perfect. Thanks, guys. Congratulations.

**Casey Hoyt:**

All right, thanks, Doug.

**Todd Zehnder:**

Thanks, Doug.

**Operator:**

We will now take our next question from Michael Eisner. Please go ahead; your line is open.

**Michael Eisner:**

Hi, great, great quarter there.

**Casey Hoyt:**

Thank you.

**Michael Eisner:**

All right. One question; maybe it's two parts. Why so long to apply for NSADAQ, and do you know what percent of your shareholders are U.S.?

**Todd Zehnder:**

Well, the process to get listed on a U.S. exchange really starts with, from our perspective, of becoming an SEC registrant, and so that is what is driving that. We're not going to stay a Canadian registrant and list in the U.S. We're actually going to become an SEC registrant and move both of the listings as our—keep our Canadian listing and a U.S. listing, whichever that may be, as a U.S. SEC company.

The second part is the percentage of shareholders; we run that number once a year from a geographic perspective, and right now, my guess would be, just knowing some people that are coming in and out, I would say maybe 30% of our shareholders, roughly 30% to 35% are U.S. residents.

**Michael Eisner:**

Back to the first part, but you—it's—you haven't answered why one or two years. It doesn't it really take that long.

**Todd Zehnder:**

Well, I mean to go through an SEC registration process is a long period of time. So, once we decide that we're going to move to that, take that move, it does take a long period of time.

**Michael Eisner:**

So, do you plan on starting that now?

**Todd Zehnder:**

We are in initial discussions on that process now. But, that's all I'm going to comment on it, because until we actually make the application, we're going to—we're just going to tell—we're putting a long range out there.

**Michael Eisner:**

Okay. Thank you.

**Operator:**

That concludes today's call. Thank you for your participation. You may now disconnect.