



VieMed

Second Quarter 2021 Earnings Call

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CORPORATE PARTICIPANTS

Todd Zehnder, *Chief Operating Officer*

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CONFERENCE CALL PARTICIPANTS

Anton Hie, *RBC Capital Markets*

Brooks O'Neil, *Lake Street Capital Markets*

Prasath Pandurangan, *Bloom Burton*

PRESENTATION

Operator

Greetings. Welcome to VieMed's Second Quarter 2021 Earnings Call.

At this time, I'll now turn the conference over to Todd Zehnder, COO. Todd, you may now begin.

Todd Zehnder

Thank you, Rob.

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 forward-looking statements. Examples of such risks and uncertainties are discussed in our disclosure documents filed with the SEC or the security regulatory authorities in certain provinces of Canada. Because of these risks and uncertainties, investors should not replace—should not place undue reliance on forward-looking statements. The forward-looking statements made in this conference call are made of—as of today, and the Company undertakes no obligation to update or revise any forward-looking statements, except as required by law.

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

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

Casey Hoyt

Thank you, Todd.

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

As always, I'd like to open up with thanking our over 580 employees for their continued commitment to our mission of improving quality of life for our patients while navigating through a respiratory pandemic. I remain privileged to be leading one of the most professional and compassionate groups of healthcare professionals in the country. I can't say it enough; our people are the foundation for our continued success.

Today, Todd and I plan to update everyone on the main drivers that helped us achieve a core business growth rate of 14% over last year's second quarter. We will also provide some perspective on the recent developments on the OIG report and Philips' recall.

We view 2021 as a year that will see disruption causing the industry that will pose unprecedented opportunity for under-levered businesses with strong cash positions such as VieMed.

Let's begin with discussing the main driver to our growth, which is the addition of 14 new areas and reps in the second quarter. These new hires bring our year-to-date hiring total to 28 new reps, which puts us on pace to achieve our end of year goal of hiring 60 new reps in 2021.

The second quarter saw the beginning of the Project Next Level; a 12-week program designed to get all of our sales reps back in the Lafayette headquarters for further training on our new products and tools available for our referral sources. Reps have been coming to the office in spurts to learn more about our behavioral health component, technology platforms, new products, and really, just getting a chance to reconnect with the VieMed culture. Project Next Level will be fully completed by the end of August, and we expect to see a lot of momentum in the back half of the year as reps get back into their territories energized and fully trained on how to be more helpful to our physicians and hospitals.

One of the helpful tools being learned is Engage. As a reminder, Engage is a tablet that acts as a hub in the home to offer our RTs and physicians a remote monitoring and telehealth solution to safely manage patients on a real-time basis. After seeing material improvement in compliance in workflow efficiencies in the first quarter with Engage patients, we decided to move to a national rollout. We now have roughly 2,000 patients on Engage platform, and have since developed a physician portal for doctors to have a remote view of how their patients are doing on therapy. In the second quarter, we realized that physicians were reaching out to us requesting more of their patients to be managed on Engage. We believe these physician requests will be on the rise throughout the year, and will increase patient referrals, in addition to improved compliance and workflow efficiencies already seen in the program.

Our other remote physiological monitoring platform, View, has also been experiencing rapid growth. We were able to double the amount of patients on the View program in the second quarter, and now have over 800 patients on service. The View program has been a nice complement to our home sleep delivery business. With lots of referrals from family practice, internal medicine, and cardiology, these requests for home sleep tests and oxygen often go hand-in-hand with View. View has helped drive our sleep business as a result of these referrals, and we expect it to expand even more as we get our reps further trained through Project Next Level.

The oxygen and sleep business continues to expand across the country through the hiring of the rep and home sleep delivered reps who are specifically focused on selling sleep, oxygen, and View. We are up to 14 home sleep reps spread out across seven states, with many in the training pipeline. Also, with the VieMed reps being trained on how to sell sleep and oxygen in a unique way through Project Next Level, the stage is set for significant growth in these product sectors throughout the remainder of 2021.

The sleep industry was rocked in the second quarter with Philips announcing a recall on one of their most popular sleep apnea machines, the DreamStation (inaudible). The recall of these machines has put the entire country in dire need of sleep apnea equipment, with Philips roughly supplying approximately 50% of the marketplace. While Philips has been slow with rolling out their plans for a solution to the recall, VieMed has been proactively acquiring replacement inventory from alternative manufacturers.

The recall is currently creating mass disruption in the sleep industry, such disruption that may cause many companies to consolidate or go under. While we have not seen significant supply disruption for vents because they are not going to be replaced like CPAPs, we are taking necessary steps to make sure that vent supply and relationships with alternative vendors are established and nurtured. We have always been a device-agnostic Company, focused on service rather than equipment, and there couldn't be a more pertinent time to be positioned to capitalize on opportunities presented by the recall.

At VieMed, we tend to shine when change, disruption, and uncertainty are upon us as evidenced by our ability during the pandemic to stand up a contact tracing call center for the state of Arizona. While we wrapped up the Arizona project in Q2, we worked hard to keep our call center producing by uncovering alternative solutions being requested by state agencies.

I am pleased with the execution from our team on landing a vaccine tracing contract with the state of Louisiana. While not quite as big as the Arizona contract, it generated \$600,000 during the second quarter, and forecasted for a half a million dollars during the third quarter, although that forecasted amount might increase over time. We foresee a continued need for our call center as the cases surge and vaccine tracing continues to be an ongoing need.

I am pleased with the national rollout of VieMed Clinical Services, our behavioral health solution. We've hired 12 licensed clinical social workers this year, and are now licensed in 23 states. Sales reps completing Project Next Level are tasked with finding their own licensed clinical social worker. We have seen success with VCS helping patient retention, and really, being the conduit to offering more services in the home. We view VCS as a looking glass into better understanding what other patient needs exist within the home that could also fit within our care plan.

On the acquisition front, we continue to look at deals that are prudent for spring-boarding our growth. We want to remain in a strong cash position as we keep a close eye on how the recall will affect the industry, while also being mindful of any solutions that we can provide related to a relapse of the pandemic.

With more on our operations, financials, and regulatory landscape, I'll now turn the call back over to Chief Operating Officer, Todd Zehnder. Todd?

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.

Our core business generated net revenue of \$26.3 million during the second quarter of 2021 as compared to net revenues of \$23.1 million in the second quarter of 2020, which equates to a 14% increase. While slower than our pre-pandemic growth rate, we are pleased with how the revenue growth is going so far this year, and definitely saw things getting back more to normal during the quarter. Most encouraging is that our patient growth is going back in the right direction across all of our major products. Our vent patient account has hit a new record of approximately 8,100, which is a 5% increase over the March 31 amount, and is a leading indicator of revenue growth in the future.

During the second quarter, we generated approximately \$1.1 million of equipment and service revenue from the ongoing COVID-19 pandemic primarily related to the vaccine tracing revenue generated during the quarter with our established call center.

Our margin percentages, both gross and EBITDA, are beginning to once again normalize to levels that we tend to expect without significant COVID revenue influencing our total numbers. We once again posted very strong margins during the quarter as our gross and EBITDA percentages came in at 64% and 25% accordingly. Our second quarter gross and EBITDA amounts came in at \$17.6 million and \$6.8 million, respectively.

Our diversification efforts have continued to pay off as our second quarter revenue from vents was approximately 79% as of our core revenue, and as—that is compared to 84% in the second quarter of 2020.

Our oxygen business is the fastest-growing segment, and it has more than doubled its revenue contribution over the last year.

Our SG&A for the quarter totaled approximately \$12.9 million as compared to \$16.4 million in the second quarter of 2020. Our prior-year amounts were impacted by all of the activity going on with COVID-19 supply revenues, and our stock price volatility has had a positive impact during the current quarter.

We are continuing to aggressively hire employees who can help us organically grow our vent, oxygen, and sleep businesses, along with expanding our VieMed Clinical Services brand throughout the country.

We are continuing to serve as a resource on the COVID-19 pandemic, although as we have previously discussed, those opportunities are not as vast as they were in 2020. With that said, our previous performance puts us in a position to be a trusted resource for those still in need.

Switching gears to the regulatory environment, and as it relates to the ongoing OIG report, we are now in the phase of working with CMS and its contractors to assess the medical necessity of the patients audited by OIG. Due to the four-year look-back window, it appears that 39 of the patients that OIG failed are subject to a CMS review, and the total exposure of all failures were upheld would be approximately \$9 million. Of these 39 patients, 15 of them have been detail reviewed by CMS in prior audits, and all of them passed complex medical review. The Company has not accrued any liability related to this ongoing matter as we continue to believe these patients qualified for the CMS rules, and eventually will be overturned through the appeals process, which includes redetermination, reconsideration, and ALJ, and will ultimately take some time to work to a final resolution. Our hope is that this situation will provide an opportunity to establish formulary rules related to NIV, and we are working diligently to provide input on that front.

In the public markets, we continue to meet with new and existing investors, and have seen another peer file to become public in our space, which is exciting, as we now have a good set of peers to benchmark against, and also gives the buy side more opportunity to invest in our space. We continue to believe that in-home respiratory companies will be a great sector to invest in for many years to come.

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

Casey Hoyt

Okay. Thanks, Todd.

We view the rest of 2021 to be extremely opportunistic for VieMed. As history has shown our Company thrives in the environment of change and has the ability to make swift moves to capture unforeseen business. We are uniquely positioned, with a heightened awareness of our skill set since 2000—since COVID-19. Our offerings are backed by a superior technology designed to keep doctors in touch with their patients from afar. We have given patients the confidence they need to manage their health without having to expose themselves to facilities that can often be the epicenters for the disease. Our staff is trained and ready should we see another spike in the pandemic.

The prudent decisions our team continues to make daily has kept our balance sheet clean with minimal debt and a strong cash position that can be used for valuable inventory as a product recall resets the industry. Payers are ready to move from fee-for-service and into value-based care payment models. They are looking for partners who can track data, generate savings, and go at risk. VieMed welcomes this involvement in the healthcare payment model structure.

Our culture is one where we treat each other as we would want to be treated ourselves, and it's infectious. We appreciate all of our investors and individuals that have placed trust in our Company, and look forward to continuing to add value each and every day.

This concludes our prepared remarks. We will now open up for Q&A.

Operator

Thank you.

Our first question is from the line of Anton Hie with RBC Capital Markets. Please proceed with your questions.

Anton Hie

Thanks, and good morning.

Obviously, nice to see the patient count kind of moving in the right direction, and a slight sequential uptick in the organic growth. I wonder if you could address kind of your typical target to really see much higher organic growth in the core business, and kind of as we look at the patient count growing, kind of how that works as a leading indicator if there's sort of a tail to getting back to 20%, 30%-plus organic growth.

Casey Hoyt

Yes. I mean, our targets haven't changed. I mean, we're still hitting our same hospitals and case managers and pulmonologists the way that we always have, Anton. The thing that has changed I would say that we spent a lot of time on in Q2 is really training our sales reps for what could be the new normal here to stay, right? We're seeing a spike in the pandemic. It's picking back up. We know that we have a bedside solution, a very similar—I should say a home solution very similar to the bedside solution that is being offered inside of the hospitals, and so it's really just getting out and about while we've had access, communicating that to many of our referral sources, getting the cell phone numbers that we need to

communicate from afar once the pandemic does pick up, if it does, and just being ready for that, and so access to physicians have certainly contributed to us getting back on track, but it's kind of like preparing for the back half of the year in the event that we get locked up again, just being ready to go to where we don't have such an abrupt fallout from access to our referral sources.

Todd Zehnder

Yes, and Anton, I'd add on the patient count piece, the leading indicator is, as you know, these are all recurring rental business items, so when you see a spike up into our patient count, many of those came on in the last month of the quarter, and we're seeing another strong month of new patient adds in July. So, as long as our attrition rate doesn't change from historicals, which it doesn't look like it has, you're building a stronger base every month, and that's setting up the framework for continued growth.

Anton Hie

That's great. Thanks for that, and then I'll—obviously, you had a pretty strong—a very strong margin quarter—margin performance in the quarter. Just can you address maybe the sustainability of that, or the next horizon for that, kind of especially as we look at possibly additional costs related to some of the next level training initiatives, and even the recall, if there's any additional training over some of the new equipment that you're bringing in? Thanks.

Todd Zehnder

Yes. I mean, our margins are getting back to historical numbers where we were pre-pandemic from a percentage basis, and so that's a good sign that our business has not fundamentally changed. While there may be ebbs and flows in costs that may come, the next-level cost is inconsequential when you look at the productivity increases that the sales reps should come out of it.

As it relates to the recall specifically, our dialogue thus far with Philips is that entire cost structure will be pushed onto them. All of the PAP trade-outs will be handled by Philips. We have delivered a list of active patients, and they will be handling that, and any change-out on the vents—there won't be a full change—a machine change-out, there may be a back part change-out, Philips is actually going to bear the cost of that, so from a P&L standpoint, you should see no negative impact, and sort of like Casey alluded to in his prepared remarks, we're seeing the sleep business as an opportunity, just being a larger player and being able to secure some different supply sources early in the pandemic. We see, thus far, it's been a net-net positive, and we're going to be very opportunistic in the event that people need strategic partnerships, or if there's businesses that need a lifeline from a Company like ours.

Anton Hie

Okay. Thanks, guys.

Todd Zehnder

Thanks, Anton.

Operator

Thank you. Our next question is from the line of Brooks O'Neil with Lake Street Capital. Please proceed with your questions.

Brooks O'Neil

Good morning, guys.

I'm most curious about what you're seeing in terms of the labor market. Obviously, there are shortages cropping up all over the place for various reasons, but can you just talk about how you're sourcing, hiring people, and what you're seeing out there in the marketplace now?

Casey Hoyt

We've been pretty fortunate. I'm aware of these shortages too, Brooks. I think it's a testament to our HR department and our package and our culture that we've been able to recruit at the rate that we have been. Haven't run into any real, major hiccups with accessing respiratory therapists or clinicians, or even sales rep, for that matter.

What's interesting about what happened to us last year is that we didn't really slow down with hiring. We had one hiccup in the summer of 2020 where we couldn't get folks in-house to train them, and that slowed us down a little bit, but once we cleared that up and started getting folks in, the hiring never stopped, but a lot of the ability to go out and convert business did, and so with what's going on with Project Next Level, getting these guys back in again and retraining them alongside with veteran reps—I'm talking about our new reps sitting next to our veteran reps, it's now we have a lot more trained, armed and ready sales reps to go out and convert business, whereas last year, we were getting them trained and ready to go, but they just had nowhere to go, if you will, and so I think that'll contribute some positive momentum in the back half.

Brooks O'Neil

Great, and would you say—and maybe just following up on the last set of questions, would you say your guidance, does it feel conservative to you, or do you think it's a realistic guidance for the back half given what you're seeing in the marketplace now?

Todd Zehnder

Well, it feels realistic right now, Brooks. I mean, obviously, the pandemic changes every day. We all know that, so we have to factor that into our expectations. With that said, June was the highest month of patient upload—or for—I'm talking vent specifically—patient uploads since the pandemic began, and July outpaced that probably by about 3%, so July is the highest patient upload that we've seen, I think, since either January 2020 or December 2019, so those are very positive trends. If you stack up 5% patient growth—I'm not saying we're going to do that in the third quarter, necessarily, but seeing that in the second quarter, that gets you back in line to our historical numbers when you start going like that sequentially. So, we put a lot of different factors into our guidance. I'm not saying it's sandbagging by any means. We just have to factor in the surges that are happening around the country right now, which we hope are going to be, I guess, under control with some of the precautionary measures that are being taken.

Brooks O'Neil

Absolutely. I get that, and I confess, I got a little distracted during your prepared remarks. I'm sorry about that. Did you give us any update on the VA, or any progress you're seeing or any cracks in the wall, if you will, there?

Casey Hoyt

Yes. If anything, we were slowed down a little bit, Brooks, just because of the transition of the administration, and we saw a lot of the folks we were working with had to go elsewhere, and some—and we got to meet some new faces. However, all that being said, our pilot study stayed on track, and it's still moving forward. It's just moving forward with another group, so unfortunately, just slow moving. It's still the same report as last year—as last quarter, but it's definitely one that remains a large opportunity. We still identify the VA as the—we know it's the second-largest payer in the country, and there's lots of folks that need us, so we're going to continue to press forward.

Brooks O'Neil

Great. Thank you very much. Congratulations. Keep it up.

Todd Zehnder

Thanks, Brooks.

Casey Hoyt

Thanks, Brooks.

Operator

The next question comes from the line of Prasath Pandurangan with Bloom Burton. Please proceed with your questions.

Prasath Pandurangan

Hi. Thanks for taking my questions.

Firstly, could you comment on the SG&A number? Do you look at it as a good, normalized number to assume going forward. Then second, if you could comment on the (inaudible) pipeline. How do you see it? Do you focus on new product lines? Are you looking at geographical expansion as the primary driver going forward?

Todd Zehnder

Prasath, can you mention what number are you looking at on the first question?

Prasath Pandurangan

The SG&A number.

Todd Zehnder

Oh, the SG&A number. I see. Okay, yes. I'll address the first one—or the second one first. On the pipeline of opportunities, we are looking across a broad spectrum of, really, anything that's respiratory in the home, so as we all know, we're a heavily vent Company. What we're not going to necessarily do is just go buy another vent company that specializes in adult COPD, which we're the best at. What we would be looking at would be a geographical expansion potentially, or a disease state expansion, whether it be neuromuscular, thoracic restrictive, potentially a pediatric ventilator company; something that would springboard our growth and let us bring adult COPD into that.

With that said, with what's going on in the sleep industry, we are continuing to grow, and could see that being another opportunity when it comes to M&A. All that being said, we're still organically growing the Company. We'll look for the right acquisition opportunity, but we're going to keep this pristine balance sheet that we've, I guess, established over the last three years.

As it relates to SG&A, I think you're starting to see a normalization of that now that we've come out of the COVID activity. There was a lot of volatility when it comes to that, so I would think that you will continue to see some increase in G&A as we want to continue to hire salespeople, respiratory therapists, VCS employees. You should see a slight uptick with the increase in revenue that we would expect to generate every quarter, but I don't think you'll see the massive volatility that we had over the last four or five quarters that really came with all the COVID operations.

Prasath Pandurangan

Okay. That's very useful. Thank you very much. Congrats on the quarter.

Casey Hoyt

Okay.

Todd Zehnder

Thank you.

Operator

Thank you. At this time, we've reached the end of our question-and-answer session. I will hand the call over to Casey Hoyt for closing remarks.

Casey Hoyt

Okay. Thanks everyone for joining our call. We're going to keep pressing forward and saving lives out there. Call us if you need us.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time, and we thank you for your participation.