Viemed Healthcare, Inc.
Fourth Quarter 2022 Year-End Earnings
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Presenters
Todd Zehnder - Chief Operating Officer
Casey Hoyt - Chief Executive Officer

Q&A Participants
Charlie Montang - Lake Street Capital Markets
Doug Cooper - Beacon Securities
Prasath Pandurangan - Bloom Burton

Operator
Greetings and welcome to Viemed's Fourth Quarter 2022 Year-End Earnings Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [If anyone should require operator assistance during the conference, please press "*", "0" on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Todd Zehnder, Chief Operating Officer. Thank you. You may begin.

Todd Zehnder
Hi, thank you, Doug. 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 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 place undue reliance on forward-looking statements.

The forward-looking statements made in this conference call are made as of today, and the company undertakes no obligation to update or revise any forward-looking statements, except as required by law. The year-end 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 fourth quarter and year-end earnings call. Today, I'll be providing commentary on our continued strong operational results, as well as our current view and outlook of the industry.

I'd like to begin, as always, by acknowledging and thanking our dedicated team of respiratory therapists, behavioral health specialists, staffing professionals, and administrative support staff who worked tirelessly to deliver the best-in-class care to the patients we are privileged to serve.

At year-end, our Viemed family grew to 743 employees. We are currently experiencing tremendous positive momentum, as we enter 2023. Our recent successful appeal of OIG findings was a significant win for not only Viemed, but for our industry and, more importantly, the patients who desperately need this access to care.

The overall reversal of all audited charts in this audit really allows our company to set the record straight that Viemed has always been a company that provides the right therapy at the right time for patients.

We have a renewed sense of urgency and confidence in communicating these positive results with our payer network to help further validate value-based capabilities.

Furthermore, our view of the regulatory environment continues to be as stable as we have seen it since our inception. Trends in reimbursement rates are positive, including the announcement in December of CMS' fee schedule, reflecting CPI-related reimbursement rate increases between 6.4% and 9.1%.

Also, we believe a competitive bidding round for January 1, 2024 is extremely unlikely, due to the timing of the preliminary planning activities necessary to implement the program.

These positive trends and reimbursement rates should contribute to margin expansion. We see our innovative industry maturing as data continues support the complex respiratory business, which makes us incredibly optimistic about the future of our business.

Our supply chain remains strong with many additional manufacturers and excellent products coming on to the scene in 2022. At Viemed, our service is primary with devices and equipment being secondary.

We have always been device agnostic, so having more manufacturers creates a competitive and healthy environment, one that drives further equipment options and improved quality technology and pricing in our space.

Perhaps most importantly in the fourth quarter, with many of our new sales reps maturing in their roles, we saw our revenue growth for our core business approaching robust pre-pandemic levels. Our current operating environment should continue to promote strong growth through 2023 and beyond as the headwinds from the pandemic continue to subside.

We were again able to get our patients in a more customary Viemed fashion, which means sooner. As the most recent published study proves, we can be more impactful by reducing hospitalizations and mortality rates and improve overall cost savings by implementing earlier utilization of non-invasive ventilation therapy.

Our Chief Medical Officer, Dr. William Frazier, has been actively sharing the results of the most recently published study and with large audiences of pulmonologists and industry experts, across the country.

Our sales force and our network development teams have also been active in distributing the fresh data to our referral sources and payers amongst the network. This is driving new awareness of our value.

We are also incredibly well-positioned to execute on opportunities to supplement our organic growth with strategic acquisitions. During the fourth quarter, we repaid all debt on the balance sheet, refinanced, and significantly upsized the commitments on our credit facilities and are now in position to access funds, immediately, for the execution of transactions.

As our negotiations indicate that valuations of target companies continue to fall, we have reached an inflection point in our identification of strategic acquisitions that can provide our strict thresholds for return on investment.

With the recent addition of two key experienced M&A executives, we have a strong pipeline of target companies, which we fully expect to drive transactions during 2023.

Our management team has been working diligently, planning and developing integration processes necessary to efficiently integrate new companies. In addition to cash on hand, we have up to 90 million of unused capacity from our new credit facilities available to fund accretive acquisitions.

We are targeting and screening acquisitions which leverage Viemed's competitive advantage, expand our geographic footprint, and are strong fits for our Viemed culture. These targets are typically high-quality home medical equipment providers and have a strong reputation with payers and referral sources.

We also target companies that can, significantly, benefit from the scale and efficiency of our maturing operations, as well as our high-tech processes, including real-time patient connectivity, e-prescribing, and e-ordering platforms.

Our technological progression and growth in 2022 certainly facilitated a more frictionless patient and provider experience, one that complemented our strategic fourth quarter investment into ModoHealth, a care management platform that leverages high-tech connected care to improve health outcomes and stands to lower overall healthcare costs.

Due to development of Engage, our proprietary connected health software, our organization has adopted a connected health care model, coupled with automated process flows.

We are incredibly excited to partner with ModoHealth, which aggregates tech-enabled and data centric healthcare companies like Viemed, expediting our evolution towards large value-based arrangements.

Along with our continued progression with the launch of the VA pilot, we are confident that we can reach new populations of patients through our data enabled evidence supporting payer relationships.

Our relationship with existing payers are strong and we are working hard to further expand our network, through active contract development.

Included in our headcount growth was a 38% increase in sales representatives during the year.
Our sales headcount growth was net of turnout, making it the highest in our company's history. The substantial expansion of our sales force continues to be supported by our specialized healthcare recruiting division, Viemed Healthcare Staffing.

VHS is improving the quality and quantity of our internal hires through sophisticated recruiting tools and the use of proprietary labor and demand data analysis. As a result, our data informed organic growth is strategically and tactically targeting areas in which payers and patient needs our highest and labor is available.

With increasing stability in the supply of specialized labor, we are excited about the recruiting engine and new business line that we've built.

Viemed Healthcare Staffing is also contributing to strong growth and diversification of non-vent revenues, along with the growth in our sleep and oxygen product lines. Monthly rental revenues from ventilators represented 68% of overall revenues in 2022, compared to 77% in 2021.

The growth of our complex respiratory products and services remains incredibly strong, and we are very pleased with the rapid expansion of our portfolio of other respiratory products and services, allowing us to serve patients across a broader disease state and become a trusted partner in the extension of care for referring pulmonologists and physicians.

Our focus remains on technology-enabled home medical products with a high level of quality service. Through diversification of our services within that space, we are able to create strong relationships with our complex respiratory and fleet patients, earlier in their disease states.

In addition to cross-selling and synergies between products and services in the portfolio, the diversity of products contributes to longer-term recurring resupply revenues, which we see expanding at a faster rate, throughout 2023.

With more on our financial results, capital activities, and regulatory updates, I will now turn the call over to our Chief Operating Officer, Todd Zehnder.

Todd Zehnder
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 $37.5 million during the fourth quarter of 2022, as compared to net revenues of 29 million in the fourth quarter of 2021, which equates to a 29% increase. Our sequential growth for the core business was 5%.

Annual revenues related to the core business increased approximately 25%, which is a great indicator that our growth rates are back to levels that we saw before the pandemic. We're optimistic that we will be able to continue our high organic growth rates into the future, as we continue getting our therapies to more patients around the country.

Our gross and EBITDA margin percentages remain very healthy and are, once again, just from our core business lines, not impacted by COVID business.

During our mid-year update, we expressed our goal of turning the margins around later during 2022, and we made great progress on our margin profile.

We continue to see our margin percentages being influenced by our product mix and continue to be pleased by the notional growth.

Our gross and EBITDA margins during the quarter came in at 61% and 25%, respectively. Our fourth quarter, gross and EBITDA amounts came in at 22.9 million and 9.3 million, respectively.

Our fourth quarter revenue from vents was approximately 66% of our core revenue, as compared to 76% in the fourth quarter of 2021.

Our annual EBITDA came in at 30 million, which was a 22% margin. As we continue to build scale across all of our product lines, we should continue to see economies of scale, even in the light of our extremely aggressive growth targets.

Our SG&A for the quarter totaled approximately 17.2 million, as compared to 14.2 million in the fourth quarter of 2021 and is down approximately 500,000 from the third quarter of 2022. We have been aggressively managing our variable expenses, as we continue to navigate the inflationary period.

We conveyed to the market during our mid-year call that we would focus on expenses, and the current quarter decrease is a testament to that work.

With all that said, we continue to invest in growth in any measure that can help with the clinical outcomes of our patients.

For the quarter, we invested approximately 4.6 million on capital expenditure. The CapEx continues to be spent across all of our major product lines, as we will continue to grow all products and manage this through a diversified supplier network.

We continue to see ample opportunity to procure inventory and have not had to turn any business away, as a result of supply chain issues. We have once again funded all of our CapEx with discretionary cash flow during a quarter where organic patient growth is as high as we have seen in a couple of years.

We continue to have a pristine balance sheet where at December 31, we had a cash balance of 17 million and an overall working capital of 18.2 million. We ended the year debt free in conjunction with our closing of our new credit facility.

Along those lines, we were happy to announce the new credit facility put in place that is led by Regions also has Whitney and Fifth Third as participants.

The $60 million facility is structured to give us tremendous flexibility to use the term loan feature for acquisitions and a general revolver for any needs that arise. Additionally, there is a $30 million accordion feature that is easily accessible in the event that our M&A efforts exceed the original facility.

Throughout 2022, we opportunistically reduced our share count, through our stock buyback.
During the fourth quarter, we bought back 120,543 shares and for the year, we've purchased approximately 1.8 million shares. We have not been actively buying during the last few months, as we have decided to lease some cash on the balance sheet for opportunistic acquisition targets.

So recapping the year from a balance sheet perspective, we are completely debt free, have a cash balance of 17 million and bought back approximately 5% of our stock. We expect to continue to grow and generate additional free cash flow from our organic business.

Moving over to the ongoing OIG and CMS issue related to our NIV claims, we were extremely pleased to, successfully, resolve the last day claims that were opened through our process with the ALJ.

The 1.1 million was received in January. and the amount was held as a current asset on our year-end balance sheet. We continue to advocate for more formulary guidelines for NIV, but the access to care for our patients is what is most rewarding.

Moving on to the first quarter, we have provided net revenue guidance in the $38 million to $39 million range, related to our core business. The mid-point of our core revenue guidance is up 27%, over the first quarter of 2022.

Lastly, along the lines of our activity in the markets, we have, once again, visited with many new and existing shareholders over the last few months to describe our mission and our value prop.

Our conference call being on a Friday is unusual, but we held the call today to accommodate a trip to New York, next week.

The pandemic set our timeline back but next Monday, we will be ringing the opening bell on Nasdaq, and we'll spend some time visiting with investors. It's hard to believe that it's been three and a half years, since our listing on Nasdaq.

We once again appreciate our shareholder support of our mission and look forward to continuing to build upon the great company that we have.

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

Casey Hoyt
Okay. Thank you, Todd. The opening bell ringing ceremony comes at an incredibly exciting time for Viemed. As we take the national stage on Monday to be honored by Nasdaq, we are proud of all we have achieved and even more excited about the strength of the business and opportunities on the horizon.

We've proven to be incredibly resilient in recent years in confronting the adversity related to the COVID pandemic, device recalls and the OIG report. We didn't just weather the storms but, instead, we turned each into incredible opportunities to solve big problems and doing so profitably.

Looking forward, the strength and stability of our core business is well-positioned in this encouraging regulatory and operating environment. We were early adopters with respect to investing in and implementing digital care models and efficient automated workflows.

With a strong infrastructure in place, we can focus our efforts on further developing our relationship with payers, physicians, and patients.

As of year-end, we are now treating patients in all 50 states, but too many patients eligible for our services continue to go untreated every day. The data and published medical research underscore the critical need for the services we provide, who will remain at the forefront of care delivery, and we'll continue to work closely with payers and prescribing physicians to ensure that the right patients have access to the right care.

Here at Viemed, our team will continue to do what we do best, drive a culture of innovation, resolve big challenges, and help a ton of people along the way.

We want to thank all of our investors for their continued trust in our company and look forward to driving further shareholder value as we ring the Nasdaq bell Monday morning, not only for Viemed, but for each of you.

This concludes our prepared remarks. We will now take further questions. Thank you.

Operator
Thank you. Ladies and gentlemen, at this time, we will be conducting a question-and-answer session. If you would like to ask a question, you may press “*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*”, “2” if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star key.

Our first question comes from the line of Charlie Montang with Lake Street Capital Markets. Please proceed with your question.

Charlie Montang
Hi, guys. Thanks for taking my questions. Just two quick ones from me here. Are there any significant headwinds that are limiting your opportunities for growth now? It seems like you guys generally are full steam ahead here. So, we just want to make sure that we have a handle on any factors that might be a drag in 2023?

Casey Hoyt
Not really, Charlie. We feel like the wind is at our sales right now for sure. We've got a good recipe for finding sales reps and good sales reps. We've got really good training programs and protocols that have evolved to a point where I guess sales reps are starting up at a faster rate.

And so, we have a lot that are still in the hopper from last year that needs to be trained up in the field, if you will.

The only challenge I can see is that we need to just continue to find good people and whether that be for sales trainers, managers, and sales reps, that's just always the grind for us and that's an ever-evolving tactic of growing the organic business model for Viemed.

Regulatory, I mean, you hear me talk about it. We're pretty bullish on it being as stable as it's ever been. And our other business lines, frankly ,are clicking on all cylinders, too. Staffing is rolling, CPAPs are rolling, Oxygen's doing great.

And these are all--and we've been at it for a while now, which is, we're reaping the benefit of them becoming feeders to our vent business.

As we get our Stage 1, 2 and 3 guys in the oxygen world, they eventually evolve into a Stage 4 patient where they are needing a vent, which is our higher margin business. So, yeah man, it's really full steam ahead for us. We're very excited about 2023. And then just with the OIG stuff in the rearview mirror, that's another reason for us to just get in front of payers and kind of clear our name.

Despite never really accepting the OIG finding that always befitting them that we would win all 100% of them. It's still something that was a black cloud with some payers, throughout the country.

So, we have a major opportunity to go in there and have another conversation and really talk not just about getting back in the network with some, but how do we become more relevant in the value-based discussion. So, we're super pumped about that initiative, as well.

Charlie Montang
Well, that's great to hear and thanks for the clarity with that. And then just one other quick question for me. As you think beyond the core non-invasive vent opportunity, which other markets do you believe offer Viemed the most opportunity now?

Casey Hoyt

Well, staffing right now is, really, we've been shining in the Gulf States. We started kind of close to home with it. There's opportunities that are popping us throughout the country for us to get in there and provide better solutions than the way that staff is being offered, right now.

Our executive who runs that company has over 25 years of staffing experience under his belt. And so, he thinks of things very creatively. And we're able to pitch it in just a different way.

So, we see that grow. We see PAPs continuing to grow just because that's throughout every single market, around the country. We're going to see PAP growth, and we're going to see O2 growth, and we'll see vent growth, as well.

I mean, there's acquisition targets that we're looking at and geographic regions that we're not so strong in. I mean, we admittedly are kind of weak in the west and so we're analyzing targets over there.

And then in the Northeast, we could use an acquisition target, as well. But those guys are already in our pipeline and we're working through them and we have some leads. So, we're excited maybe to grow in those geographic apps in a different way.

Charlie Montang
Great. Well, thanks for answering my questions and I'll hop back in the queue.

Operator
Our next question comes from the line of Doug Cooper with Beacon Securities. Please proceed with your question.

Doug Cooper
Hey, good morning guys and congratulations on a great quarter. Todd, first of all, sequentially, the EBITDA margin of 500 basis points, is that strictly, I guess, because of the increased revenue, sequentially, and G&A was flat and the flow through, is that strong?

Todd Zehnder
That's the primary reason. Yeah, Doug. I mean, we obviously did a lot of good work on G&A. Some of that will continue to translate into or most of that will continue to translate into good cost management in 2023. The fourth quarter from a realization and a bad debt standpoint is always going to be better.

It's the least amount of impact for patients changing insurances and all the things that cause challenges really in the first quarter that we end up fighting headwinds on, which is why our revenue guidance may look muted to some people on a sequential basis, but if you look year-over-year, we're up 27%.

So, the growth rates are still intact. I want to be clear about that. But all that combined gives you a really good margin profile for the fourth quarter.

Doug Cooper

Great. And the CPI or the Medicare CPI adjustments, I guess, was started January 1. We're sitting here March 3, can you give us any indication of how that, you see that impacting here?

Todd Zehnder
Yeah, I think right now, the way that we're starting to see it shake out and it's early because we only have really one-month closed out. But we're probably seeing somewhere between on a net-net basis, somewhere around 4% to 5%, across all of our revenue.

You got to remember it only hits the Medicare and any contracts that are tied to Medicare. And then the rate increase is anywhere like for vents and (Inaudible), it’s 8.7% pretty much, but none of that’s competitive bids and it's countrywide.

For oxygen and path, it's a little bit more skewed throughout, depending on what area it comes from. And then it obviously doesn't apply to the revenue that isn't contracted to that or say, our staffing revenue. So, I think right now we're comfortable saying somewhere between 4% to 5% of gross revenue is seeing the uptick in the first quarter.

Doug Cooper
And you think that's, aside from say Q1 with the bad debt provisions, maybe a little higher or so forth, but you see that flowing through to the bottom line for margin expansion, all other things being equal?

Todd Zehnder
Yes. I mean, obviously, we have to continue to do our cost management like we've been doing and that will--as we continue to hire, there will be some G&A that comes along with it, but we would expect to see the revenue growth come with that, as well. So, long answer to yes, I do see that flowing its way through the bottom line.

Doug Cooper
Okay. And Casey, just in terms of the operations, can you give us an idea? Did you have some geographic expansion this quarter? Maybe you could just talk about new territories and just a general update on how the VA is progressing.

Casey Hoyt
Yeah, I mean, we're still finding new territories, throughout. And it's less about which state we're in, Doug. It's more about this going 60 miles down the road in coverage gaps that we have. So, nothing has really changed from the way that we're growing, organically.

We’re finding new sales rep and placement in new territories. Occasionally, we find pockets where we'll double down a little bit faster.

Again, San Antonio is a market where we haven't been too dominant, but we found some really good reps and got some good coverage coming over there here. That's as an example. What was your other part? Oh, the VA. Yeah, the VA is ongoing. Pilot, I mean, it's underway and it's--we’re actually going to take it to another area, as well. So, that's going to be exciting.

The major win really with the VA right now, I mean, the material win, I should say, Doug, is through staffing. We've really been landing a number of different staffing on-track inside the VA as we have the network.

We've been having the conversations with the complex respiratory business, and we're just established contracts that have other needs. And so, yeah, you know, we're in perfect position to just kind of be that solutions provider to them.

But the pilot's ongoing and the fact that we're getting to present it into another territory is exciting for us because that means there's another pulmonology group that saw what we're doing in South Carolina and said we want to do it for our area.

Doug Cooper
And sorry, great. Thanks, Casey. Just a last one for me. I see you renewed your issuer bid, stock getting hit a bit this morning. Is this something you would see as opportunistic with the stock down 10%, today?

Todd Zehnder
I mean, we'll obviously monitor that, Doug. I was clear on the prepared remarks that we hadn't been active right now because our M&A team is pretty robust right now, as far as potential leads and so forth. But we will--the buyback, I guess, remains in place, right now. So, we will be opportunistic and update the market, accordingly.

Doug Cooper
Great. Thanks guys and congratulations again on the quarter.

Casey Hoyt
Thanks, Doug.

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

Prasath Pandurangan
Good morning. Congrats on the quarter. First, just to confirm, have the benefits from the new CMS rates been fully captured in the 1Q guidance? If not, how much further growth in pricing do you see in the upcoming quarters?

Todd Zehnder
Yeah, they are in the first quarter guidance. And as I mentioned, I mean, we have some--we have been rather conservative with our bad debt assumptions. We typically reserve at a higher rate in the first quarter than others, if you'll go back and look and see last year.

So, with insurance changes and reauthorizations and all kinds of things that hit us in the first quarter, we take a conservative view of that. But yeah, they have been embedded in our numbers.

Prasath Pandurangan

Got it. And then following up on the non-ventilator side of the business, how do you see the product mix evolving throughout this year? And also, could you comment on its size relative to the vent side of it?

Todd Zehnder
Yeah, I think that we will continue to see the oxygen, sleep, and staffing business lines grow at a faster rate than the ventilators just because they're so much smaller. But I don't see the product mix moving as drastically as it did, year-over-year, just because vent growth is back at a higher rate than it has been over the last, call it, 24 months to 36 months.

So, we moved it 10% this year. I think the numbers were 76% in ‘21, and 66% in ’23--or excuse me, ‘22. So, 10 percentage points. I don't see it moving that much, but the smaller business units will grow very likely at a faster rate this year just because they're still relatively new to our national rollout.

They're probably anywhere between two- and three-years international rollout. So, we're still benefiting from the infancy of those programs around the country. But I guess the key, Prasath, is, all business units are growing, all of them are growing pretty dramatically. So, it's kind of fun to watch to see who's going to outpace the other one, right now.

Prasath Pandurangan
Yes, that sounds good. And then on the, finally on the SG&A side of it, just looking at it from continuing operations basis, does this quarter's SG&A number, is that like a normalized number that we can see casting flat in the next few quarters, or are you looking at further cuts to it?

Todd Zehnder
I think that it's--we're always going to have slight guidance increases when it comes to cost just because we're out there organically growing the business and putting new sales reps in new areas. And it's unrealistic to say that we're going to keep growing without some G&A expansion.

With that said, I think we were pretty clear, mid-year, that we had seen a massive increase last year between our hiring efforts and the inflationary impact, and those appear to be stable now, at least on the inflationary side.

We're managing our headcount, pretty good. We're looking for new areas, new sales reps, and so forth. So, I would call our G&A relatively stable, but you should always think that it's going to grow some to support the 20% to 30% organic growth in the revenue and gross margin line that we are going to forecast.

Prasath Pandurangan
Got it. Got it. Thanks for taking my questions.

Casey Hoyt
Sure. Thanks, Prasath.

Operator

There are no further questions in the queue. I'd like to hand the call back to management for closing remarks.

Casey Hoyt
Okay. Thanks everyone for joining the call. We appreciate all the thoughtful questions, and we are very excited to be up there in New York on Monday morning. So, everyone look out for us as we ring that bell. Enjoy your weekend.

Operator
Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.