



VieMed

Third Quarter 2020 Earnings Call

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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*

Anton High, *RBC Capital Markets*

Nick Corcoran, *Acumen Capital*

Prasath Pandurangan, *Bloom Burton & Co.*

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

Operator

Welcome to the Viemed Third Quarter 2020 Earnings Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. Should you require Operator assistance during the conference please press star, zero to signal an Operator. Please note this conference is being recorded.

I will now turn the conference over to your host, Todd Zehnder, Chief Operating Officer for Viemed. Thank you. You may begin.

Todd Zehnder

Thank you, David. 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 actual results or events to vary from those indicated in our 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 third quarter financial statements news release included in the financial statements is available on the SEC's website.

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

Casey Hoyt

Good morning, everyone. Thank you for participating on our call today.

Before we get started, I'd like to commend Viemed's greatest asset: our over 500 healthcare professionals who I have the great privilege of leading day to day. These associates continue to show bravery, compassion and determination to help others in need during this public health emergency. They continue to place others ahead of themselves, and have truly given a better quality of life for our patients within the communities we serve. Thank you for your sincere commitment to our Viemed mission.

I'll begin with covering some of the key updates on projects that are contributing to setting another record-breaking quarter. Additionally, we will discuss how we have built up an all-time high cash balance, and our current plans for reinvesting for the future. I'll also remark about the recent regulatory outlook which has become considerably more favorable for the HME industry.

Since the pandemic began, our team has been resilient in figuring out ways to stay in front of our patients and referral sources. Our efforts of communicating to physicians and patients through our technology platforms have certainly paid off. The third quarter demonstrates the bounce back on referrals similar to pre-COVID numbers inside of our core business.

We were also able to add five new territories in the third quarter which brings our year-to-date total to 27 new areas across five new states in 2020.

Today, we are conducting business in 36 states, and have many good expansion prospects in the fourth quarter. We also took the time in the third quarter to reorganize and restructure our Management: we added four new clinical trainers for our sales people. The new structure will allow for further strong field support for all new and existing reps. Our reps have been doing a really good job selling our ancillary product offerings, such as sleep, oxygen and percussion vests.

The ancillary business made up 18% of our revenue with strong momentum, where we are seeing faster growth with oxygen. We have recently begun working with Inogen to act as their private insurance arm for leads they have trouble converting. Our current growth rate on oxygen is a very robust 55% quarter-over-quarter and the early success of the Inogen program has it's very optimistic about the possibility to continue to grow oxygen at an even faster rate.

Our network development team put us into position to have enough national payor contracts to make our strategic partnership with Inogen attractive for both parties. We continue to add and build out our network development and payor relations teams to help foster and build valuable relationships within our payer network.

Another contract that came in the third quarter was a national contract with our Home Sleep Delivered division to provide home sleep studies to the VA. We have already started receiving orders for HSDs from multiple centers across the country. This contract will help us grow the sleep business, and assist us with our goal of being a one-stop-shop for all VA respiratory home-care needs.

Additionally, our inside salesforce has experienced success with setting up 42 meetings in less than 60 days for reps within various VA facilities. With these centers being difficult to access during the pandemic, it was nice to execute on a safe strategy to stay in front of our VA network with their granted permission.

Overall, our inside sales reps have experienced positive results in many departments within Viemed. They have played an instrumental role in helping close the Inogen leads for our oxygen partnership.

Furthermore, and perhaps the most exciting result is the work that they have accomplished while limited with access to physicians during the heart of COVID.

Our inside sales reps were able to drive 217 virtual Zoom meetings that resulted in 80 vent patients getting the service they need without being put in harm's way. As the process continues to improve, this is just another example of the department that is strengthened as a result of the pandemic.

The pandemic has presented our Company and industry with many positive tailwinds. We believe that patients, case managers, physicians and families are increasingly choosing to embrace the efficiencies of treating more people in the home. These trends have played a role in our core business bouncing back. However, it has not eliminated the need or the opportunity for other pandemic-related revenue opportunities.

Collectively, in the third quarter, we closed over \$8 million in COVID related revenue. Our offerings have been inclusive of vents sales, PPE and contact tracing contracts for states and hospitals in need. I could not be prouder of the creativity and hardwork that our Management team displayed by creating a warehouse and inventory system for PPE, and staffing a 200 persons call center for our contact tracing work.

As our inside sales strategies evolve, this call center stance serves as a breeding ground for Viemed champion callers to help ultimately drive our core business in the post-pandemic world. We recognized along with CMS that we are not in the post-pandemic world just yet. As evidenced by the recent announcement by CMS, the clause for 2021 competitive bidding round for most product categories, we believe the regulatory front will continue to be favorable for growth in our in-home healthcare industry. Earlier this year our Company was pleased to hear CMS announced that ventilators were removed from competitive bidding in 2021 through 2023. We now further signs of support from CMS which eliminates CPAP oxygen and vest from this round as well.

Relaxing these regulations is a wonderful response to the crisis, one that will allow healthcare providers to help more people in a continuing and efficient manner.

At this time, I'd like to turn the call over to Chief Operating Officer Todd Zehnder to review the operations and financial results for the quarter.

Todd Zehnder

Alright thanks, 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.

Our core business generated net revenue of \$24.9 million during the third quarter of 2020 as compared to net revenues of \$20.4 million in the third quarter of 2019, which equates to a 22% increase.

Additionally, revenue attributable to our core business was up approximately 8% sequentially, which is a good sign that our business is returning to growth levels achieved before the ongoing COVID pandemic. Additionally, during the current quarter, we generated approximately \$8.6 million of equipment and service revenue from the ongoing COVID-19 pandemic.

The COVID related revenue resulted primarily from the sales of equipment, contact tracing services and sales of PP&E; as Casey pointed out, it truly helped with various states and communities dealing successfully with the pandemic.

Our vent patient count increased slightly from the second quarter and was up about 5% over the prior year third quarter amount. As we discussed last quarter, we retrieved noncompliant vents more aggressively during the current year as we were seeing the need for equipment at such a high level. As a result of this effort, our average realization per active patient has increased, as we have had less write-offs and bad debts on our patients that we are servicing.

While our new patient additions remained somewhat lower than historical figures, the last 60 days have shown better indications of growth, primarily due to better access and our ability to on-board new sales reps after the height of the pandemic.

Our margin percentages, both gross and EBITDA, continue to fluctuate as COVID related product sales during the current year skew comparability.

We once again posted very strong margins during the quarter. Our third quarter gross and EBITDA margins came in at \$19.5 million and \$7.7 million respectively. Our SG&A for the quarter totaled approximately \$13.6 million as compared to \$10.2 million in the prior year's third quarter.

The rate of hiring increased during the quarter and we continue to look to add more reps in the field, as well as build out our inside sales reps for multiple products.

We once again have continued hiring for our initiatives in the technology area because the ongoing pandemic is creating new business challenges which breeds innovation to solutions. Our continued investments into the future growth as the Company continue with our expanding PEP pilot, and our business analysis for the opportunity in the new area of remote patient monitoring.

We once again have a very solid balance sheet with approximately \$32.4 million in cash at quarter end, \$11.5 million of AR, and an overall working capital balance of roughly \$19.6 million. Our core business AR during the third quarter is actually at the lowest level that it's been in about two years, which is a continuation of stat that our new workflow system is operating effectively.

Now that we have had our internal systems optimized, it is driving better cash collection cycles and lower bad debts for aging receivables. Our long-term debt is approximately \$7.2 million and being serviced with operating cash flow. We have once again built liquidity, and lowered our long-term debt, and our plan to continue to minimize the amount of leverage on our balance sheet remains intact. Once the pandemic shows signs of endings, we will be diligently looking for ways to opportunistically capitalize on changes in the business landscape.

Moving on to the fourth quarter, we have provided net revenue guidance in the \$26 million to \$27 million range related to our core business, and have also guided approximately \$5 million to \$6 million of revenue related to the COVID-19 pandemic.

While we have not guided to add significant of revenues related to the COVID during the upcoming quarter as compared to prior quarters, we continue to serve as a resource to states and healthcare systems around the country and will step up to provide equipment and services as needed. This flexibility has been demonstrated by our talented team around the country, and has been a significant value creator for our shareholders during this pandemic.

On the capital markets front, we have been actively marketing to institutional investors through non-deal roadshows in the new age of virtual tours. Additionally, we have several sell side virtual conferences that we have upcoming where we will present our story to new and existing shareholders. We are excited to

keep talking about our mission of treating chronically ill patients in the home, with the best clinical and technological care available. Additionally, we filed a shelf registration during the third quarter that will offer us the flexibility in the future should we have the use of proceeds necessitating a capital raise. We became eligible to file this shelf after being an SEC registrar for one year; therefore, we filed a during September.

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

Casey Hoyt

Thank you, Todd.

Another major takeaway from the third quarter is that our cash is now at an all time high. As our Company looks to finish 2020 as a strongest year-to-date, our thoughts now turn to the investment strategies that must be made to drive future growth. In addition to the organic growth from our clinically proven industry leading sales force, our focus is shifting to what can we acquire that will speed up our initiatives. With remote patient monitoring being a new revenue stream for physicians in 2020, we think there is a unique opportunity to drive our core business through offering a fair market value RPM, revenue solution to our position network.

With current strategies in place to bolt on remote patient monitoring, on-site technology platforms, our team has spent significant time researching our build versus buy versus JV technology options. While we have traditionally not been an acquisitive company, we recognize that an opportunity exists for prudent acquisitions to help expedite our market share growth in the future.

In closing, our clinical protocols and ability to test ourselves during this pandemic has made a stronger than ever as a company. The patient centric model that we have created is our competitive differentiator in the marketplace. Our team has never been more unified and committed to taking our Company to the next level. The culture we have created at Viemed is second to none, and it has become one that is welcomes challenges and quickly adapt to convert them into opportunities.

As a result of our employees working in a growing industry with patients who need us, it makes the Viemed value proposition a very compelling story.

Thank you for all of you on the call who have trusted us with your investment and we look forward to continuing to drive further shareholder value. This concludes our prepared remarks, we will now open up the floor for questions.

Operator

Thank you. At this time we will be conducting a question-and-answer session. If you would like to ask a question please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. If at any time you wish to remove your question from the queue please press star, two. For participants using speaker equipment it may be necessary to pick up your handset before pressing the star keys.

Our first question is from Brooks O'Neil with Lake Street Capital Markets.

Brooks O'Neil

Good morning, guys, hope all is well down there?

Casey Hoyt

All is well, Brooks. Good morning.

Brooks O'Neil

Good. So I have a couple of questions, I just try to limit myself a little bit here, but first I'm curious, as you look across the business in the things you're working on, what do you see is the most significant constraints on growth and moving forward?

Casey Hoyt

Well, presently it's still access to the hospitals. I mean we're fortunate to be seeing an uptick in referrals but we still can't get into about 50% of our facilities right now. So that's currently. I mean as you look down the road, the number one priority and focus is always growing the vent business, Brooks, and that's beefing up recruiting, that's advancing our training programs and protocols and hiring more people, and so it's no different than it has been in the past just getting our hands on the right people and getting them trained to walk and talk the Viemed way.

Brooks O'Neil

Great, and have you seen any shortage of respiratory therapists out there to hire into the sales side of the business?

Casey Hoyt

No, we're not. I mean we're not having a shortage of respiratory therapists; what it is, it's really finding the respiratory therapists, that we can train to sell and have them be successful in the field. As a refresher, I mean these are clinicians that with the school to take care of people: they didn't go to school to learn sales, and so we have to train them to advance their careers and touch more people through communicating and educating physicians about the Viemed offering. And that just can be a challenge sometimes to get that correct person.

Brooks O'Neil

Sure. Makes sense. Have you guys think about the—particularly the gross margin going forward? Obviously, there's been some volatility as Todd said related to the vent sales and equipment sales in PP&E; and I'm thinking a little bit more about what impact do you see the growth of the oxygen business having on your margins over the next 12 to 24 months?

Casey Hoyt

We've always said the vent business has the higher gross margins on a percentage basis but all these ancillary products are just really good offerings. So while it's been very volatile as you mix in the COVID numbers this year, looking forward, we would expect the percentage as we are creeping up on about 20% of our revenue coming from ancillary products, the gross margin percentages will likely come down some but the most important thing is that notional gross margin is going to be growing at a faster rate, if we didn't have these ancillary products. So if it soften up a little bit, but the most important thing is that's accretive to the bottom line - very accretive to the bottom line. So we are pushing to grow that business significantly.

Brooks O'Neil

Makes total sense to me. Let me ask one more and then I'll jump back, obviously in your prepared remarks a little bit more focus on acquisitions this quarter.

And you highlight the shelf offering, I mean do you think are you trying to say to us, we should expect to see an acquisition here over the next 12 months or something?

Todd Zehnder

I think so, Brooks. We are putting the focus on starting to do our homework on various opportunities, not just other medical equipment businesses in our space that are in areas that were not in with contracts that we don't have, but also strategic acquisitions that might be a good fit for our technology initiatives that are underway. So, the one thing about the pandemic that was great, it helped us grow our cash balance and we're sitting pretty now, it's time to put that cash to work, and so we are actively looking at becoming more acquisitive.

Brooks O'Neil

Great. Makes sense. Keep up all the good work guys. Thanks a lot.

Todd Zehnder

Thanks, Brooks.

Operator

Our next question is from Anton High with RBC Capital Markets.

Anton High

Thanks. Hi, guys, how would you characterize the overall sort of organic growth in the quarter and specifically kind of from month to month, if you could kind of shed a little light on that and maybe what you saw in October relative to kind of where you closed out third quarter?

Casey Hoyt

Yes, I mean well this quarter was back to what we always expected, which is more on an annualized rate of being a 30% to 40% growth. It wasn't like it was all over the board, it's just been consistently better in the third quarter than it was in the second, and so that's a good sign. It didn't just come roaring back in September. It's been a progressive improvement as the pandemic has I guess been elongated. It is not like, it's over. We recognize that, we still have challenges, but it was just a good solid growth quarter.

As it relates to October, we have the guidance out there. It was once again a good quarter for—I mean a good month for referrals and so forth. So that's included in what we have put out there for the fourth quarter. And it's continuing that ongoing trend of better numbers month over month.

Anton High

Okay, great. And then a couple of that kind of feed off of what the Brooks' line of questioning there. Just on the hiring process, especially for RTs and I guess for inside reps too, has there been kind of any change in that process that you've had to adjust maybe as the pandemic has kind of continued on here, and has that affected your ability to go into any certain markets, maybe where there is already increased activity from a COVID standpoint?

Todd Zehnder

Yes, from a COVID standpoint, the biggest change, we really just getting folks in and trained and up and running, getting back out into the field, walking shoulder to shoulder with our clinical trainers, that was a bit of a challenge in Q2 and trickled into Q3 as well; as confidence rises just amongst Americans during

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this pandemic on how to just continue to live, so does access to facilities and patients getting out and really treating their COPD more than they were before. So that's exciting for us. I mean what we've done along the way is, we've beefed up our recruiting efforts, we've changed some things around. We're always trying new things in terms of recruiting working with different types of firms and challenging our folks that are boots on the ground, they really work the hallways of the hospitals and facilities and educate more RFPs out there that the opportunity to work with Viemed is out and about.

And so we've beefed up some of our recruiting efforts internally with our own people and how they are rewarded for finding new recruits. So we're always making changes in that regard. I mean that's our number one priority is just to get good people into this Organization because once we get them into another area, that's another 60-mile region that we can get business from. So that's our current expansion strategy.

Anton High

Okay. And then on the ancillaries, do you have sort of a penetration rate, if you will, that you want to, do you want to get to, whether that's a sales mix or kind of a sell-through into existing markets rate or something like that, that you're targeting or is that just sort of, you take it as it comes and it's nice because it adds operating leverage?

Casey Hoyt

We don't have a specific target per say, but we do know that the best thing for referral sources and for patients is to offer a wide array of services, and it's best for operating leverage as you say, so while we don't have a defined goal of the product mix, the way we do look at it, it's not through penetration in exact market, it's the contribution of these ancillary products to the business. We don't hang our heads if that number doesn't grow materially in a quarter, because of our vent growth.

Our overall I guess strategy and vision is to continue to grow that product mix. I think it was 18% in the third quarter. We'd love to have that in the 20s next year, but the number one goal is to have the overall business growing at that material level that we've always exhibited.

Anton High

Okay, great. Thanks, guys.

Casey Hoyt

Thanks, Dan.

Operator

Our next question is from Nick Corcoran with Acumen Capital.

Nick Corcoran

Good morning. Just a couple of questions from me. The first is on the revenue per patient: quite high in the quarter. How much room do you see that having to grow going forward and how stable is that?

Casey Hoyt

Well, I think if you look at it just on a bit basis, we're pretty much where we think we'll be, although maybe our average realization could come up a little bit as the overall bad debt may stabilize at a low level. When you look at it. Since we've picked up noncompliant patients and so forth will always have patients that admit to facilities and things like that. So I don't think it will have a material move from here, but you

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clearly see the impact of what we've been doing during the current year from having been on the right patients to also having an optimized workflow has come through. If you're including ancillary products in the average realization per patient, which as we continue to grow that business might not be the way to look at it, if it becomes more material, going back to Anton's question on the last one, it should continue to grow because we should have more ancillary product revenue coming through it.

Nick Corcoran

Great. Can you give any more color on the contract tracing contract - whether size, duration or anything on along those lines has changed since the last call?

Casey Hoyt

Yes. So nothing has changed. We've been executing on that contract, really kind of the beginning of September late August/early September. It's a one-year contract is what we signed for. That doesn't necessarily mean it will be out there for the entire year, but that's what it's for and it's looking very good. And as we mentioned last quarter and which is included in our current guidance, it's a little bit over about \$1 million per month of revenue. So it should go through mid-next summer or through next August.

Nick Corcoran

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

Casey Hoyt

Thanks, Nick.

Operator

As a reminder if you would like to ask a question please press star, one.

Our next question is from Prasath Pandurangan from Bloom Burton.

Prasath Pandurangan

Hi, thanks for taking my questions. Firstly, could you give a little more color on the oxygen concentrator business including the main drivers and the revenue potential, and how correlated are these revenues with the number of vent patients?

Todd Zehnder

Yes, the oxygen business, we have different stages COPD, Stage I being in the bottom of less severe and Stage IV being the most severe. At Stage, I they would typically become candidates for oxygen therapy. So think of your less sick patients as the ones that will need an oxygen concentrator. The way that we've always been in oxygen business here locally in Louisiana, and we decided last August to release that offering nationally to our sales reps, and the reason for it was because this is a driver of the business and it's a nice complement to it.

We see that about 20% of our referrals come from our oxygen referrals. So that was the reason for us getting into it, and then along the way, we had relaxed rules on competitive bidding for O2 which allowed us to sell into the metropolitan market.

We got an increased reimbursement for the rural areas to provide O2. So it's just become a nice piece of business and it's one that's growing at a fast rate. Now, we add the assistance that we're providing the energy call center with convert with some of our private insurance contracts, that's another channel of

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getting more oxygen business and then ultimately more vent business. So it's just been a really good piece of ancillary business for us.

Prasath Pandurangan

And then the SG&A expenses were lower than last quarter, I am trying to understand the differences are mainly due to the differences in the Fantom share plant, and if yes, what would be the normalized quarterly number for 4Q in 2021?

Casey Hoyt

Well, we don't guide SG&A going forward, but I think this quarter is a pretty fair run rate. We obviously are continuing to hire more people, but last quarter as we talked about was very high because of the stock price volatility. So I feel like this is more of a steady-state number going forward, but it's not formally guided just now.

Prasath Pandurangan

And then again, you don't guide the number of vent patients but broadly where do you see the number of vent patients being at the end of this year and then going forward into 2021?

Casey Hoyt

We want to get back to those historical growth rate. We don't focus just necessarily on vent patient per se, it's always been a good operational statistics to talk about, but we want to get back to servicing more patients. We guide revenue only but you should expect us to continue vent patients as we have historically.

Prasath Pandurangan

Got it. Thank you. That's correct.

Todd Zehnder

Thanks.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session and I would like to turn the call back to Management for closing remarks.

Casey Hoyt

We want to thank everybody for their time this morning, and look forward to following up with anyone down the road.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time.