VieMed
Fourth Quarter 2024 Earnings Call
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Presenters
Trae Fitzgerald – Chief Financial Officer
Casey Hoyt – Chief Executive Officer and Director
Todd Zehnder - Chief Operating Officer

Q&A Participants
Brooks O'Neil - Lake Street Capital Markets
Andrew Rem - Odinson Partners

Operator
Greetings, and welcome to the VieMed Healthcare Year End 2024 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 star, zero on your telephone keypad. Please note that this conference is being recorded.

I will now turn the conference over to our host, Trae Fitzgerald, Chief Financial Officer. Thank you. You may begin.

Trae Fitzgerald
Thank you, and good morning, everyone. We appreciate you joining us today. Please note before we begin that these 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 that 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 disclosed 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 fourth quarter financial news release, including the related financial statements, are available on the SEC's website.

I will now turn it over to our CEO, Casey Hoyt.

Casey Hoyt
Okay. Thank you, Trae, and good morning, everyone. We appreciate you joining us today. Before sharing some terrific performance results, I want to recognize and thank our dedicated VieMed family for their relentless efforts as we finished strong in 2024, delivering another record quarter. Our nearly 1,200 employees' focus and desire to do what's best for our patients, providers and partners is what sets us apart as more individuals choose VieMed as their in-home clinical care provider of post-acute respiratory equipment services. Thank you, team, for all that you do.

Based on the year we just completed and now another strong one we're outlining for you for 2025, I think it's worth spending a moment on the demand we're seeing within our business and why we're so confident in this outlook. To provide some context on what we often refer to as a blue ocean of opportunity for business growth, there is a massively underserved patient population that needs to be treated for complex respiratory care.

For COPD alone, there is an estimated 25 million patients struggling in the U.S. with this disease. Nearly 2.5 million people are already at the last stage of the disease, and 1.25 million have already reached chronic respiratory failure, requiring the life-changing ventilation therapy we provide. The industry's market penetration is only in the high single digits at this point with only a handful of national players like us working hard to address these complex respiratory needs.

In our sleep sector, an estimated 80 million individuals are suffering from sleep apnea and remain undiagnosed. With increased awareness and engagement happening due to the widening adoption of GLP-1 drugs, the industry is seeing a more positive correlation to patients beginning PAP therapy. Downstream, this of course leads to higher resupply rates and a longer-term treatment period for these patients.

I don't think I have to push too hard to convince anyone on this call of the growing behavioral health crisis we're facing in this country. Rates of clinical anxiety and depression are at an all-time high. In our business, over half of the patients who are in complex respiratory care struggle with symptoms of anxiety and depression. In many cases, they are being readmitted to the hospitals for respiratory issues, but due to behavioral health challenges. In response, we've set up a behavioral health offering, providing licensed clinical social workers that go out into the field or can get on a telehealth visit to work in tandem with our respiratory therapists, controlling costs and improving outcomes.

We are also seeing the behavioral health opportunity blossom inside of our staffing division as we have sourced a significant amount of personnel to fulfill mental health needs by state agencies around the country. In addition to these multiple sustainable demand drivers, I would layer on the ever increasing trend of providing more clinical care in the home. With our high touch, technology-enabled clinical approach, our respiratory therapists have earned a trusted place in the home. Patients want to be treated in the comfort and safety of their home or place of residence, hospitals and health systems want to better manage their length of stay, and payers recognize the overall total cost of care is lower in the home versus an institutional setting.

We have become such a vital link between patients, providers and payers in this setting for increasing patient satisfaction, improving compliance and reducing hospitalizations, and we are considered more of an in-home clinical provider than an HME provider. That's a significant purposeful change we have been seeking, reflecting our commitment to delivering comprehensive patient-centered care.

We think we are helping steer the industry to meet evolving needs and remain a leader in complete patient care. The pressure we're all seeing placed on Medicaid and Medicare programs highlights where we are and where we can continue to win. We can better manage length of stay for the hospitals through helping them create efficiencies, improve outcomes and increase patient satisfaction. Hospitals are under financial strain and increasing demands to optimize due to rate and financial performance pressures. We are here to help them succeed by offering our resources and services to help patients appropriately transition to the home.

We don't yet know the impact the new administration will have in 2025, but there are a few things to keep in mind. When there's pressure to create efficiencies in health care, that plays into our capabilities. When there is transparency, overhauls and more rules to reduce waste, that is also very good for us. Also, when more care is being delivered in the home, that continues to position us for success. With that backdrop of demand and our capabilities, I think you can now understand why we are seeing the growth in each business segment during 2024. It also underlines the confidence and positive outlook we have for 2025. I'll come back to that in a moment. Let me first turn to some brief updates on the business.

Our vent business has been a strong performer all year, and it didn't disappoint in Q4. Vent revenue was up 4.4% sequentially on a larger base, while the number of vent patients increased by over 400 for three quarters in a row in 2024. We had 1,500 net vent adds in 2024, which is close to an all-time high and nearly 50% more than we added in 2023. We're seeing greater penetration of that massively underserved market as a direct result of the operational overhaul we completed earlier in the year.

The sales restructuring and recruiting strategies and processes we put in place have seen a 14% increase in average monthly setups per sales rep in Q4. We monitor this metric very closely internally, and the upward trend since implementation has given us the confidence to double down on staying the course by aggressively increasing the sales force in 2025.

In our sleep business, we saw a nearly 10% sequential increase in sleep therapy patients, leading to a 43% increase in 2024 compared to 2023. We're seeing that sequential growth in CPAP units, resupply orders and home sleep tests, as well. As strong as our organic growth engine is, we are looking at additional opportunities that will expand our products, services and our reach to diversified patient types. We've built up a number of contracts over the years and believe that we can leverage that payer infrastructure with some diversification. The trust we've earned in the home of existing patients is also something we can leverage throughout the country.

We've hit on all cylinders this year and delivered on our strategic goals. I'm proud of the team with the record revenue performance and growth in operational metrics. We're not satisfied, though. There are more patients we can serve and more hospitals and health systems that need us.

For 2025, we are leaning into what worked well through 2024 with a laser focus on organic growth and a complementary focus on potential inorganic growth. We are actively ramping up the sales force at a more aggressive pace and expecting continued growth in vents, sleep and in staffing as we capitalize on its unique positioning in behavioral health.

For more on our operational and financial results for the quarter, I'll turn it over to Todd Zehnder, our Chief Operating Officer. Todd?

Todd Zehnder
All right. Thank you, Casey. In reviewing the financial results, all figures are in U.S. dollars, and the full results have been made on the SEC website. We have continued to incrementally evolve our disclosures to the investment community, and I'd like to point out the earnings supplemental deck we provided together with our earnings release. There are some new disclosures and schedules in this document as well as others we've added from our filings that are now putting in one place for ease of use. You can find this report on our IR site, and we encourage any ongoing feedback that you might have.

Let's talk about revenue first. We are recognized for the organic revenue engine that we've built at VieMed, and it led the way once again in Q4. We set a couple of records for revenue this quarter and full year 2024, with a 20% increase year-over-year for the quarter and a 23% increase for the year. These results were at the high end of our expectations.

During 2024, acquired revenue accounted for only $1.1 million in Q4 and $3.2 million for the year. On a sequential basis, our revenue grew 4.6%. As Casey just noted, we had a very strong year with our core vent business. It accounted for 55% of revenue for this quarter and 56% for the year.

The sleep business increased to 17% of revenues for Q4 and 16% for the year. It's worth noting here that sleep historically experiences a disproportionate amount of seasonality in Q4, which has an impact of revenues but also margin. Our oxygen and staffing businesses continue to grow, as well, each contributing roughly 10% of both this quarter's revenue and for the full year. We are also making incremental improvements with the East Alabama Medical JV.

Gross margin was 59.5% for the quarter and 59.4% for the year, aligning closely with our target of approximately 60% based on our evolving product and service mix. We believe this remains a strong benchmark, particularly as the rapid growth of our sleep and staffing businesses introduces variations in gross, net and adjusted EBITDA margins. Given these dynamics, year-over-year comparisons may not fully capture the underlying strength and profitability of our business.

The one business I'd like to discuss further is staffing. Casey covered the strategic nature, but staffing's financial contribution is just as important. The nature of this business and its core customers drives more variability from quarter-to-quarter on the top line. It also has less gross margin contribution but a substantial positive impact to adjusted EBITDA, and most importantly, free cash flow. We're thrilled to report that adjusted EBITDA grew 11% for the quarter to $14.2 million and 19% for the full year to $51.1 million, driven by strong organic growth and contributions from each of our businesses.

As expected, adjusted EBITDA for the quarter was 23.5% while the full year margin came in at 22.8%. Both percentages declined year-over-year and sequentially, primarily due to shifts in our product and service mix, reflecting the evolving composition of our growth.

We're proud of what we've accomplished with our SG&A as investments in new sales talent, technology in the home, together with operational and process improvements have generated efficiencies as we scale the business. SG&A was flat sequentially in Q4 at 46% of revenue and down from 47% a year ago. For the year, SG&A was 47%, nearly a 60 basis improvement -- 60 basis point improvement from 2023.

Turning to CapEx, I want to make sure I properly frame to you what's driving our gross CapEx. As we've talked about for some time, we are accelerating our vent exchange with the Philips program, but we are also seeing tremendous growth in our vent patients. Casey noted that we had close to 1,500 net adds in vents this year. This growth and the timing of the acceleration to complete the purchase for the return program late in the year resulted in gross CapEx of $13.6 million for Q4. Offsetting these purchases was approximately $2.9 million of related sales and exchange proceeds, putting our net cash CapEx for Q4 at approximately $8.9 million.

For the year, our gross CapEx was $37.8 million with net CapEx of $27.5 million. We'll continue to sell back a significant number of events during 2025, but it's difficult to project the total amount as that's determined by the remediation process established by Philips and the related governmental agencies.

2025 outlook I'll cover in a moment, provide some rough estimation of how we see these purchases playing out in the coming year. We 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 adjusted EBITDA was at 63% in Q4 compared with 36% in Q3 and 58% a year ago.

Free cash flow was $11.6 million in 2024 or 5.2% of revenue compared with $21.7 million or 11.9% of revenue in 2023, which is an achievement considering how much we grew the company this year while paying down debt and funding the vent exchanges. In Q4, we recorded a gain of $1.1 million that was primarily driven by the Trilogy return program. These gains are expected to continue until the project is completed, likely sometime around the middle of this year.

We have a pristine balance sheet with $55 million available on our credit facilities, a $30 million accordion if needed, $17.5 million of cash on hand at year-end and a working capital balance of $15.6 million. We occupy a rare space in the broader health care services market with no net debt and an organic revenue engine that is essentially self-funding. We have a significant amount of dry powder to continue our vent fleet upgrade and potentially become more proactive on M&A that can complement this growth.

I'd like to close by highlighting an important new disclosure for this quarter, the introduction of our outlook for full year 2025. We are projecting net revenue to be in the range of $254 million to $265 million for the full year, which would imply 16% growth over 2024 at the midpoint. Adjusted EBITDA is projected to be in a range of $54 million to $58 million, which would imply 10% growth over 2024.

As this is our first time providing a full year outlook, we approach this process in a very disciplined fashion and certainly don't take this decision lightly. There are some high-level directional comments I'd like to make that should get ahead of the inevitable questions around our ranges. For future reference, these can be found in our quarterly supplement, as well.

First, I would note that year-over-year growth in each quarter is expected to be roughly consistent with the increases we experienced in 2024. Recall that, typically, we have Q1 that is flat to down sequentially when compared with Q4 due to lower utilizations as we get patients off of hold and through the insurance change season. We would also typically see sequential revenue growth in Q2 through Q4. In our ranges, we built in an assumption of 3% to 6% revenue growth for these quarters. The adjusted EBITDA ranges for the year assume an adjusted EBITDA margin in the range of 21% to 23%.

CapEx in the first half of 2025 is expected to be similar to what we experienced in the second half of 2024 as we continue to swap out our ventilator fleet. Second half of 2025 would then be more muted. All of these assumptions are based on status quo of the business with no potential M&A activity assumed.

We spoke last quarter about wanting to maintain the momentum we've built all year in each business and finish the year strong. In a year where we've grown revenues as much as we have, we were able to fund our organic growth, expand margins and generate strong free cash flow while improving the balance sheet. We also reported positive net income for the eighth year in a row, quite a finish to the year.

With this and the outlook for 2025, I hope you see the confidence and enthusiasm we have around the state of our business.

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

Operator
Thank you. And at this time, we'll conduct our Q&A session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, two to remove yourself from the question queue. Once again, to ask a question, press star, one on your telephone keypad. We'll pause for a moment while we poll for questions.

And our first question comes from Brooks O'Neil with Lake Street Capital Markets. Please state your question.

Brooks O'Neil
Thank you. Good morning, guys. Congratulation on the strong finish to the year. I have a few questions, I guess. Casey mentioned that it was too early to speculate on what changes might be coming from the new Trump administration, but I'm curious if you anticipate any impact at all on your business from the kind of tariffs that are being suggested. I know it's a bit of a moving target, but do you see any impact right now?

Todd Zehnder
This is Todd. We haven't seen anything to date yet, Brooks. I mean, it's hard for us to say what parts of certain manufacturers could have some sort of tariff. Most of the products we have I think are coming domestically. But if there are parts that they get taxed on and if they want to try to pass on things, that could come, but we have not heard anything from any of our major suppliers yet.

Casey Hoyt
And I'll just add that, anecdotally, you're seeing the -- or you're feeling the pressure at the hospital level. They're kind of worried about what's going to happen to some of these Medicaid programs and their payers of sorts. And so they're actively tightening screws down. That usually plays in our hand, Brooks. They need to efficiently discharge these folks and lean on us for all the help that they can possibly get. So we're feeling that right now, and we're seeing them kind of reach out to us and our folks and having more thoughtful and collaborative conversations. Those have already begun as a result of what could happen, even though they don't even know what the cuts are going to be, if there are any at all.

Brooks O'Neil
Yeah, it's an interesting environment, for sure. And I'm guessing you're not hearing any even tom-toms about competitive bidding out there right now?

Casey Hoyt

No, haven't heard a whisper about competitive bidding at all. So we're still in the same status quo. It's hard to see that it's going to be a -- I guess it would be almost impossible for it to be a 2026 event at this point in time. So 2027 and beyond, from the time that we hear the first whispers, I guess, is the ballpark range that I would throw at you right now.

Todd Zehnder
And just as a reminder, remember the last time that it went through, Medicare pulled the program because there were no cost savings, and that was pre the inflationary period that we've been through the last I guess five years.

Brooks O'Neil
Cool. Let me ask one more, and then I'll turn it over. Obviously, there's some uncertainty of whether we're in a good M&A environment or a bad M&A environment. Nobody seems to know. I kind of thought it would get better as a result of the administration change, but I've seen some indications the current -- people may think somewhat similar to the last people.

So would you say when you look out there -- I know M&A's, only a small component of your growth plans, and organic growth has been the driver. But would you say, to you guys, it looks like a target-rich environment, a fertile environment for potential M&A, or would you say you're feeling it remains somewhat constrained as it was during the Biden years?

Casey Hoyt
I would say it's more target-rich and fertile than definitely the Biden years. We're having a lot more interest activity. The pipeline is building. There's many more conversations, and we have many more options on the table for us to consider. That's a positive thing for VieMed. You know how picky we are in bringing folks into the fold of this culture and our business, and we've got more interest from the right types of targets than we have in the past. And so I'm optimistic that that could possibly be of the change in the guard, but nevertheless, something's different than how quiet it was for the past two years, if you will.

Brooks O'Neil
Okay. Great. Let me just say quickly, we really appreciate the annual guidance. That's going to help us a lot, and we look forward to another great year.

Casey Hoyt
Yeah.

Brooks O'Neil
Thank you.

Casey Hoyt
Thank you, Brooks.

Operator
Thank you. Another reminder to the audience, to ask a question now, press star, one on your phone.

And we have another question we have coming from Andrew Rem with Odinson Partners. Please state your question.

Andrew Rem
Hey, guys. I just had one question on -- you guys mentioned the JV. Can you just comment on that, how it's gone over the past year and any updated thoughts?

Casey Hoyt
Yeah, the JV is going well. We've had a successful integration and great partnership with East Alabama Medical Center. It was a small test pilot. It has taken -- here's the things that we're looking at, to be perfectly candid. It's taken a lot of time for this type of integration, such a small transaction. So that's led us down the path of, if we're going to do another one, it needs to be a substantial size that it's kind of worth the time and effort it takes. We're kind of weighing the way that we can get business from the complex respiratory organic offering, if you will, of us just going out and building our relationships on our own versus the opportunity that we create inside of being a part of their call. And so that's what's going down.

When you get into looking at larger joint venture targets then East Alabama Medical Center, there -- the inventory is not as vast, but there are a handful out there that we're having conversations with, and we'll just see whether or not it comes to fruition or not.

Todd Zehnder
Yeah, and I guess I would add, Andrew, that it is profitable. It's been profitable out of the gate, and you can actually see that on our P&L. So it's been a good accretive deal for us from a financial perspective. And it was a great one to have as our first one. And then I echo what Casey says - if we're going to do another one, we'd rather make the juice worth the squeeze.

Andrew Rem
Okay. And then on your commentary relating to behavioral health, so it sounds like you're doing some staffing business, but were you also suggesting you're looking at doing behavioral health services through -- would it be like the sleep business or the vent business or both?

Casey Hoyt
Yeah, so let me back up. I'll start with our entry into behavioral health. I guess it was around 2021 when we -- or maybe before that when we cranked up VieMed Clinical Services. We were putting like clinical social workers on top of our respiratory therapists, and that was by design to handle things that went beyond respiratory. In late 2021, we started a staffing division. That staffing division was primarily providing clinical labor for the clinical -- the nursing shortage around the country for our hospital partners.

And so as we're starting to see some of those needs stabilize and normalize after post-COVID, our staffing division started getting a little bit more scrappy, if you will, and they were serving the needs of all sorts of clinical labor throughout the country. And what they uncovered is that there were lots of needs and RFPs throughout the country with different states that are requesting behavioral health types of services.

And so with our knowledge of VCS, our knowledge of staffing and our ability to go out and pursue those types of RFPs, we've gotten really good at it. And it's something we're acknowledging right now, because as staffing becomes a more material part of our business, it's important for everyone to understand that, shoot, close to 80% of it is being driven by behavioral health needs around the country.

And so we'll be nimble in that space, and we'll look for many more opportunities. It's certainly a complement to our organic offering, as well, with -- from a behavioral health standpoint, but it's also somewhat of these one-off wins here and there throughout the country with -- through our staffing division.

Andrew Rem
Okay. And then if I can ask one more, just related to kind of cash flow - a year ago, you guys had talked about the opportunity, cash flow to kind of accelerate, and then you're kind of hit by the Change Health situation. I think that took maybe longer than expected to kind of work through that. And then I think it also seems like your CapEx got accelerated. But maybe just go back and revisit that comment. Are you still thinking that, maybe the CapEx situation aside, that this -- the business is now to the point where you should experience cash flow acceleration?

Todd Zehnder
Yeah, I'll take that one. The answer is yes, but I caveat that in the case where we doubled our vent growth this year. So obviously, the faster we grow, the more we need CapEx. And we would always rather spend money on growing our organic patient base than anything. So in the event that growth stays somewhat similar year-over-year, the cash flow should expand. This year, while change maybe has a minor impact on us, if you look at '23 versus '24, in '24, I think we paid $3 million or $4 million more in cash taxes and we had about $3 million that was related to the Philips receivable that we got during 2025 that's going to impact that number.

So if you just kind of look at apples-to-apples, we probably are hit by about a $6 million change in true cash, and the growth rate just expanded. So all things being equal, we continue to think that our free cash flow is going to increase, especially as staffing grows, especially as the resupply business grows. While those -- we kind of beat it up during our prepared remarks -- while those carry a lower gross and EBITDA margin, they drop cash to the bottom line. And so that is all things pointing to additional free cash flow for us in the future. We still stand behind that.

Andrew Rem
And then on length of stay for the vent patients, is that roughly 18? Is that where you guys are, at 18 months?

Todd Zehnder
It's still -- 17 months is kind of where we've been hanging in the last several years, and it has not deviated much from that.

Andrew Rem
Have you guys talked about what it is in sleep?

Todd Zehnder
We haven't necessarily, but the PAP generally caps out at a year. So our length of stay for an actual PAP patient is call it a year. The resupply is -- we haven't really talked about nor have we calculated that number. As it continues to grow, we will probably provide some disclosure on that. But it's a younger patient, so if they're staying compliant, there's no reason they shouldn't stay on for a number of years.

Trae Fitzgerald

Yeah, and to add a little color on -- this is Trae, Andrew. To add a little color on that. We're also in our infancy of the resupply program, so our length of stay right now as it relates to how we calculate it every single year is probably trickling up.

Andrew Rem
Okay. And on the PA, the reason that's a year, is that just how the reimbursement works on a 13-month schedule. Is that right?

Todd Zehnder
That's right. That's right. And so like if you think about our -- the vent is an uncapped rental. It's a life-saving device. It's a bundled rate. It's very different than the rest of them. Oxygen typically has a 36-month cap. Sleep generally has somewhere around a 12, 13-month cap.

Andrew Rem
Yeah, okay. All right. Well, thanks. You guys are doing an awesome job.

Casey Hoyt
Thank you.

Andrew Rew
I can't quite figure out why you have this massive disparity in valuation, but hopefully, the market will come around in time because you've done a fantastic job executing. Great -- 20% I think is the revenue CAGR, and I think EBITDA is just slightly below that. So again, congrats on -- and the whole team for doing a great job executing over several years here. Thanks.

Todd Zehnder
We appreciate that, and stay tuned for our new investor deck. We're going to try to start putting some valuation metrics in there to show what we think, as well. So we appreciate your feedback.

Operator
Thank you. And there are no further questions at this time. I'll hand the floor back to Casey Hoyt for closing remarks. Thank you.

Casey Hoyt
Okay. Thanks, everyone. That's going to conclude our conference call. I appreciate everyone joining us today. If you've got anything else, please feel free to reach out to us at any time. Have a good day.

Todd Zehnder
Have a good day.

Operator
This concludes today's call. All participants may disconnect. Thank you.