Viemed Healthcare, Inc.
First Quarter 2023 Earnings
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Presenters
Casey Hoyt, Chief Executive Officer
Todd Zehnder, Chief Operating Officer

Q&A Participants
Brooks O'Neil, Lake Street Capital
Michael Freeman, Raymond James
Doug Cooper, Beacon Securities

Operator
Hello, and welcome to the VieMed First Quarter 2023 Earnings Call and Webcast. If anyone should require operator assistance, please press star, zero on your telephone keypad. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to turn the floor over to your host, Todd Zehner, Chief Operating Officer. Please go ahead, sir.

Todd Zehnder

Thank you, Kevin. 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 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 first 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

All right. Thank you, Todd. Good morning, everyone, and thank you for joining our first quarter 2023 earnings call. Today, we're extremely excited to report on how our core business is really clicking on all cylinders and certainly driving these record-setting first quarter results. We will also review our most recent pending acquisition of Home Medical Products, HMP. Lastly, I'll spend some time providing our current view and outlook of the industry.

First, I'd like to take a moment to acknowledge and thank our dedicated team of respiratory therapists, behavioral health specialists, staffing professionals, and administrative support staff, who work continuously to deliver the best-in-class care to the patients we are privileged to serve. Our outstanding quarter is a direct result of their hard work.

At the end of the first quarter, our VieMed family grew to 770 employees, and we are incredibly excited to soon welcome the HMP team into our family, which is expected to increase our headcount by approximately 180 employees. The first quarter of 2023 was an exceptionally strong example of our organic growth success. Our revenue results exceeded the top end of our guided range and confirm that, despite being a larger company, we clearly have the ability to maintain our impressive pre-pandemic year-over-year growth rate.

The strategy of having VieMed Healthcare Staffing find the right people to expand our organic business has proven to be successful. VHS has contributed to our ability to optimize our hiring efforts while our back office refines our training and culture. Our training will help drive continued organic growth throughout the year, and we are probably most excited to share it with our new employees onboarding from HMP during the second quarter.

With open access to our referral sources restored post-pandemic, we only see positive forces ahead to future growth. Furthermore, our respiratory equipment supply chain is stronger than ever before, with many new manufacturers competing for our business. The increased competition is driving down the cost of our purchases of equipment and ensuring that we will have adequate supply to meet the needs of our patients. We expect to leverage our volume purchases in the near term upon closing the HMP transaction.

The purchase of HMP will launch our acquisition growth initiatives with a stellar organization that has an extraordinary reputation with patients, payers, and physicians. Above all, the team at HMP shares our same culture and driving passion for treating each other with respect, while delivering innovative, patient-focused care. Upon close of the transaction, the acquisition will provide immediate geographic, product, and payer diversification to the combined organization.

HMP is a major provider in Tennessee, Northern Alabama, and Northern Mississippi, and currently serves over 44,000 active patients. In 2022, HMP had annual revenues of approximately $28 million, and the expected purchase price of the transaction is approximately $31 million, subject to customary closing adjustments.

While the transaction is expected to be immediately accretive, we are most excited about the opportunity to share our mature, complex respiratory model with a strong team at HMP. Their organization already has an impressive foothold in the sleep business and strong relationships with pulmonologists and local physicians. We are certain that we can complement their existing revenues by integrating our complex respiratory model.

In the past, we have invested heavily in our scalable training, proprietary technologies, and sound clinical protocols. Our biggest constraint to growth has always been our ability to recruit talented individuals that can go out and put our model into practice. Based on our longstanding relationships with the HMP team, we are confident that we have identified 180 incredibly talented individuals that will have access to our well-developed resources and capabilities. We expect substantial revenue synergies as a result of the combination.

We plan to carefully integrate the organization over the coming months as we also continue to recruit and train a robust pipeline of organically sourced hires. We expect our acquisition growth to be strategically measured. We have developed comprehensive integration plans based on our recently hired M&A executives' deep experience with the acquisition.

Our strategy is not to simply roll up companies and cut costs. We never want to impair or impede our strong organic growth. We are careful to execute transactions with organizations that we believe will continue to grow at impressive rates and are confident that well-executed acquisitions can create an accelerator to our organic growth model.

Regulators and legislators also continue to work in collaboration with the home medical equipment industry to find practical solutions that ensure providers can deliver care to patients. For example, reimbursement relief legislation was recently introduced in the Senate that would extend the 75:25 blended Medicare reimbursement rate for suppliers in non-rural, non-competitive bidding areas throughout the end of 2024. These commonsense steps provide increased stability and predictability in the reimbursement environment in contrast to previous initiatives such as competitive bidding.

Historically, any competitive bidding activities are initiated by CMS approximately 18 months prior to implementation of contracts and pricing. Although CMS has not announced plans related to future competitive bidding rounds, the time line for around 2024 competitive bidding process has effectively lapsed, and around 2025 is becoming increasingly unlikely, as CMS has provided no signal that a return to the program will provide any savings.

We remain confident that all current indicators promote a strong reimbursement environment for the coming years. As a result, our business is well insulated from recession and long-term inflation pressures. As the reimbursement environment evolves through Medicare Advantage trends and value-based arrangements, we are optimistic that our high-quality, cost-effective service offerings can continue to thrive.

As health plan administrators become more sophisticated in their use of data and technology, we are well-positioned as a leading provider of high-tech and high-touch care in the home. We proactively invest in technology and protocols that create a seamless administrative process, capture data, improve benefits to patients, physicians, and payers. In order to solve more problems for our customers as we scale, we are expanding our ventilation adjacent offerings and diversifying our product and service mix.

Not only does our growing portfolio provide a robust continuum of care solution for pulmonologists and patients, but our ability to partner with patients sooner in their progressive disease state allows us to treat their underlying conditions at the right time. Adoption of innovation in technologies such as portable oxygen concentrators and remote setups of PAP devices have enabled us to expand these portfolios quickly and in a cost-effective manner. These ventilator adjacent offers have the ability to increase the length of our patient relationships.

For example, a COPD patient that is provided with oxygen solutions by VieMed may ultimately become a ventilator patient as their disease state progresses. Similarly, when a young CPAP patient with sleep apnea is properly cared for and kept comfortable and compliant, they typically remain a resupply patient, requiring fresh masks, tubing, and filters for decades.

Most importantly, our peer-reviewed published medical research continues to demonstrate that clinical and financial benefits of non-invasive ventilation in the home are greatest when therapy begins immediately following the diagnosis. When we can get to the patient sooner, we ensure that the patients live longer and are kept comfortable.

We are also seeing strong growth of our clinical placement and recruitment services offered through VieMed Healthcare Staffing. In addition to continuously improving the quality and volume of internal hires, VieMed Healthcare Staffing is a solution for our external customers and strengthens our relationships with those partners, including the VA. VHS and our SDVOSB partner, Solvet (sp), have been placing many clinicians throughout the VAs across the country.

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

Todd Zehnder

All right. Thanks again, Casey. In reviewing the financial results, all figures are in U.S. dollars, and full results have been made available on the SEC website as well as SEDAR. Our core business generated net revenue of $39.6 million during the first quarter of 2023 as compared to net revenue of $30.2 million in the first quarter of 2022, which equates to a 31 percent increase. Our sequential growth in the core business was 6 percent, which is especially exciting as the first quarter presents seasonal challenges with insurance changes for many beneficiaries.

We remain optimistic that we will be able to continue our high organic growth rates as we are still seeing open access around the country. Our gross and EBITDA margin percentages continue to be strong as we have focused on both margin and diversification. We have followed on our second half of 2022 mantra of diversification but also being laser-focused on the bottom line. We continue to see our margin percentage be 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 percent and 21 percent, respectively. Our first quarter gross and EBITDA amounts came in at $24 million and $8.3 million, respectively. Our first quarter revenue from vents was approximately 65 percent of our core revenue as compared to 71 percent in the first quarter of 2022.

Our SG&A for the quarter totaled approximately $19.8 million as compared to $15.8 million in the first quarter of 2022. We are continuing the efforts of managing costs across the board. But, as we have always said, we are investing in the growth of our business and the patient experience. We expect to continue to grow revenue at a faster pace than expenses, which should yield ongoing margin expansion.

For the quarter, we invested approximately $4.7 million in capital expenditures. The CapEx continues to be spent across all of our major product lines and once again has been done through a diversified supplier network. As was the case last year, our vent and oxygen products had the most CapEx spent during the current period. We continue to see an ample opportunity to procure inventory and have not had to turn away any business as a result of supply chain issues.

We have once again funded all of our CapEx with discretionary cash flow during a quarter of extreme growth, and we were also able to expand our liquidity. We are very proud of the pristine balance sheet where we actually grew our cash balance by $6.6 million at March 31 to $23.5 million. Additionally, we ended the quarter with an overall working capital of $23.3 million. We remain debt free at quarter end with a fully undrawn credit facility.

Our capital allocation strategy has shifted over the last six months. We still have our first priority on CapEx to service new patients. Our organic growth through new patient service has, and will likely always be, our first priority. Last year, we focused our secondary capital allocation efforts on buying stock and paying off the limited debt that we had. This year, we will prioritize the M&A growth as our second use of capital.

As Casey mentioned, we are moving forward with the first deal and expect to close that in the second quarter. The acquisition of HMP will be funded through some cash and draws on the credit facility. We will determine the exact mix as we approach the closing date and the final amounts that will get funded.

Moving over to the second quarter, we have provided net revenue guidance in the $40.2 million to $41.2 million range related to our core business. The midpoint of our revenue guidance is up 23 percent over the core revenue in the second quarter of 2022. We remain active in our discussions with existing and potentially new investors.

We recently participated in another in-person conference, and we are continuing to see interest from new shareholders. We are excited to tell our story, but we are even more excited to continue to build out our footprint to new patients through our organic, and now inorganic, growth strategies.

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

Casey Hoyt

Okay. Thanks, Todd. In summary, we witnessed and executed on a ton of positive momentum driven by our proved organic business model during the first quarter. Our country is experiencing trends with more health insurers moving to Medicare Advantage plans intending to save money for Medicare through offering cost-saving, efficient healthcare to an aging population. We are seeing these commercial insurers accumulate facility-based health systems in companies across America.

This trend seems to be inspiring hospital systems to compete with these payers by developing their own health plans. We are keeping a watchful eye on how Medicare plans to regulate the quality of care for patients who are on these plans. Regardless, the competitive payer environment is pointing towards adopting more cost-efficient care, whether you are a hospital with your own MA plan or a large national payer.

The focus around the country will be treating the right patients inside of the facility and the right ones in the home. Our collaboration with these health systems and payers are well underway, and VieMed is leading the effort in human interaction, coupled with compatible technology. The macro tailwinds throughout the industry give us the confidence to expand at a faster rate than we ever have before.

With an underserved population of respiratory patients still in need, a recipe of proven organic growth, and a new inorganic growth strategy underway, we couldn't be more elated for what the future holds at VieMed. We want to thank all of our investors who have joined us on this ride, and we look to welcome new investors as we take the company into a new era of growth in 2023 and beyond.

This concludes our prepared remarks. We will now open up the floor for further questions. Thank you.

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to be placed in the question queue, please press star, one at this time. Once again, that's star, one to be place in the question queue. You may press star, two if you would like to remove yourself from the queue.

One moment, please, while we poll for questions. Our first question is coming from Brooks O'Neil from Lake Street Capital. Your line is now live.

Brooks O'Neil

Good morning, guys. Congratulations on another terrific quarter and all the progress you're making. I have a couple of questions. The first one, I saw a thing that I think might have been generated by something somebody called artificial intelligence that suggested you guys missed estimates this quarter. And I'm just curious because you clearly beat my estimates. Is there anybody out there who had estimates that were higher that you missed?

Casey Hoyt

No, not that we've seen. We really -- what we have to focus on is we look at revenue, right? That's the only thing that we really guide. And we came in, I guess, $600,000 above the top end of our, excuse me, $38 million to $39 million guidance range, so--

Todd Zehnder
--There's your miss, Brooks. We missed high.

Brooks O'Neil

You missed high. That's a good miss, except if you're shooting ducks. So, I know your aim is good for ducks, so I'm not worried about it. Let me ask you this. Todd mentioned, I think, the mix shift. And I think he said 65 percent vents this quarter versus 71 percent in the past. Does that shifting mix concern you at all? Do you think it causes any margin pressure, in particular?

Casey Hoyt

No. It's not concerning. But, the second part of the question is something that we obviously remain laser-focused on. The ventilation piece of the business does carry a better margin. And I think that's why we're extremely proud of the fact that we've kept our gross margin static over the last eight quarters, effectively, while we have diversified our business.

So, it may not show in individual quarters, but the operational efficiencies that we're making up and down throughout the company are real. I think I've said it in the past. We don't expect to change the vent contribution as much as we have historically because vents are back to growing. And so, that's not concerning us. All product lines are growing effectively right now.

We're still benefiting from the fact that the national rollout of PAP and O2 is still relatively young, and the staffing business is still relatively young. So, although a much smaller piece of our business, they do grow at a faster rate. But, no, everything from the diversification and where the margins are coming in is meeting or exceeding our expectations as we've laid out as a management team and Board. So, we are extremely excited about the results.

Brooks O'Neil

Great. That's extremely helpful. So, let me just ask one more. I understand that one acquisition does not a trend make. I like what I see from HMP, and it seems like a great model. But, would you comment at all about how you are thinking about the profile of potential future acquisitions and whether we should think of HMP as sort of the classic VieMed acquisition target?

Casey Hoyt

Yeah, that's a good question. HMP is definitely classified as what we are looking for in terms of going after a good company with a good management team in a different geography that we are not in. They check the box with a few payers that we don't have as well. So, it was really just a perfect fit for us in terms of what we got for our first one. It doesn't meant that every single transaction you see us do in the future will be--will look exactly like HMP.

I've always explained it, if you see us do maybe a smaller one of some sort, it might be us just going out and trying to expand our payer coverage and so on and so forth. So, that could happen, but right now, I mean, we're looking for other HMPs, and there's plenty of them out there in the pipeline. We're really focused on getting this one integrated the right way and making sure all of our processes are dialed in. And, once we have that, we'll start moving on to the next one, similar to HMP.

Brooks O'Neil

Cool. I totally get that. So, let me highlight. I'll just ask one more. So, HMP, as you've said, has a stronger concentration in the sleep business. Maybe this is a good opportunity for you to just talk a little bit about the dynamics in sleep, why you find that opportunity attractive, and kind of how you see the sleep business developing going forward.

Casey Hoyt

Yeah, so the HMP business, I think they are at, what, 45 percent sleep and 13 percent ventilation. That excites us, Brooks. You're saying call points for sleep. Typically, a pulmonologist or even a family practice doc can treat respiratory diseases that will lead to a ventilator patient in need. So, we really like the call points in the hospital systems that they're already in with their growing sleep business. We know sleep very well, and we can certainly help each other with refining our processes, which is, better one another in sleep.

But, more importantly, where we see the major revenue synergy opportunity is for us to get in there and help teach them our organic growth model with ventilation. It's a little bit different of a sales process for a typical DME. We like to navigate inside of hospitals and so on and so forth. So, I see a lot of good people in their sales force, a lot of--and they're hungry to receive this education and training that we're going to bring to them. And we're excited to start this kumbaya and learning from one another.

Todd Zehnder

And I'll follow up on that real quick, Brooks. It kind of parlays into what Casey was talking about in his prepared remarks. About 50 percent of their sleep revenue is coming from the resupply piece of the business. And that's something that we're starting to benefit from as well. We're probably--we're not there yet because our sleep business, from a national rollout, is a little younger.

But, that's the real game is to get these patients that are compliant, that stay on, and just order resupply for every three or six moths, whatever it might be. So, we're excited about that. We have a similar system that we're going to be merging in that uses the same call center and so forth, and the same software. So, we see a lot of efficiencies there, and maybe we'll learn some things from what they're doing on the resupply business as well.

Brooks O'Neil

Great. That sounds fantastic. Thanks for the color, and keep up all the great work.

Todd Zehnder

Thanks, Brooks.

Operator

Thank you. The next question is coming from Michael Freeman from Raymond James. Your line is now live.

Michael Freeman

Hey, Casey and Todd. Thanks very much for taking our questions, and congratulations on the quarter.

Casey Hoyt

Thanks.

Michael Freeman

Just following on Brooks' question here. Wondering about the integration time line for HMP. It looks like you are looking to work very closely with the sales team, which you see a lot of promise in. Wondering how you would describe that integration process, should this deal close, and its estimated time line, and then, moving forward from that, what we should expect for acquisition cadence moving forward?

Todd Zehnder

Well, what I would say is the integration has already begun, even though we're expected to close this thing, I guess, at the beginning of June. After we had the deal signed and announced and so forth, we immediately began integration efforts. And some of those integration efforts can start now. Some have to start on day one. And some may take a couple of quarters. And it really depends on whether it's therapy, whether it's human resources, whether it's sales, whether it's how we train them. So, it's across a--my guess probably through the end of the year before we have it fully integrated.

But, that's our goal is to have this fully integrated during the current year. And we find that to be very important with the way we're going to do these because this is--this acquisition, like Casey said, is sort of a playbook for future in that we really want the revenue synergy to carry the excitement. And we want to continue to make sure that that's the theme of what we're going to acquire going forward.

As it relates to the cadence, it's really going to be dependent on what we see, how much we like it. We're not--we were pretty upfront with the street. We didn't have to do a deal on any time line. We grew 31 percent this quarter organically. We're set to grow, based on guidance, mid-20s again this quarter before acquisitions. So, we're not pressured to do deals, but we're out there searching pretty aggressively.

Our M&A team is working hard to get this one done and integrated but also building the pipeline. So, we don't want to set an expectation that we're going to do a certain number a year or a certain number a quarter. We're just going to wait for the right one to come along. And once we do, we'll probably act on it pretty quickly.

Michael Freeman

Yeah. Okay. We can appreciate that. And just to be clear, would you like to have this acquisition fully integrated before doing your next acquisition? Or are you agnostic, independent to an opportunity?

Todd Zehnder

I'm--I think we're agnostic. Yeah, I think we're agnostic to that. But, what we don't want to do is sacrifice the integration of the first one because we're working on the second one. We'll be mindful of both of those at the same time.

Michael Freeman

Okay. All right. That's very helpful. And now, if you would, just one more from me. I'd like to talk about payer mix and penetrating different payers. One I'm interested in is the VA and another is Medicare Advantage, specifically. I wonder if you could talk about your plans to penetrate those two areas.

Casey Hoyt

Yeah. I mean, I'm seeing a major opportunity with the increasing adoption of MA plans. There's a lot of work to do with MA plans to get them fixed. I think Medicare is going through a process right now of learning about what the payers have been up to and trying to set the regulations to align their rules with Medicare's rules, which should be a good thing for our business. But, nevertheless, that's a major opportunity because it's really reducing the cost of healthcare.

How do you reduce the cost of healthcare? Well, you treat folks for less, and that typically leads to treating them in the home, keeping patients out of the ER that do not need to be there. And that's why our behavioral health component of our business is becoming so much more important to our value prop as well.

Lots of folks that flood the ERs today are struggling with behavioral health issues and don't really need to be in there. So, the more that we can do in the home or through telehealth through the use of technology, I think you'll see a lot of rapid adoption to those types of programs, and those are the things that the hospitals want to partner with us on right now.

As it relates to VA, the second largest payer in the country, we are--we've been after them for the last four or five years, Michael. And we've got some pilot programs in place for our complex respiratory model that area still in the infancy stages, unfortunately. But, the major success that we've had with them is that they've reached out to us for a lot of their staffing needs. And we've been building a track record of success for fulfilling the clinical labor that they've been in need of. And the more you have that experience with them, the more they lean on you, so we're reaping those benefits with the growth of VHS and Solvet, as I mentioned in the script.

Michael Freeman

Okay. Great. This is tremendously helpful, and congratulations on a really great quarter and look forward to next time.

Casey Hoyt

Thanks, Michael.

Operator

Thank you. As a reminder, that's star, one to be placed in the question queue. Our next question is coming from Doug Cooper from Beacon Securities. Your line is now live.

Doug Cooper

Hi. Good morning, guys. I just want to focus on the SG&A line. In Q4, G&A was actually down versus Q3, up a couple of million dollars sequentially now, I guess driven by the increase in staffing you just talked about, 770, I think Casey, I think it was 7.3 (sp) if I look back to the MD&A in Q4.

How many--just remind us, how many of those will be sales people out of the add versus Q4? And how long typically, say, would it take for a sales guy to be productive? In other words, I guess the addition of some of those sales people in this quarter was a drag on EBITDA. And when do you expect them to be accretive to EBITDA?

Todd Zehnder

Yeah, I think I got all that, Doug. It's a little muffled. But, in general, probably about half of the staffing additions that we had during the quarter are sales-related right now. And I'll let Hoyt kind of chime in on the cadence of when they become more productive and so forth. But, the other things is if you look at the first quarter over fourth quarter, when you come through the beginning of the year, especially a year where we had as many new patients come on as we did, commissions and bonuses and things like that were higher, plus you're refreshing a bunch of things that cap out, payroll taxes, 401(k) contributions.

So, there's inherently going to be a little bit more pressure on the first quarter than there is the fourth quarter when things like that have already run their course. Once again, the piece of the commission-based compensation was high this quarter just because our sales teams have had a phenomenal quarter, especially our last month of the quarter being March. It was a record across all products. So, that's probably the biggest part of the G&A driver, but once again, as to your key question, the sales force made up about half of the net add.

Casey Hoyt

Yeah. And I would say, to your question about how long does it take them to get started, maybe two or three years ago, we're were given them up to six months. Today, we give them up to about like six to nine months because we've seen some late bloomers, and we're patient with them. We're offering them the right training and support. But, last year, we were commenting on the new areas.

I think we added 25 net new areas. Just to give you an example, we've hired 28 new hires to-date, year-to-date this year. However, we've already let 17 from the previous year go, not--when I say let them go, they usually convert into a respiratory therapist that's going to offer support, and we replace them--that area with someone who might have better success.

So, that's the tug and the pull on how we regulate the sales force, but we're constantly trying to optimize. And that's why we're commenting on optimization of the sales force and really getting the folks that aren't going to cut it out of there and training the new ones in. And so, that's the game that we constantly play. That's what we're really good at. And it's the ultimate driver of our success here and will be for 2023 as well.

Todd Zehnder

Hey, Doug. I'm going to add one piece of information. Just if you're looking at it on a 1Q-over-1Q basis, because I think that always makes a lot of sense just to take seasonality things out, obviously the first quarter always has a higher challenge with collections and insurance changes and all those things. If you look at it over last year, while the print might not look like we had margin expansion, there was roughly $2 million of benefit last year between either the provider relief funds and/or the COVID revenue.

So, we're on track. We don't have it as a formal guided number, but we're out there saying that we want to expand our EBITDA margins by somewhere between 200 basis points and 200 basis points this year, while growing revenue, whatever we grow it. And we can say that on the core, we did that during 1Q 2023 over 1Q 2022.

Casey Hoyt

And, Doug, it's important to recognize that we're really having a lot of success finding our sales reps right now. It's the recruiting efforts. It's not about finding people. It's more about getting them up and running in the right way, so that's what we're focused on here.

Doug Cooper

And, just to be clear on just a couple of things, commission, they're only paid once, right? And like once that patient is on, the sales guy has a commission, and there would be no commission associated with that on a go-forward basis? Or is that from a per-person basis?

Casey Hoyt

Once again, you're kind of breaking up on us a little bit. But, I think the question is you just pay it, you only pay it in the first month. That's our structure.

Doug Cooper
Okay. Sorry, is that better? There's some background noise on my end. Just on the, I just want to touch on bad debts as well, call it, 9.5 percent of net sales. But, it tends to lessen over the course of the year. Will that help drive margin expansion in the coming quarters as well?

Casey Hoyt

That should. Yes, that definitely should. And that--and if you look at it last year, the fourth quarter had the lowest, which is also in line with us having--posting the highest margins during the fourth quarter last year.

Doug Cooper

Okay. And, finally, just on the phantom shares, I think there was $700,000, the impact on G&A. What if you just don't have it in Q4? Do you have that number off the top of your head?

Casey Hoyt

Yeah, so we had, it was right around $900,000 in the fourth quarter. It was actually $1.1. million during the first quarter of 2023.

Doug Cooper

Oh, $1.1 million. Okay. Great, that's it for me, guys. Thanks very much. Congratulations.

Casey Hoyt

Thanks, Doug.

Todd Zehnder

Bye, Doug. Thank you, man.

Operator

Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

Casey Hoyt

Yeah, we want to thank everybody for listening in and calling in. And follow up with us if you have any other further questions. Have a good day.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.