



VieMed Healthcare, Inc.

First Quarter 2020 Earnings Call

May 5, 2020

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*

Nick Corcoran, *Acumen Capital*

Doug Cooper, *Beacon Securities*

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

Operator

Good day, and welcome to the VieMed First Quarter 2020 Earnings Call.

Today’s conference is being recorded.

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

Todd Zehnder

Welcome. Good morning, everyone.

Please note that our remarks in this conference call may include forward-looking statements under the U.S. Federal securities laws, or forward-looking information under applicable Canadian securities legislation, which we collectively refer to as forward-looking statements. Such statements reflect the Company’s current views and intentions with respect to future results or events, and are subject to certain risks and uncertainties which could cause the actual results or events to vary from those indicated in forward-looking statements. Examples of such risks and uncertainties are discussed in our disclosure documents filed with the SEC or the securities regulatory authorities in certain Provinces of Canada. Because of these risks and uncertainties, investors should not place undue reliance on forward-looking statements. The forward-looking statements made in this conference call are made as of the date hereof, and the Company undertakes no obligation to update or revise any forward-looking statements except as required by law.

The first quarter financial results news release, including the related financial statements, are available on the SEC’s website.

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

Casey Hoyt

Okay. Thanks, Todd. Good morning, everyone, and thank you for joining our call today.

Once again, I am pleased to have the opportunity to report on another record-breaking quarter for VieMed. While we have plenty of updates from the first quarter to get to, let me first address the question that seems to be on everyone's mind, how has VieMed been part of the solution to the COVID-19 pandemic? With our Company being the largest independent supply of ventilation in the country, you can imagine our product quickly became in high demand as clinical guidance was showing ventilation to being the primary form of treatment for coronavirus patients.

Before the virus hit the States, our management team was paying close attention to other countries struggling to treat the virus, and made swift and key decisions that helped lock in our supply of ventilators. We were able to secure orders in many manufacture queues which led to our supplying many patients within states such as Louisiana, New York, Illinois, Wisconsin, and many others. We supplied over 4,000 machines, including the—inclusive of invasive and noninvasive vents, and complexly (inaudible) machines such as backpacks (phon). We were able to also support and continue to support many of our hospitals in states with oxygen concentrators, masks, PPE, and many other respiratory supply.

Secondly, and equally as important, we were able to assist our hospital partners with getting non-COVID-19 patients out of harm's way and treated in the home. Our hospital partners were never more relieved to lean on us to help free up those valuable hospital beds for the people in need.

Our clinicians also sprung into quick action, and they created an educational resource video library which is currently hosted on our website at www.viemed.com. With many different brand names of equipment travelling across the country, our library, a lot of pulmonologists, respiratory therapists and ICU nurses will have a central place for them to brush up on their clinical ventilation skills.

Lastly, we were able to provide RT and nurse staffing for hospital systems trying to deal with the large quantities of patients headed their way.

I couldn't be more proud to be leading this (inaudible) of talented clinicians to make these daily decisions to work long hours, oftentimes away from their families, all in the name of helping others. I'm also pleased with the way that CMS quickly responded to the needs of the healthcare industry.

We saw many rule changes announced by CMS and all appear to be adjustments to help seamlessly support treating more patients in the home. Telehealth reimbursements were kicked up for being equal with the face-to-face visit. Professional clinicians who could conduct a telehealth visit were expanded to nurse practitioners, nutritional specialists, dieticians, etc. We also received a 2% sequestrian (phon) relief on all Medicare home medical equipment from May 1st through December 31, 2020.

CMS sent a memo to Medicare Advantage Plans explaining that they must abide by all the Medicare rules but prior authorizing equipment. Perhaps the most pertinent announcement was the decision to not include noninvasive vents, and for the next competitive bidding round from 2021 to 2024. This announcement should protect our debt reimbursement for the future for many years to come.

With coronavirus being a respiratory illness that is treated with a ventilator, there was really no brighter light shined on the need for our equipment and our expertise. While we always have to keep patients who struggled and others who lost their loved ones at the top of our mind, we still have the responsibility to communicate to our investors on the tailwind that was presented to our Company.

We had many other opportunities to tell our story to a much broader audience, and we did so. We recently have been interviewed and written up by *HME News*, *AA Homecare*, and many local publications. We've also made it on to many TV shows. I was personally interviewed on multiple national news networks such as Fox Business, Newsmax, and a CBS New Orleans Local syndicate. If anyone is interested in viewing those videos and content, then please visit www.viemed.com to catch up.

Before the crisis began, we were having a great first quarter. Beginning with our core business, we hired a total of 17 new sales reps in Q1, which was one of our best quarters. We expanded doing business into New York and Connecticut which brought our total coverage area up to 36 states. We've been working on revising our training program and stand ready for pushing our model to new areas around the country when the stay-at-home freeze has relaxed.

Unfortunately, our technology department was in pilot mode with our patient engagement portal, which we call PEP. We were able to ramp up our launch efforts. PEP provided our patients with a continuum of care to connect with our RTs with telehealth platform.

Our tech team created another telehealth app called VieMed Connect in under two weeks to help those patients who were without a PEP tablet. The adoption for the patients of both PEP and VieMed Connect (phon) have been amazing, and it definitely fast-tracked our technology initiative.

The VA has also been moving faster than normal as they helped to assign two large national contracts with their remaining third party payers. The VA has also pursued payments for our services which has been the confirmation that we have been waiting for to expand.

During the pandemic phase, we also provided multiple staffing contracts through our FBB or SP partners to help with the underserved VA facilities. While we did have to cancel our bellringing ceremony with the NASDAQ and a few other physical roadshows, we have been very active with virtually communicating to our institutional investors.

For more on the capital markets and to overview the financials for the quarter, I'll 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 the full results have been made available on the SEC website as well as SEDAR.

We generated net revenue of \$23.8 million during the first quarter of 2020, as compared to net revenues of \$18.1 million in the first quarter of 2019, which equates to a 31% increase. This is above our initial revenue guidance and it's a (inaudible) of our recently revised guidance.

Included in the current quarter is approximately \$1 million of equipment sales in response to the ongoing COVID-19 pandemic. In addition to the sales of new equipment sited above, we have shifted in certain areas by deploying equipment that had previously been in our active rental fleet. Those proceeds were recognized in the gain or loss on the (inaudible) property and equipment, and the gain during the quarter related to those sales was approximately \$1.6 million.

Our vent patient growth was once again strong as we grew approximately 3% during the sequential quarter and 25% over prior year first quarter amount.

The new patient referrals were slightly lower in March as a result of slower hospital admissions with the ongoing pandemic, but we continue to admit new patients to our program, albeit on a slower pace than we were in January and February.

Additionally, we have been active in retrieving vents from patients who had not had compliant utilization in order to assist in the need for vents around the country. Historically, we would allow a longer period for our RTs to get patients compliant, but during the pandemic we have been more aggressively placing units on the most in need.

While our vent patient growth is still solid, we are continuing on our other product growth. Our vest business continues to be strong. While it doesn't make up a huge part of our revenue stream, the oxygen business has continued to ramp up nicely since our national rollout last year.

Our current year gross margins are slightly lower than last year, partially attributable to the sales of equipment during the pandemic that have lower gross margins than our traditional (inaudible) business model.

Adjusted EBITDA hit an all-time high and totaled \$7.9 million for the quarter, which is a 33% margin (phon).

The affirmation COVID sales were accretive to historical EBITDA margins in the rental business. Our SG&A for the quarter totaled \$10.6 million, as compared to \$9.5 million in the prior year.

The rate of hiring slowed at the end of the quarter with travel restrictions, but we anticipate ramping back up when new employees can come in for training. We have continued to hire essential needs like clinicians in growing areas, and we are building out our inside sales teams that will work remotely.

Our investments into the future growth of the Company continue and we have launched our PEP pilot and we pivoted during the pandemic to launch our ViaMed Connect App. This app was able to be fast-tracked as a result of our prior technology investment. We've begun having patients interact with their therapists via the smartphone app which is making our lower in-person visits more effective than just visiting on the phone.

To our knowledge, there's no other vent provider that is conducting business like this, and we once again pride ourselves on being the most patient-centric provider in the country.

As in prior quarters, we once again have a very solid balance sheet with approximately \$8.4 million in cash at quarter end, \$15.4 million of accounts receivable, and overall working capital balance of roughly \$4 million.

Our AR during the first quarter grew primarily as a result of the sales of equipment later in the quarter for COVID-19, and those amounts were collected in April. Our traditional AR was up slightly and cash flow actually was stronger in the first quarter, and our first quarter business continues to grow.

Our long-term debt is approximately \$9.5 million and being serviced with operating cash flow. The majority of our long-term debt is for our building and our term loan, and annual liquidity to help during this current pandemic has been powerful. We plan to continue to minimize the amount of leverage on our balance sheet in order to remain opportunistic to changes in the business landscape. (Inaudible) the changes in the regulatory landscape, as Casey previously mentioned, VieMed has recently announced the noninvasive ventilators have been removed from the 2021 round of competitive bidding.

We fully support this action as NIV is a lifesaving device that we feel should be frequently and substantially serviced. Our understanding of the latest guidance is that vents are out of the program for three years, and with the latest focus on vent suppliers and the need for expertise, we hope that they will not be included in the future.

There have been many other programs through the government to help companies during this time. Our Company has received approximately \$3.5 million related to The CARES Act, and we have attested to our uses of these funds. We will clearly be redeploying these dollars in the COVID-19 cost to help with our patients, our employees and the new areas.

Our Company evaluated the Payroll Protection Program extensively, and after much evaluation, we decided that we were not the right type of company to request these funds. Therefore, we did not submit an application. We feel the right decision was made as that program was intended for smaller, less-capitalized companies around the country.

Moving on to the first quarter, we have provided net revenue guidance in the \$42 million to \$44 million range which includes approximately \$20 million of sales of equipment related to the COVID-19 pandemic. Our margins will be difficult to estimate currently as a result of the changes in our revenue composition related to our efforts in the pandemic. Our organic business model should have relatively consistent margins as it historically has had. There were such major changes for our model, we can't currently guide margin.

In conclusion in my prepared remarks, I would like to say how incredibly proud I am in our entire staff for stepping up during this ongoing crisis. From our clinicians to our inventory, purchasing, and maintenance teams, to our technology team, to our back office squad, everyone is teaming up to provide the best solutions to our existing patients as well as the hotspots around the country. As we have always said, we put our patient needs first, and the rest will take care of itself.

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

Casey Hoyt

Okay, thank you, Todd.

We were a growth story before the COVID crisis. We helped to turn the people during the crisis, resulting in incremental business, and now we have our sights set on nurturing our new relationships to grow while we establish the new normal in healthcare.

This pandemic proves what we've said all along. We just don't have enough hospital beds in this country, and we must take care of more—take advantage of more patient—treat more patients inside of the home. The government is easing up on the programs and regulations that do not support home-based healthcare to prevent these future outbreaks and help the masses of elderly patients coming our way.

The new model will include a more simplified approach for our physicians to seamlessly transition patients from the facility to the home. A lack of adoption at Telehealth and remote patient monitoring is underway, all in an effort to keep patients and clinicians safe from spreading another outbreak. Payers will be needing more home medical equipment providers, especially the ones that could work with clinicians administering care. Our Company is already strategically in place to be the premier provider in this new healthcare environment.

Our clinicians, sales people, tech teams, and executive staff are extremely excited to perform in this new world. With that being said, we must not forget about the many folks who lost their loved ones during this

time. We also have a country of grieving families and many who have lost livelihoods as a result of the economic slowdown. VieMed will continue to do our part as a company to develop solutions, create jobs, and stimulate the economy as best we can by helping a lot of people live their best lives.

This concludes our prepared remarks. We'll now open it up for Q&A.

Operator

Thank you. Ladies and gentlemen, if you'd 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 while you signal to reach our equipment. Again, press star, one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

We'll take the first question from the line of Brooks O'Neil with Lake Street Capital Market. Please go ahead.

Brooks O'Neil

Good morning, guys. Congratulations on all you're accomplishing. Can you hear me okay?

Todd Zehnder

We can Brooks.

Brooks O'Neil

Great. The question I've gotten most this morning I have to say is, when we look at your Tier-Two Guide (phon), obviously the \$20 million of product sales are incremental. Is there any implied or actual softness in your core business in Q2 that might cause a shortfall relative to our previous expectations on the core side?

Casey Hoyt

Yes. I mean, just like in the month of March, April has been slower than our initial expectations just because hospital systems are extremely slow. I mean, as you can imagine, people that have chronic diseases are doing everything they can not to go to hospitals. Many clinics have been shut down in the month of April. We're starting to see some of that loosen up around the country, but we've taken a more conservative stance with our guidance. Then also, we've done a really, really good job of not having patient attrition catch us from COVID-19.

As we've been pretty upfront on, this is a very vulnerable patient group. We're not seeing any high attrition than we have in the past, but we're just taking a more measured approach for guidance just because of the current situation in the system.

Brooks O'Neil

Okay, that's very helpful. Secondly, I'm glad to hear about progress with the VA. Can you just talk a little bit about what steps you need to take to begin to ramp the patient population that's covered in that national contract?

Casey Hoyt

Yes, it's—and it's no—there was really two other payers with—we were trying to get on with nationally beyond the BCA contrast which we announced in the last call. We ended up...

Brooks O'Neil

Yes.

Casey Hoyt

...inking those deals—we inked those deals in Q1, so from a payer standpoint we're good to go. The next piece, as we probably remember, we're waiting on getting paid. That has been solved as well. We started collecting on payments.

Then, as the pandemic should—a lot of the work that we were going to be doing for the VA was on the front end. Getting R2's into the home and assessing the home environment and recommending equipment and services that they would need, well, as you can imagine that got put on a halt, however, just because they saw the need for the vent, they were quickly wanting us to get in network with the other two large payers. We were able to accomplish that.

We have orders that are being uploaded into a VA queue (phon) right now, so we're seeing the shift in folks getting reading to release us to go out into the home again. That's exciting for us because now we know not only do they want it—we knew they wanted it. We just didn't know that we were going to get paid for—we solved our problem as we started collecting on payment, so we're very—we're geared up and ready to ramp up here in the Q2 for both doing business with the VA.

Brooks O'Neil

Fantastic. Let me just ask one more. I appreciate the color. I think Todd may have mentioned a little bit, but how do you view the investment you've made to prepare for competitive bidding? Obviously you looked into many other states beyond the ones that—the 36 that you're in now. Do you see that as kind of a wasted effort, or do you see opportunities to leverage some of that investment at that time that you made to grow the core business going forward?

Casey Hoyt

It's absolutely not a wasted investment. We continue to leave our bids out there. The real cost to deal with competitive bidding was getting our licensure ready for around the country, which we don't have to do every time anyway because we always had a goal of getting to the lower 48. We just kind of compressed that into last year. We had bonds out there that will remain with our oxygen in past bids, and if we (inaudible), we don't know, but if we don't, we don't. The amount of money we spent I wouldn't say would be significant, and I definitely would not say it's a wasted effort, because we are going to continue to grow into metropolitan areas. We just don't have to spread to be there on January 1st in the event that we would have won the bid.

Todd Zehnder

I might just add that during the crisis, we did business in some states that we currently were not in, New York being probably one of the largest, and we just might be enlightened in that state being ready to go and easily could be on the transition into their system where we could service them. That was helpful.

Brooks O'Neil

Great. I guess maybe I'll just ask one more sort of set of questions. Can you just talk a little bit more about the equipment sales? I assume, in general, those are one-time transactions, but you could clarify just so I understand. Then could you just talk a little bit more about—so that the profitability or margin on those sales and how you see that maybe now and going forward. Thanks a lot.

Casey Hoyt

Yes. I mean, clearly there's sales that we—well, we consider them one-time but they're going to be over a period of time, right? Margins are always on the board, but they're and that's why I've been—in my prepared remarks, I was upfront. I don't—we're not guiding a gross margin or an EBITDA margin because we're not done selling. We've sold everything from vents to bypass to consumables to PPE. We have a website for bulk PPE orders now. I don't feel comfortable throwing guidance numbers out. All I can tell you is that we're continuing to sell things that are "one time in nature", all at the same time with keeping our core business rolling. Anything we do in conjunction with helping these hotspots around the country is just accretive to sales.

Brooks O'Neil

Great. Thank you very much, and congratulations, guys. Keep up all the good work.

Todd Zehnder

Thanks a lot.

Casey Hoyt

Thank you.

Operator

We'll take the next question from the line of Nick Corcoran with Acumen Capital. Please go ahead.

Nick Corcoran

Good morning. I think Brooks asked most of my questions, but do you have any visibility on whether the new vent sales and all the increment sales you've be doing will continue into Q3 and Q4?

Casey Hoyt

You talking about new sales to systems Nick?

Nick Corcoran

Yes, exactly.

Casey Hoyt

It's hard for us to say.

Todd Zehnder

Yes.

Casey Hoyt

I mean, here's the thing. If you would have asked us a month ago how long it will last, this thing will last, we would have told you a lot longer than we feel like today because things feel like they're stabilizing and I think everybody's seeing the same things around the country.

However, we all know that people are preparing that this thing may raise its head again in the fall. We don't have any better, I guess, crystal ball than you on that, but we're continuing to make investments to be ready to sell to other people.

Todd Zehnder

I'll just say the different states have been having different peaks and demands at different times, so we've seen a little bit of a second run from some of these less-hit states that's getting ready. We've also seen hospitals which are—been inundated with all sorts of different types of equipment. They're now trying to back into getting the right equipment that they need but for their care plans. We're seeing a lot of different demands coming out of the hospitals that's changing on a day-by-day basis, so it's really just hard to guide in this point in time, the phase that we're in.

Nick Corcoran

Great. Then just looking at the revenue per patient per month, can you give any insight into, maybe the sequential growth, or the year-over-year growth, and the ancillary revenue and how that's been happening?

Todd Zehnder

Yes. I think this is in general. The vent revenue is not as large. I mean, it's still making up, I guess, the lower 80s in percentage-wise of our total revenue. When you look at the ancillary services, primarily the state business and the vest business, as those take up a larger share than the incremental revenue per patient should go up, we don't specifically guide by product. As long as vents continue to grow or stay stable, and these other products continue to grow, you should see a little bit of growth in that number.

Nick Corcoran

Great. The last question for me is, are you able to get your regular financing to vents just to—I'm just wondering how you're financing them in the ShareCare.

Todd Zehnder

Yes, we continue to use some of our cash to buy equipment, and some of our short-term leasing through some of our strategic partners in order to lease those. We have (inaudible) a credit line under that as well.

Nick Corcoran

Great. That's all for me. Thank you.

Todd Zehnder

Thanks, Nick.

Operator

Your next question will come from the line of Doug Cooper with Beacon Securities. Please go ahead.

Doug Cooper

Hi. Good morning, guys. A couple of things. First of all, the \$20 million that you've guided to for COVID builds in Q2, we're only five weeks into the quarter, is that orders in hand or are you making some assumption that you're going to sell more throughout the quarter? In other words, could that number grow over the quarter?

Casey Hoyt

Those are numbers in-hand, Doug.

Doug Cooper

Okay. Now, moving on. Casey, qualitatively, given your expanding relationships with states and hospitals and people becoming more familiar with noninvasive vents versus incubation, what do you think this means for your business and the referrals given educating the doctor community is one of the prime—priming the pump for future growth? I mean, you're establishing relationships across the country now, deeper relationships, and they're getting more comfortable with the advocacy of the noninvasive vents, in particular, I imagine, during this process. Can you just talk about how this could translate to maybe accelerated patient growth as we move forward once this crisis has abated?

Casey Hoyt

Yes. I'm glad you asked that, Doug, because that's the most important piece. Let's just say it's the one that I'm most excited about. We, as you know, we're—have always been the leader in developing these clinical studies. Well, take P&G a few years back, and (inaudible) Roberts study is going to be published within the next month or so, we hope. That was all in an effort to educate folks on the benefit of non-invasive ventilation and the hospital rate prevention and so on and so forth.

That education process has been fast-tracked, and there's been not many clinicians, not many pulmonology groups are R2 (inaudible)—R2 respiratory (inaudible) if you would, that don't understand the benefit of working with a noninvasive vent right now because they just had to use it, they had to use it in so many different settings, and that was the value that we really brought to the table. Being a distributor who knows how to work all the different types of equipment, we really get leaned on whenever they would just get—trying to get their hands on any kind of ventilator they could get their hands on. So, they were overloaded with these various pieces of equipment they're not familiar with. That's why we created that video library.

But, that's also how we helped to build the relationship as a thought leader with hospital groups all across the country, and they were calling on us and leaning on us for our clinical expertise and guidance. We were able to respond and be there for them, not only with the supply and equipment, but really through education which was probably some of the most important needed things that they needed to help save lives at that moment in time.

That's the kind of thing that people don't really forget, and we'll circle back around, and hopefully build some more strategic partnerships in these areas that we help serve. The VieMed name is—we've got a brand now of just being one that's very helpful and just the leader in respiratory, and so we'll continue to build off of that momentum and see how many more people we can help around the country.

Doug Cooper

Thank you for that. Todd, I'm just looking at—even excluding the COVID response sales, the million dollars in the quarter, that's—or excuse me—ventilator rentals are now down to 82% of sales versus almost 90% in Q1 last year. I guess as you start selling, whether it's percussion vents or oxygen and so forth, do you think that continues to trend, I guess, lower over time, and do you think by the end of the year, we're below 80%?

Todd Zehnder

I think we could definitely get there. Our goal is to be able to offer more products to our patients. We don't want to be selling every product out there. We're very focused on these product patients, but we have found a few products that our referral sources really need and like, and many of our patients will ultimately have multiple devices, maybe they'll have O2 and a vest, or O2 and a vent, or they'll have a vent and a vest. So, that's the goal.

We don't have a set number we're shooting for, but obviously, the vest and O2 and (inaudible) businesses had a much smaller base, so they have the ability to grow at very high percentages. It's just that to keep up with the vent growth is sometimes pretty tough, even in this environment where things may be a little slower in the (inaudible). We're still growing and I think all the products will grow.

Doug Cooper

Okay. My last question, just on the PEP business. Is that a—if the RTs are doing remote monitoring, remote checking in on the patients, is that a separate billing revenue stream potentially, or is that encaptured under the monthly billing for the vent under CMS?

Todd Zehnder

I know it's all captured under the existing billing code, and—but we have visions and aspirations, and we're working on models to have other ways to modify our technology investment. Right now everything we've been doing from a technology perspective is in the attempt to keep patients out of the hospital instead of (inaudible) the money and to keep patients alive longer. That's what we've made these investments for. We just went in the pilot with the PEP, and then, as we mentioned, pivoting to VieMed Connect during the pandemic was crushed by our technology teams just to be able to give people the ability to communicate with a smartphone. They don't need the tablet in the home. It's really a much more dynamic platform. The investment was made for the—as I say, invest in the patient and the rest will take care of itself. We're investing in the patient and the payers and so forth.

Down the road, we have many, many different ideas that we're thinking through, but we just have to have the concept proven out that we're working on right now.

Doug Cooper

Great, thanks very much, gentlemen.

Todd Zehnder

All right, Doug. Thank you.

Operator

Ladies and gentlemen, this will conclude the Q&A session, and this also concludes today's call. Thanks for your participation and you may now disconnect your lines.