



**VieMed**

**Third Quarter 2021 Earnings Call**

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## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

**Frank G. Morgan**, *RBC Capital Markets*

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

**Doug Cooper**, *Beacon Securities*

## PRESENTATION

### Operator

Greetings, and welcome to the VieMed Third Quarter 2021 Earnings Call.

Please note this conference is being recorded.

I will now turn the conference over to your host, Todd Zehnder, COO. You may begin.

### Todd Zehnder

Thank you. 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 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 today 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 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**

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

We are excited to announce another record-breaking quarter driven by the hard work and determination of our employees. It is our growing team of nearly 600 employees, along with their extensive experience and strong relationships that enables our organization to find opportunities to improve the lives of the patients we serve every day. Our people are our most important asset, and our ability to remain resilient during these unprecedented times is directly tied to their unwavering commitment to our patients. We once again would like to take this opportunity to thank them for their dedication to excellence and for their devotion to our mission.

We are also thrilled to welcome to our team the 13 additional sales reps on-boarded during the third quarter. These new hires bring our total year-to-date sales hirings to 46, right on track with our planned goal of adding 60 by year end.

Despite the surge of Delta variant of COVID-19 during the quarter in many of our key markets, we were able to leverage our investments in people and technology to grow the core business by approximately 6% over the previous period and 12% over the third quarter of 2020.

During the time in which our assets or referral sources in physical facilities was impacted, we prepared for better days by completing Project Next Level, a nationwide training program, so in the third quarter, our sales personnel returned to the field equipped to optimize their sales strategies and invigorate their communications to physicians and patients with a deeper understanding of the additional products and services VieMed offers. As a result, we are seeing a strong increase in the sales associated with oxygen and sleep. For example, in the third quarter, oxygen revenues increased by 16% over the second quarter. We are enthusiastic about these initial trends driving revenue growth and further diversifying our product mix.

In addition to the tailwinds we experienced from our training initiatives, the Philips recall is creating opportunities for VieMed to capture market share from competitors that lack access to vendors and equipment. Early in the recall process, our supply chain professionals were able to secure a strong pipeline of equipment by leveraging our scale and previous relationships with alternate manufacturers. Based on our current projections, we do not anticipate our access to the supply of equipment to limit or constrain our expansion, but rather will contribute to our growth rate for the remainder of the year. Our ability to rise to the occasion and meet customer needs during this challenging environment demonstrates to both patients and providers that VieMed is a reliable partner.

As a result, in the third quarter, PAP revenues increased 22% over the previous quarter. Ultimately, the recall is leading to an incredible opportunity for patient acquisition. While we continue to actively identify potential strategic acquisitions, our observations of current valuations indicate that a patient acquisition strategy is an effective use of capital in the near term, allowing us to grow substantially while preserving capital for transformative acquisitions down the road.

Another core strength that emerged during the pandemic is our ability to source talent. When resources became constrained at frontline facilities during the peak of the COVID-19 crisis, VieMed was able to help source over 300 temporary healthcare staff and positions for our collaborative partners. The trends are clear. We see that staffing competencies will become a critical success factor in the healthcare industry over the next five years. Based on our historical success in this area, we are excited to announce the formation of the VieMed Healthcare Staffing Division, which will be branded as VHS. The staffing division

is expected to serve as a robust recruiting platform for internal and external clinical healthcare positions. We believe that this recruiting engine will differentiate us from our competitors by allowing us to source industry-leading talent, as well as provide a supplemental revenue stream by supplying contingent and contract-based resources to healthcare facilities.

Another area where VieMed is emerging as an industry leader is through our facilitation and sponsorship of medical research. As previously announced, yet another peer review study was published during the quarter by the *American Journal of Managed Care*. This study supports the growing body of evidence that patients with COPD struggling with chronic respiratory failure who utilize NIVH therapy will live longer, as well as go to the hospital and emergency department rooms less, therefore enjoying an improved quality of life. As our investments and initiatives to support the scientific body of evidence mature, our next step is to equip providers, health systems, and governmental organizations with the information to help patients obtain the care they need, as well as hopefully reduce overall cost of care.

Finally, I'd like to provide an update on our technology initiatives. We believe that our long-term value proposition is uniquely tied to our ability to combine a high-touch service delivery with high-tech resources. Our proprietary patient connectivity software has continued to demonstrate this value during the Delta variant surge.

In addition to our ongoing COVID-related contact and vaccine tracing activities, our response to the pandemic has also included investments that allow healthcare professionals to leverage technology to treat their patients remotely. We previously announced the rollout of our Engage platform, which is our hub in a home, providing our RTs and physicians a remote patient monitoring tool and Telehealth solution to safely manage patients on a real-time basis. During the quarter, we saw a further rapid adoption of the technology within the number of patients on-boarded now exceeding 3,000. When combining Engage with our proprietary VieMed View and Connect platforms, we believe that we are well-suited to become a leader in the evolving industry of technology-enabled home healthcare.

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

**Todd Zehnder**

All right. 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 \$27.8 million during the third quarter of 2021 as compared to net revenues of \$24.9 million in the third quarter of 2020, which equates to a 12% increase. Our sequential growth for the core business was 6%. We were very encouraged to see our growth be spread out amongst our vent, PAP, and oxygen business lines.

During the third quarter, we generated approximately \$1.5 million of revenue from the ongoing COVID-19 pandemic primarily related to vaccine and contact tracing revenue generated during the quarter with our established call center. As we have previously discussed, by moving quickly during the pandemic, we've been able to be a resource to multiple groups through our call center, and we will continue to do so as long as there is an ongoing need.

Our margin percentages, both gross and EBITDA, are once again very healthy, and as we indicated last quarter, we have begun to normalize without significant COVID revenue influencing our total numbers.

Our gross and EBITDA margins during the quarter came in at 63% and 25%, accordingly. Our third quarter gross and EBITDA amounts came in at \$18.4 million and \$7.4 million, respectively.

We have continued to diversify the business while growing our vent revenue, which is a great sign that our complementary products are significantly growing. The oxygen and PAP businesses are benefiting from our national rollout, as well as unique circumstances related to the COVID pandemic and the ongoing PAP recall. Our third quarter revenue from vents was approximately 78% of our core revenue as compared to 82% in the third quarter of 2020.

Our SG&A for the quarter totaled approximately \$13.3 million as compared to \$13.6 million in the third quarter of 2020. Once again, when looking at prior-year comparison, those amounts are impacted by all the activity going on with the COVID-19 supply revenues, and our stock price volatility has had a positive impact during the current year. We once again are staying committed to hiring people to help grow our Company and serve more patients. While the labor market has become more challenging, specifically with the clinical folks providing such great care, our culture and business model has kept us competitive, and we have not seen any issue continuing to care for our patient base.

We took the opportunity during the current quarter to use some of our cash on opportunistic ways to grow. The most significant uses of cash were on equipment where we used approximately \$5 million on PAP and vent purchases. By getting ahead of supply chain issues, we have been able to capture business that our competitors were unable to serve. We additionally took the opportunity to buy an additional 5% of Veristat as we continue to see the growing trend of remote patient monitoring around the country.

Moving on to the ongoing OIG and CMS issue related to our NIV claims, we are continuing to work with CMS and its contractors through the appeal process to assess the medical necessity of the patients audited by OIG. The first round of appeals was upheld by CMS' contractor, and the Company will be filing appeals to the QIC in the next couple of weeks. We are hopeful that this round will have more of an individual clinical review rather than adopting the OIG position.

As a reminder, due to the four-year look-back window, it appears that 39 patients are being reviewed by CMS, and the total exposure if all failures were upheld would be \$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, and as confusingly, two of the patients being reviewed appear to be outside of the four-year look-back window. These, amongst many other arguments, are currently and will continue to be worked with the various levels of appeal. The Company has not accrued any liability related to this ongoing matter as it continues to believe these patients qualified for the CMS rules and it eventually will be overturned through the appeals process, which includes reconsideration and ALJ, and will take some time to ultimately work through a final resolution. We have taken this opportunity to begin a process of our first formal attempt to establish formulary rules related to NIV, and we are working diligently to provide input to the coverage group at CMS.

We once again visited—been visiting with current and prospective investors through industry conferences and non-deal road shows with our existing analyst and banking relationships. We appreciate the ongoing support from both the buy and sell side during this year.

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

**Casey Hoyt**

Thanks, Todd.

Whether it be through access to care for patients or access to clinicians, our healthcare system has certainly been tested by this pandemic. With patients filling hospital beds throughout the country at a time when conditions are hard to come by, we are seeing our physician and hospital referral sources being more engaged to develop deeper partnerships designed to treat more people in the home. VieMed's nimble track record of creatively being in position to respond to the nation's needs at a moment's notice puts us in perfect position to capitalize on these opportunities. Our value prop of placing experienced clinicians in the home utilizing proprietary clinical data analytics to measure success is the perfect blend of high touch with high tech desired by our partners.

As we move to bolting on VieMed healthcare staffing as part of these programs, we view the staffing division being impactful in two ways. First, our dedicated staffing recruiters will fulfill a growing demand for the placement of clinicians throughout the referral sources we serve; and second, we will be developing a more sophisticated and dedicated strategy to constantly fueling VieMed's proven organic growth engine with the clinicians our Company requires to treat the underserved COPD population. These are the growth levers that we will be pulling on throughout the end of the year of which will have the largest impact on our future growth rate.

Our outlook for our business is as bright as ever. We are in an environment where we have an increasing demand for our service, our clinicians, and our expertise. Make no mistake about it, at VieMed, our Management team considers the perceived headwinds of the healthcare industry as a unique opportunity to capture market share at exponential rates. We will continue to be resilient and relentless in our pursuit to help as many people as we possibly can, and ultimately, drive financial success for our shareholders that we are privileged to serve.

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

#### **Operator**

Our first question is from Frank Morgan with RBC Capital Markets. Please proceed with your question.

#### **Frank G. Morgan**

Good morning. Yes, I guess my first question, when you think about this most recent Delta surge, comparing it to some of the past surges, do you see anything really different here, or is there anything that might be foreshadowing for how—if we do have another surge at some point in the future, how your business has adapted and adjusted to that, and I guess on that point, any additional color you can provide for us on what you're seeing so far in the fourth quarter as it relates to the NIV and the O2 and the PAP? That's my first question.

#### **Casey Hoyt**

I'll start, and I'll let Todd chime in as he wants.

I would say the only difference with the Delta surge compared to the—I guess, the original surge, is that it was in different pockets throughout the country at different times, and that was very evident to us, and just kind of hard to really track and place, and actually, that just limits access points at different points in time as well, so it was just a little bit harder for Management to track or where—what to expect in certain areas because of that, but look, it's—there was—July was one of our better months, and then we got slowed down a little bit by the Delta surge, and as we spin out of these things, we know, just from the track record of once you're on the backside of them, that business comes back up and turns back on, if you will, so we're optimistic about getting through this, and certainly have the tools in place, Frank, to

operate in this environment if indeed it doesn't go away. So, we're not sitting there counting our chickens that the pandemic is over by any means, but once it does happen, it'll be good for the business.

**Todd Zehnder**

Yes, and just to add one piece onto the final part of your question. October was a good reversal; although it wasn't as strong as July, it was better than September, so we look at trends a lot of times, and we look at cities and how many of our reps are having struggles versus not having access struggles, if you will, and the fact that October had a positive trend from new patients is a good sign, although still hoping to get back to that full access that we saw in July that, like Casey said, was probably our best month in the last year-and-a-half since the pandemic started.

**Frank G. Morgan**

Got you, and I guess nice margin expansion here, and obviously all our providers are talking about labor issues, and I know your labor mix is different here, but are there any pockets that you would call out that you're more mindful of or watching more closely and having to address?

**Todd Zehnder**

Well, I think clearly, we all see that respiratory therapists are in very high demand, and we employ 280 or—probably somewhere between 275 and 300, of which 60 or so are in our salesforce. So, the key drivers to growing our business are finding more salespeople and finding therapists to take care of the patients, so that's the biggest need for us. We've always done a very good job of recruiting and retaining RTs, but they are in as high a demand as anybody out there, so it's—it has not become an issue for us servicing our patients. We have not had that problem at all, but it is just a little bit more difficult to keep the rate of new hires coming in. It probably just exacerbated our need to have the staffing division.

We've had so many partners around the country; states, hospital systems, other partners looking for employees during this crisis, and we just needed our RTs to service our own patients. So, the fact is that we just heard it so much and we're a recruiting engine that it was time to bring some more muscle into that group, which is why we did it, so while there's other needs throughout the business, for sure, the RTs are definitely the ones that are front and center for us.

**Casey Hoyt**

The only thing I'll add is that if you look at our business compared to a home health, we don't need our clinicians to bill for our service. In other words, we might lose an RT in a certain area, but it's up to us to just kind of backfill some support and pull from another area, but we continue to bill for our patient demographic, so that would be kind of like the difference between a home medical equipment business, which has a billable equipment code, versus billing for a person, if you will, at a home health.

**Frank G. Morgan**

Got you. Last one and I'll hop. Just you mentioned becoming much more proactive in trying to address, I guess, like a clinical criteria. Any color on kind of, in a perfect world, how you'd like to see that laid out, and I'll hop. Thanks.

**Todd Zehnder**

Yes, what we're doing right now is we've had some discussions with the coverage group at CMS regarded to trying to file for what—for a full NCD reconsideration, and what we are waiting on at this point

is Dr. Frazier is finishing a full data study that is not using medical—a limited data set through Medicare, and we are—we're making a few additional tweaks to that study to make sure our reconsideration for the NCD is supported through data and the study that we will ultimately get published. That should be forthcoming during this quarter, and so our hope is that we could potentially file for a reconsideration, which is just giving our opinions to the coverage group at CMS. It would put our recommendations on what a vent NCD should look like, and for the first time, would have real data to support it. I mean, CMS has gone through three or four different processes on vent NCDs, and it's not an easy topic to tackle, but we're as incentivized as anybody to make sure we get it in there and get it right, so hopefully, once this data is finalized, we are going to get it all hemmed up and filed in with CMS, so fourth quarter is our goal.

**Frank G. Morgan**

Thank you.

**Todd Zehnder**

Thanks, Frank.

**Operator**

Our next question is from Brooks O'Neil with Lake Street Capital Markets. Please proceed with your question.

**Brooks O'Neil**

Good morning, guys. I apologize. I got on a few minutes late, so if I ask you about something you've already talked about, you can either skip it and we can circle back around later or you could give me the short answer.

First thing, I was just curious about; did you talk at all about any progress with the VA?

**Casey Hoyt**

We didn't mention anything about the VA. I guess it should be talked about that our success with the VA this past year, Brooks, has been in staffing, so we did talk about placing 300 nurses across the country in facilities that were in need of staffing. A lot of those guys were VA facilities, so we're still seeing that demand, and we're going to be fulfilling it with the beginnings of and the launch of our new staffing division, VieMed Healthcare Staffing.

The pilot study, which we were talking about a lot, Brooks, which you probably wanted to hear an update on that, have been changing. They're moving from pilot mode into direct to fixing the contract mode. That's somewhat good news, because it's them saying, hey look, why are we—why do we need to do a pilot study whenever you have all this published data already that we're seeing, NIV does work? I'm like, ding, ding, ding, ding. I've been talking about this for two years now, so that's a good thing that they're making a shift, but look, I'm hesitant to just include it in the script because it changes on a dime, and—but that's the update for you.

**Brooks O'Neil**

Perfect. That's helpful, and then, I guess, secondly, I'm curious, these OIG investigations always puzzle me. I'm sure there's some rationale for why the OIG should look over what CMS has already reviewed and come to a different conclusion about what CMS does, but, A, can you understand or explain the



rationale that you sense from the OIG guys for why they're doing this, and then secondly, could you comment, do you think it has any direct impact on, A, the way you run the business, or B, customer perception of VieMed right now?

**Todd Zehnder**

On the first part, I understand the OIG is an independent organization within the umbrella of HHS and has a job to do, so we fully understand that, but there is no part of any of us that understands the rulings that they have made on our vent patients and the position that they've taken, because it is 100% unsupportable, which is why we, as an organization, are so determined to get this fixed, because it's just an unfair report and an unfair set of processes. They came in to audit one thing, we had 100% pass rate, and they picked something else that has no justification, so I understand where their role is in the HHS umbrella. I don't understand their position.

On the second piece, no, we've been dealing with this audit since 2018, and not at one time have we done anything different than our internal processes. We screen for these patients, we pick the right patients, we know the patients that need ventilators, and our data that is being published supports it. If they're hypercapnic and if they meet other conditions, they need to be on a ventilator because it saves their lives and it saves money for the healthcare system. So no, we have not changed our position one bit.

Does it have a negative perception? I can't answer that. I'm sure people read this nasty report and think we're doing the wrong thing, which, once again, is why we're so determined to get to the right answer, and it make take some—a few rounds of appeals, but we're going to continue to fight for our patients and our employees and our Company and shareholders.

**Brooks O'Neil**

Great. Makes total sense to me, guys. Keep up all the good work.

**Todd Zehnder**

Thanks, Brooks.

**Operator**

Our next question is from Doug Cooper with Beacon Securities. Please proceed with your question.

**Doug Cooper**

Hi. Good morning, guys.

Just one follow-up on the OIG stuff. When do you expect final resolution on this then, one way or the other?

**Todd Zehnder**

Well, we're going to file a reconsideration request within the next couple of weeks, and that's probably a three-month decision process, and depending on how it goes, if it goes—we may have to bring it to ALJ, which is a court system. It's basically the court system for medical claims. If we have to go to that route, which right now, it—I can't say that it won't be, because it's been going down the route of appeals, that could be a 12 to 24-month resolution just depending on how long it takes us to get in front of a judge, an

ALJ situation, so I guess best case, we could get some good results out of reconsideration, which it would be done soon. Worst case is we have to go to ALJ, and that's where we're testifying and talking about chart by chart, and it could be a couple of years.

**Doug Cooper**

Okay. Just moving on to the staffing initiative, can you just sort of walk through what the margin profile may be? So, you hire these people, and then sort of the—bill them out by the hour to other companies? Maybe just walk through what it looks like.

**Casey Hoyt**

Well, yes, in the—with these contingency contracts, they're your typical staffing contracts where a hospital system uses them, and then you bill, or they—they bill—you bill the hospital system per hour. That's one piece of the strategy, for sure. That's what we've been doing with these—I used the number 300 nurses that we've displaced—that we've placed in the last year.

The more important piece to us, Doug, and one that you'll understand, is that we're beefing up our own internal recruiting platform to help find the people that we need here at VieMed to grow the organic growth engine, and so it'll be two ways that we bring value. What we're seeing the need for is that folks are without people, number one, but also we want to get our people into the hospital facilities as well to where they can help direct traffic for the referral source, and really hope educate folks on doing—how to do business with VieMed more efficiently.

**Doug Cooper**

Okay, and what is the process for recruiting these people? Are you going to sort of schools, or what is the actual process?

**Casey Hoyt**

That's definitely one tactic, but we can't give all of our secrets away on this call here, Doug, but yes, look, there's—these guys are next-level recruiters that are proven. They've been doing this for many years, and we're bringing in other folks and training them how to efficiently do this.

**Doug Cooper**

Okay, and just on because of the labor shortage seemingly all around, do you see any upward pressure on wages?

**Casey Hoyt**

Yes, I mean, we're getting creative with a lot of our packages, but nothing that—we're not going chasing or competing with these travel contracts that clinicians are getting with right now, and so we're—we've lost a handful of people, but nothing material enough to really talk about, but folks just traveling across country and go and make double the rate, that's not a reason for us to go out and increase our rate to retain those folks. We've already actually recruited some clinicians that have come back off of those contracts that are ready for a normal job again, so we don't predict that we're going to have to money with the problem to—that's going on right now.

**Doug Cooper**

Okay, and my final one, just 12% growth year-over-year, obviously very good. Your expectation is that you can maintain double-digit organic growth into next year?

**Casey Hoyt**

Absolutely. We are hopeful. While we can't say when it's going to happen, we are hopeful that we get back to more months like July and it sets us up for more traditional growth rate. This was a great quarter. Having 6% sequential growth was great. It really started with a—we got off to a bang, and always getting out early in the quarter is going to set us up for good growth, so we're hopeful that we can start getting to that 5%, 6%, 7% sequential growth rate and start stacking those up on top of each other, which will yield more VieMed traditional organic growth rates.

**Doug Cooper**

Okay, great. Thanks, gentlemen.

**Casey Hoyt**

Thanks, Doug.

**Todd Zehnder**

Thanks, Doug.

**Operator**

We have reached the end of the question-and-answer session, and this also concludes today's conference call, and you also may disconnect your lines at this time. Thank you for your participation, and have a good day.