Viemed Healthcare, Inc.
Second Quarter 2024 Earnings Call
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Presenters
Casey Hoyt, CEO
Todd Zehnder, COO

Q&A Participants
Brooks O'Neil—Lake Street Capital
Ilya Zubkov—Freedom Broker
Doug Cooper—Beacon

Operator
Good day, ladies and gentlemen, and welcome to the VieMed Second Quarter 2024 Earnings Call. Our host for today's call is Todd Zehnder, Chief Operating Officer. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. I would like to now turn the call over to your host, Mr. Zehnder. You may begin.

Todd Zehnder
Hi. Thank you, and good morning, everyone. We appreciate you joining us today. I'm excited to share that—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 for 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 obligations to update or revise any forward-looking statements, except as required by law. The second quarter financial 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
Okay. Thank you, Todd, and good morning, everyone. We appreciate you joining us today. I'm excited to share that the second quarter of 2024 has been nothing short of exceptional for VieMed. Our organic growth in the company's core product categories remains impressive, consistent with our strategic vision.

Our net revenue for the quarter reached a new company record of $55 million, exceeding the top end of our guidance and representing a 27% increase over the previous year. We are incredibly happy with our results and our opportunities for continued growth. This remarkable growth is a testament to our robust operational performance and the unwavering dedication of our team. Our

VieMed family continues to expand, now numbering 1,121 employees as of June 30, and which includes our talented team at East Alabama Home Med following our acquisition on April 1st.

Our HomeMed integration is on track, and we are close to the point where we were moving past process changes and can start to focus on growth for East Alabama Medical Center and VieMed. We expect to realize further growth throughout the back half of the year and are really more excited about the framework we have created for future JV opportunities through this transaction.

New ventilator setups are incredibly strong with active vent patients growing by 4.4% during the quarter, compared to the March patient count. A major component of our successful quarterly performance is the impressive results from our sales force restructuring initiatives. We have refined our approach, enhanced developmental conversations, identified and strategically invested in the right talent earlier in the training life cycle. New incentive plans and alignment of performance targets have also contributed to these results. The impact of our new sales structure is evident with a 15% increase in average monthly setups per sales rep compared to the beginning of the year.

New reps are hitting their sales target faster and at higher rates than ever before, giving us tremendous optimism about the next 18 to 24 months of ventilator growth. We are now at the phase of the sales restructuring where management is in place, existing sales reps are producing at higher levels, and we will be accelerating recruiting efforts throughout the back half of the year.

Market penetration for noninvasive ventilation remains in the sub-10% range and we are observing considerable demand widespread throughout the country. Our Industry Association A Home Care recently engaged ops in DaVanzo (sp) for a comprehensive noninvasive ventilation to quantify the differences in outcomes and treatment cases for patients receiving an IV therapy versus those who don't.

This research will also analyze the experiences of Medicare Advantage patients. We believe this new study will further educate payers on the substantial advantages of noninvasive ventilation, reinforcing the significant benefits already highlighted by existing research. As many of you know, VieMed was a pioneer in the noninvasive ventilation market, resulting in a fleet with a number of aging ventilators. The recent Philips recall of these older machines has presented a unique opportunity to replace these devices and alleviate the need for future servicing.

We've entered into an agreement with Philips to buy back a large number of our affected vents. By leveraging substantial volume purchase discounts with manufacturers of new ventilators, we can use the proceeds from the buyback to significantly reduce the average age of our VIP (sp) fleet without negative impacts on our overall cash flows and P&L.

Our sleep business continues to experience strong organic growth, and it now represents 15% of our revenue mix. The GLP-1 craze may be contributing to this increase in sleep volume as more folks are addressing their health concerns at higher rates around the country. Sleep has grown at a double-digit quarterly rate over March. CPAP and sleep lines continue to thrive, reflecting the enduring demand and effectiveness of positive airway pressure solutions.

On the technology front, we have been beta testing machine learning tools that we view will further improve our processes and provide opportunities to enhance our patient care capabilities. These technological and software developments are helping us to accelerate fulfillment times and optimize claim processes. Furthermore, proprietary Engage platform continues to aggregate valuable patient data and create workflow efficiencies for our RTs in the field. We expect to realize real efficiencies and opportunities in the coming quarters as a result of the technology investments.

On the payer and regulatory front, we have swiftly and successfully migrated all of our payers away from Change Healthcare. We can now confidently say that we expect no material impact in timely filing denials as a result of the Changed Healthcare cyber-attack. Affected claims are being processed on the alternative clearing houses. AAHome Care is also continuing to push for the reinstatement of 75-25 blended rates, which, if successful, has the potential to further improve margins.

We are also experiencing behavior shifts and payers adjusting to more favorable medical policies. As a result of regulatory enforcement and voluntary compliance, there are a number of payers modifying step therapy approaches to trying and failing by level devices before authorizing ventilation. These changes stand to reduce the burden patients experience on being placed on inferior treatments for chronic respiratory failure. These positive medical policy trends also help our clinicians fast track VIP therapy and ultimately improve overall access to care in a timely manner.

Recently announced mergers and acquisitions in the home health care sector underscore the robust appeal for the industry. For instance, Owens & Minor's $1.4 billion pending transaction to acquire Rotech, a large national HME provider highlights the there's significant attractiveness. We view this development as a testament to the industry's potential rather than a threat to the VieMed's competitors vents.

Our M&A pipeline remains active, reflecting our continued interest in acquisitions and promising growth opportunities. At VieMed, we are incredibly well positioned within our market as a leading provider of complex respiratory care. Ventilation services continue to be at our foundation and present an amazing opportunity for profitable growth in this sector. With more financial and operational updates on the quarter, I'll now hand the call over to our Chief Operating Officer, Todd Zehnder. Todd?

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. Our core business generated net revenue of $55 million during the second quarter of 2024 as compared to net revenues of $43.3 million in the second quarter of 2023, which equates to a 27% increase. Our revenue increased approximately 9% sequentially, all of which except $900,000 was organic, which is an extremely strong growth rate.

Operationally, the first half of the year has been strong, and we have worked through the majority of the first quarter and Change Healthcare headwinds. We continue to remain committed and optimistic that we will be able to continue our high organic growth rates. Our second quarter revenue from vents was approximately 56% as compared to approximately 60% in the second quarter of 2023. Our gross and EBITDA margins are still strong, and we continue to be successful in managing our cost structure this year and is showing in both gross and EBITDA contribution.

Our gross and EBITDA margins during the quarter came in at 60% and 23%, respectively. Our second quarter gross and EBITDA amounts came in at $32.9 million and $12.8 million, respectively. Our SG&A for the quarter totaled approximately $26.5 million as compared to $20.6 million in the second quarter of 2023. G&A as a percentage of revenue decreased sequentially from 49% during the first quarter of 24% to 48% during the second quarter of '24 and continues our theme of managing our G&A well.

We will continue to manage our G&A costs and also remain committed to invest in our patient and employee experiences and once again, expect to grow revenues at a faster rate than expenses. For the quarter, we invested approximately $8.9 million on patient CapEx, primarily on various respiratory products. The gross CapEx is higher than normal this quarter because we have begun to sell back some of our fleet to Philips in conjunction with their recall and, hence, are buying new vents from other manufacturers.

We sold back approximately $2.6 million of vents during the second quarter that should be considered an offset to our CapEx number. That context to this, during the second quarter, Philips began offering event buyback program in relation to the trilogy vents that have been on recall. We're utilizing the buyback program for a portion of our fleet and plan to remediate a portion after the process is fully developed by Philips and the related governmental agencies. We are waiting to hear when the remediation can begin and will continue to monetize a portion of our fleet over the next year or so.

We have recorded some gains as a result of this project during the quarter and expect to do so until it is completed. Offsetting some of that gain are two unique items that impacted net income, but not EBITDA for the quarter. We took reserves related to a former vendor filing bankruptcy and an amount that we were owed from them as well as an impairment on one of our investments down to fair market value. The total amount before tax benefits of these two items was approximately $2.2 million. We have once again funded our CapEx out of discretionary cash flow and continue to manage the business in order to drop free cash flow onto the balance sheet.

Our percentage of net CapEx to EBITDA was healthy at 49%. We will continue to update our free cash flow disclosure on an annual basis as we discussed last quarter. As an update to the cash collections being impacted by the Change Healthcare cybersecurity issue, we have fully restored connectivity to all of our payers through alternative clearing houses, and we made up a significant amount of the deferred collections during the second quarter.

We are still working through finalizing the cash collections on the remaining claims and estimate that we still have approximately $4 million of increased AR on June 30 as a result of this issue. We are confident that this project will be completed during the third quarter, with a substantial portion of the impacted amounts already collected in July. Our capital allocation opportunities remain consistent and that our organic growth is the highest priority.

Our inorganic growth, debt paydown, and vent equity buybacks continue to round out those priorities as evidenced by our JV signed on April 1 and the $3 million paydown of our revolver on July 31. We ended the quarter in a net cash positive position once again and have total long-term debt of $8.7 million. Our working capital at the end of the quarter was $13.1 million.

Moving on to the third quarter. We have provided net revenue guidance in the $56.5 million to $57.7 million range related to our core business. The midpoint of our net revenue guidance is up 16% over the core revenue in the third quarter of 2023 and is once again showing impressive sequential growth. We remain active in our discussions with investors and analysts and once again have seen our U.S. institutional ownership increase over the last couple of quarters. We remain excited about telling our story of growth and see the current market as an opportunity to attract new investors. At this time, I'll turn it over to Casey to wrap things up.

Casey Hoyt
Thanks, Todd. As we look back on the second quarter of 2024, we are proud of the robust growth we've achieved and the solid foundation we've built for future success. The opportunities presented by the Philips recall and the ongoing success of our sales force restructuring initiatives highlights our ability to adapt and thrive in a dynamic market environment. We're excited about the potential for future growth in our core product categories. Our advancements in technology and machine learning underscore our commitment to innovation and improve patient care.

Our strong financial performance and the swift integration of East Alabama HomeMed are a testament to our team's strategic vision and operational excellence. Our proactive approach to regulatory and payer challenges demonstrates our dedication to staying ahead of industry trends and ensuring the best outcomes for our patients and partners. We are deeply appreciative of the continued support and trust from our investors, analysts, employees, and partners. Your confidence in VieMed fuels our drive to excel and pushes the boundaries of what's possible in respiratory care. Thank you for joining us today. This concludes our prepared remarks. We will now open the floor up for further questions.

Operator
If you would like to ask a question at this time, please press “*” then the number “1” on your telephone keypad now. You will be placed in the queue in the order received. Please be prepared to ask your question when prompted. Once again, if you would like to ask a question at this time, please press “*” then the number “1” on your telephone keypad. Your first question comes from Brooks O'Neil with Lake Street Capital. Your line is open.

Brooks O'Neil
Thank you very much. Good morning, guys. Terrific quarter. I have a few questions. I guess I'd like to start—it feels to me like you're in a super target-rich environment. I might make an analogy. It feels a little bit like you're looking at a flock of ducks coming over the duck line. And I'm curious, do you think about that as taking your shot down and hoping you hit something or would you say it's a little different than that, that you're really trying to prioritize the best opportunities and take careful shots at each one?

Casey Hoyt
Well, to stay on your duck analogy, we're trying to get three shots per man out of each flock. So we're being really efficient with how we do things, and that kind of ties back to the sales restructuring, Brooks. Yes. I mean we see it as a target-rich really complex respiratory for all of our products right now, include vest and vents and even sleep.

Their target-rich environments and all of our sales folks are trained to cross-sell across all of those lines. We're getting the production out of them, thanks to increased training and improved management. And now we feel really confident about our management team out there, and so we're going to crank up a lot more fuel in the fire on recruiting for not just the back half of the year, but back half and beyond.

Todd Zehnder
And I will just add one thing to the duck analogy, we don't miss very often. And we're going to stay consistent with that theme that we're very careful where we take our shots and we're good at them, generally. So we're patient, but we're prudent.

Brooks O'Neil

That all makes sense. Let me ask you about the most recent thing, the JV that you've completed and you mentioned a framework. Do you see a lot of opportunities for replicating that structure and that opportunity in other markets or with other partners?

Casey Hoyt
Yeah, I mean we've gotten close with some. I think really where we're at with it, Brooks, is I'm hoping to have some real world data to present to our next few opportunities, showing the success of HomeMed and how we've been able to improve their bottom line and their efficiencies and so on and so forth. So we expect to probably have more meat on the bone for our value prop pitch to others by year's end. And from there, we can, a, circle back with some of the ones that we've been close with and then, b, bring it to the masses. But right now, I think we're in the proving the model out mode, if you will.

Brooks O'Neil
Absolutely. Let me ask just one more. It sounds like the Philips recall and buyback an absolute home run for you guys in that you can sell them back some used equipment probably in a favorable way and redeploy the capital in new equipment that is going to have a 10-year life. Am I thinking about that right? Or is there any downside to you guys with what's going on there?

Todd Zehnder
No, you think about it correct. I'd say it's a project that we've been working on. We're—we probably sold about 15% of our fleet back already. We're not exactly sure if we're going to sell the whole thing back. We're just working through that. But exactly correct in that we're able to replace the fleet at a cost advantage situation. And at this point, we've been able to record an accounting gain as a result of it. It's an operational project, but our team has folded in really well. Philips has been a good partner to work with on it. And thus far, it has been extremely positive and nothing, but good for the company and the patients at that point.

Brooks O'Neil
Sure. Well, great. Thank you very much for taking my questions. Congratulations and keep up all the good work.

Casey Hoyt
Thanks, Brooks.

Operator
Once again, to ask a question, press "*" then the number "1" on your telephone keypad. Your next question comes from Ilya Zubkov with Freedom Broker. Your line is open.

Ilya Zubkov
Hey, good morning and thank you for taking my question. Congrats with the strong quarter. I have a question on the equipment and supply sales dynamics. One of the mentioned growth drivers of this segment is the sleep resupply program. And I'm wondering how much does this program contribute to the segment's revenue? And could you elaborate on the quarterly revenue dynamics in this segment as well? Because I see that the revenue is rebounding significantly in Q2 comparing to the previous two quarters.

Todd Zehnder
The specific line item that you're asking about is equipment and supply sales, is that correct?

Ilya Zubkov

Yes. Correct.

Todd Zehnder
Okay. It's mainly due to us increasing our sleep business over the last, call it, two years, but then especially last year when we bought out—or we bought HMP and then our own VieMed sleep growth being so strong in the last, call it, one to two years. The primary amount of that is related to our sleep resupply program. And if you're familiar with the sleep business, that is really the driver of your long-term value creation in the sleep business. It's the patients who need new supplies every three or six months or whatever it is.

So as we've stacked on thousands and thousands of new patients into the resupply program, that number is going to continue to grow. It has zero CapEx associated with it, which is another good piece of our business. It's all cash flow. And so we fully expect that line item to continue to grow over the coming quarters.

Ilya Zubkov
Okay. Thank you. That is helpful. And I have one more on service revenue. There is a significant ramp up in service revenue this year due to the staffing offering and I'm curious is there any seasonality in this segment that can cause quarter-to-quarter fluctuations of the revenue in the future.

Todd Zehnder
No, not really. Those could come and go in the future, but we don't see anything large falling off in the near term. That's really our health care staffing division. And as we've expanded that group over the last several years, I mean, we just stood that up organically about three years ago.

So as they continue to go out there and explain our value proposition and what we can do. We've gotten some new contracts with some states around the country. And that's just—while it's not seasonal, it could have terms. But at this point, once again, we see some good growth coming from that division over the next couple of quarters.

Ilya Zubkov
Okay, great. Thank you very much.

Todd Zehnder
Yep. Have a good day.

Operator
Your next question comes from Doug Cooper with Beacon. Your line is open.

Doug Cooper
Hey, good morning, guys. And congratulations on a terrific quarter. It's amazing to me in one sense that the sector has been hit so hard from a stock price perspective because people think they have a GLP-1s presumably are going to have an impact, but nobody seems to be highlighted impact when they released the results. Rotech by our math sort of (inaudible) EBITDA multiple. Based on the—where you guys were before your stockholder this morning, it was trading at 5x last quarter annualized EBITDA, which seems pretty much an all-time low multiple. Like what do you think has to break from an investor perspective?

Todd Zehnder

You know, it could be a lot to do with the GLP craze, which we've only been able to like explain a couple of different ways. We listen to the larger people out there who are doing studies, and it seems nothing has been pulled away from their sleep business or their profitability, which is good. There's companies that are much more focused on it. Sleep makes up roughly 15% of our business right now. And as we did last quarter, probably the last few quarters, all we can tell you is by no means is our sleep business feeling any pressure. We're not having patients fall off of service in any meaningful way, any higher attrition rates. The sleep business is doing great, and we continue to grow it, and we're happy to keep growing it.

Outside of that, Doug, the stock market has ebbs and flows as we all know. We're very considerate of the stock price. But right now, we spend 99% of our time just continuing to try to grow the company, try to add to the bottom line. And we think as long as we keep doing that, the stock price is going to come back around at some point.

Doug Cooper
Do you guys know what percent of your patients are on GLP-1 drugs on the sleep side?

Todd Zehnder
No, we don't. We haven't dove into that. I know some of our peers have gone out. And I think the number that they said was maybe 12% of their patients. Once again, we focus our research and are kind of digging in on complex respiratory because that's what drives us every day. But I'd have to think that if you hear from ResMed or some of our peers that, that percentage is somewhere around it, then that's probably a pretty decent number for us as well.

Doug Cooper
Okay. And maybe just the last one, just based on that, on the private side, the M&A pipeline, what are you seeing expectations for guys prices that they want, have those come down over the past 12, 18 months as well with the value for a publicly traded company?

Todd Zehnder
In our discussions, we're talking through that, that the public multiples can't be significantly depressed from private multiples, but we haven't really gotten to the point where we were with like an HMP and talked that much of Turkey out there. So I think that the market—seeing the Rotech transaction was good because that means that things are starting to maybe open up again. And I would think a public company multiples out there on that big of a transaction set some sort of marker, but that's somewhat theoretical. And we're going to continue to look for the right opportunity and get—if we get to the point where we're talking that level of detail, we're going to be prudent about the multiple that we pay.

Doug Cooper
And maybe just a final one for me. Casey, you referred to the noninvasive vent market, still less than 10% of what could be the applicable market. It's sort of been like that now for a couple of years despite the bunch of research showing the better outcomes. What do you think—is this sort of just (inaudible) long here? Or is there a big (inaudible) by the referring physicians that said, yeah, I'm going to start referring all my guys to the IVs?

Casey Hoyt
Yeah. I mean, the way that we break it down, Doug, in our investor presentation, we focus on—the 6% is really the Medicare population. So when we say sub-10%, we're kind of just assuming that the commercial or the private sector is going to make up the rest of that. But we're still in a drastically underserved population.

Research is important in order to get the penetration number up a little bit higher. We continue to see more positive and positive studies, not just the ones that we've accomplished over the years, but others outside forces now proving out the benefits of noninvasive ventilation. It's exciting to take a look now at the Medicare Advantage population.

This is the first time that we've had access to those patients. So we'll see how good those guys have been doing on noninvasive vet care. And it's really exciting to see that AAHomeCare, our industry association is the one that's leading the charge now. It's not—for years, we've had to be the leader in the research market, but that's changing, and physicians are jumping in from across borders and doing studies now.

So it's all positive momentum, everything clinically that we're seeing. And so ultimately, we hope that that research really will drive penetration up to where more folks are considering NIV the gold standard of care and really step therapy and other forms of treatment to try and fail will become less of an alternative for medical policies and payers to lean on down the road.

Doug Cooper
Thanks very much, guys. That’s it for me.

Casey Hoyt
Bye, Doug. Thanks.

Operator
At this time, there are no further questions in queue. I'd like to turn the call back over to our presenters for any further remarks.

Todd Zehnder
We want to thank everybody for listening in today. Follow up if there's any other questions, and appreciate your support. Have a great day.

Operator
This concludes the VieMed Second Quarter 2024 Earnings Call. Thank you for attending, and have a wonderful rest of your day.