VieMed Healthcare
First Quarter 2025 Earnings Call
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<u>Presenters</u>
Casey Hoyt, CEO
Trae Fitzgerald, CFO
Todd Zehnder, COO

<u>Q&A Participants</u>
Brooks O'Neil – Lake Street Capital Markets
Ryan Langston – TD Cowen
Andrew Rem – Odinson Partners

Operator
Good day, ladies and gentlemen, and welcome to the VieMed Healthcare First Quarter 2025 Earnings Call. All lines have been placed on a listen-only mode and the floor will be open for questions and comments following the presentation. If you should require assistance throughout the conference, please press star, zero, to reach a live operator.

At this time, it is my pleasure to turn the floor over to your host, Trae Fitzgerald, CFO. Welcome, Trae, the floor is yours.

Trae Fitzgerald
Thank you, and good morning, everyone. We appreciate you joining us today. Please note that our remarks in this conference call may include forward-looking statements under the US 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 produce 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 first quarter financial supplement and financial news release, as well as the related financial statements, are available on the SEC's website.

I'll now turn it over to VieMed's CEO, Casey Hoyt, to get things started.

Casey Hoyt
OK. Thank you, Trae, and good morning, everyone. We appreciate you joining us today. I want to first give a huge thanks to our over 1,200 employees in the VieMed family and acknowledge how well they take care of our patients, providers and partners. We overcame the cyclical challenges the first quarter presents and continue to grow VieMed's place in the home with every single interaction. It does not go unnoticed. Thank you, team, for all that you do.

The typical goal of any first quarter earnings call is to declare that you had a solid start to the year and business objectives are on track relative to the overall business plan. This morning, I have the distinct pleasure of saying that we are ahead of where we anticipated in Q1 and have tightened our outlook upward for the year. The confidence in this outlook is based on the across-the-board strength and operations across our businesses that we expect to translate into even better financial results over the balance of the year.

I want to spend a few moments on the details of our strong business performance, and then I'll turn to the opportunities we're seeing and our views of the regulatory environment. Our vent business accounts for 54% of our revenues and was a strong performer once again this quarter. As expected, vent revenue was only down 3% sequentially and up 10% year-over-year. More telling is the fact that our total vent patients were up for the 16th straight quarter, and our new patient starts were up an impressive 9% sequentially. That's a direct result of the sales restructuring we implemented last year and bodes well for our future results in this business.

This is quite an achievement in light of how this product has shifted from 90% to 54% of our revenue over time. These vent patients represent a massively underserved population and one of the populations I refer to as a blue ocean of opportunity. We like to think that we're really good at sales, and we are, but the truth is that we're benefiting from our sales restructuring, recruiting and sales process that we launched in 2024. We're ahead of schedule on the hiring that we plan for 2025, and we're finding people in new territories we have targeted.

In our sleep business, we saw a 7% sequential increase in sleep therapy patients and a 46% increase year-over-year. We're excited about this continued trend going forward, as we also saw a 40% increase year-over-year in new patient setups. While resupply patients were down sequentially due to the first quarter seasonality, they're up 21% year-over-year, and the new patient starts are an indicator for strong resupply growth later this year.

The staffing business continued to grow both sequentially and year-over-year, reaching 10% of our net revenues for the quarter, reflecting strong demand in behavioral health and social service specialists. As strong as our combined businesses have been, it's worth addressing some of the recent regulatory announcements. While most of the health care industry is still trying to assess potential cuts to Medicaid and Medicare, we continue to believe that these pressures play to our strengths and drive demand for the unique services our respiratory therapists can provide in the home.

Unlike most HME providers who are selling virtually catalog medical equipment, our salespeople and RTs are in the halls of the hospitals, helping manage length-of-stay for these systems through helping them create efficiencies, improve outcomes and increase patient satisfaction. We have become a vital link between patients, providers and payers in this setting because we are working directly with them to deliver comprehensive patient-centered care. Business models only built on dropping off equipment don't address the real needs of the patients and providers. Our model addresses their pain points, and in the evolving regulatory environment, we are better positioned to flourish.

As we all saw in mid-March, CMS proposed their national policy coverage determination, or NCD, on noninvasive positive pressure ventilation. The industry had asked for this NCD to clarify the rules. There are some things that we like in the NCD, some we don't and some that definitely need further clarification. Public comments were due by April 10th, and our Chief Medical Officer, Dr. Frazier, submitted on behalf of VieMed.

In our opinion, overall, this is going in the right direction. Also, this is a great time for CMS to look at the actual data, see the savings and write a more fulsome reconsideration in the near future. We are hopeful that the end result is a set of formulary rules that gives the right patients access to NIV [ph] and ultimately saves the system money. We are actively monitoring the process, and what we can say is that this process has finally alerted CMS to the data and published research we built up.

CMS is connecting with it for the first time and demonstrating a willingness to consider the evidence. We've already seen this data influence outcomes at the state level. For example, in mid-April, Arkansas Governor Sanders signed a bill prohibiting step therapy, a practice that requires patients to fail on a less effective device before accessing ventilation, for both Medicaid and commercial plans. The bill mandates that all MCOs reimburse NIV at 100% of the state Medicaid rate.

Arkansas now joins Louisiana and Oklahoma in enacting similar legislation and other states are actively considering the comparable measures. I've said this before and it bears repeating today, when there's pressure to create efficiencies in health care, that plays into VieMed's capabilities. When there's transparency, overhauls and more rules to reduce waste, that is also very good for us. And when more care is being delivered in the home, that continues to position us for success.

I noted last quarter that we were looking for additional opportunities that will expand our products, services and our reach to diversify patient types, as well as leverage a number of contracts we've built up over the years with our payer infrastructure and some diversification. I also noted that we thought we could leverage the trust we've earned in the home throughout the country. The agreement we signed earlier this week to acquire Lehan's Medical Equipment for a base purchase price of $26 million, checks all these boxes and then some.

We put a separate release out on this acquisition, so I won't tread too much of that ground again this morning, but I do want to highlight the strategic nature of this transaction. Lehan is a nearly 80-year-old family-owned business, which has built up a tremendous reputation in a community in Northern Illinois and the West Chicagoland area, with significant brand equity. They have specialties in respiratory care and women's health and sell other equipment that aligns nicely with us. They also have great relationships and contracts with payers in Illinois.

The opportunity, as we see it, is to extend their business in women's health across our payer relationships and markets across the country. We also have the opportunity to grow their sleep and resupply business, as well as introduce our complex respiratory care into their market. Historically, we've had a tough time breaking into the Chicago market. We believe this strong beachhead and this exceptional platform opens up a key market with significant embedded growth.

We visited Lehan's offices earlier this week to welcome the more than 90 employees to the VieMed family, and we're excited to see the response and eagerness to grow together. We look forward to sharing more of our plans for this acquisition after it closes, which we anticipate in Q3 of this year. We're ahead of pace on 2025 so far, but we have more we want to accomplish. There are more patients we could serve and more hospitals and health systems that need us.

For more on our operational and financial results for the quarter, I'll now 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 US dollars and the full results have been made available on the SEC's website. In my comments today, I'll reference disclosures that we have made available in our quarterly financial supplement. This supplement can be found on our IR website.

Let's talk about revenue first. Our organic growth engine led the way in Q1, with organic revenue increasing 14.5% and total revenue increasing 16.9%. This was a strong performance for Q1, which is always our toughest due to lower utilization as we get patients off of hold and through open enrollment season. We also see a sequential impact from patients not hitting their deductibles early in the year. All that said, we are right in line with our expectations.

Our core vent business accounted for 54% of the revenue this quarter. The sleep business increased to 16% of revenues. The staffing business increased to 10% of revenues, and our oxygen business accounted for 10%. Gross margin was 56.3% for the quarter compared with 58.9% for the first quarter of 2024 and 59.5% in the fourth quarter of 2024. While our margins remain quite strong and steady in our core vent business, its percentage of overall revenues has declined year-over-year by 330 basis points on a much larger base.

The rapid growth of our sleep and staffing businesses, both of which are either CapEx-light or non-CapEx, is the primary factor in the gross margin evolution of the company. The service and revenue mix slide we provided in the supplemental for Q1 '25 and Q1 '24 highlights how our businesses have grown and evolved. The year-over-year comparisons for us on the gross margin line are becoming less relevant as we focus more on these CapEx-light businesses that allow us to leverage SG&A and drive net income, adjusted EBITDA and cash flow growth.

To that end, adjusted EBITDA grew 26% for the quarter to $12.8 million, driven by strong organic growth and contributions from each of our businesses. Adjusted EBITDA margin for the quarter was 21.6%, up 160 basis points compared with a year ago. This margin is in line with full year projections and with the evolving composition of our product and service mix. We continue to leverage our investments in new sales talent and technology with SG&A at 48% of revenue in the quarter, a 90-basis point improvement year-over-year. We are projecting a similar improvement for the full year, plus or minus a few basis points.

Turning to CapEx. I want to reinforce what's going on with our gross CapEx. We've provided some incremental disclosure in our supplemental for net CapEx over the past eight quarters. As we've talked about for some time, we accelerated our vent exchange program with the Philips program. We saw this as a once-in-a-lifetime opportunity to upgrade our vent fleet and significantly extend the life of the fleet as well. That is why we believe not only is our net CapEx number the right one to focus on until we complete these buybacks, but we should also take into account the 1,500 net vent patient adds we experienced during 2024 and the projected growth we're expecting in 2025.

By taking advantage of this program, we are preparing for both near- and long-term growth. This program has been wildly successful for us. From inception of the program in the second quarter of 2024 through the end of the current quarter, we've refreshed the life on close to half of our fleet at a net cost of approximately $1 million. Our net CapEx in the quarter was $8.5 million or 14.4% of net revenue, compared with $8.9 million or 14.7% of net revenue in Q4. This compares with $5.4 million or 10.6% of net revenue in Q1 of 2024.

The trade-in program will likely end during the second quarter. Therefore, we expect our CapEx will normalize at that point. In Q1, we recorded a gain of $2.4 million that was primarily driven by the Trilogy return program. Recall that these gains are expected to continue until the project is completed by the end of Q2.

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. Recall for 2023, our percentage of net CapEx to adjusted EBITDA was 54.6%. That dropped to 53.7% in 2024. We're expecting a similar decline for full year 2025. The first two quarters of this year are expected to be higher than that percentage due to the Trilogy return program and seasonality.

While we're on this topic, I should address the potential impact of tariffs. For 2025, our supplier contracts are already largely locked in. We're in constant contact with our suppliers should the tariff environment change, but for now, we're not expecting a material impact from the announced tariffs in the current year. Our balance sheet remains a real asset for us and has created the optionality for us to continue to organically grow, to pursue the vent exchange program, as well as announce the Lehan acquisition that Casey mentioned earlier.

We have $55 million available on our credit facilities, a $30 million accordion if needed, $10.2 million of cash on hand at quarter-end and a working capital balance of $13.6 million. We take great pride in the fact that we are one of the few companies in health care services that has no net debt. With the continued growth of our CapEx-light businesses and the vent exchange program drawing to a close by the end of Q2, the resulting free cash flow from these two factors gives us the confidence that we can not only partially fund the Lehan acquisition with cash on hand, but that we should be able to quickly pay down any borrowings associated with that anticipated acquisition as well.

Based on our results from the first quarter, we've tightened our outlook for the full year 2025. We've raised the bottom end of net revenue from the range of $254 million to $256 million and kept the top end of the range at $265 million, implying 16% growth over 2024 at the midpoint. We also raised the bottom end of the adjusted EBITDA range from $54 million to $55 million, with the top end at $58 million. This new range would imply 11% growth over 2024 at the midpoint.

In our quarterly supplemental, we've provided some additional commentary and assumptions on our guidance. I'll cover these briefly. First, we still expect year-over-year growth in each quarter to be roughly consistent with the increases we experienced in 2024. We expect sequential revenue growth in Q2 through Q4 to be in a range of 5% to 9%. The adjusted EBITDA ranges for the year assume an adjusted EBITDA margin in the range of 21% to 23%, which remains unchanged from our expectations from last quarter.

CapEx in the first half of 2025 is expected to be similar to what we experienced in the second half of 2024, while we continue to exchange out our ventilator fleet. We expect to complete these ventilator buybacks in June, which would mean that we should be receiving our final payments in early third quarter. All of these assumptions are based on status quo of the business. They do not include expected contribution from $26 million in revenue or the $7.4 million in annual EBITDA that Lehan's Medical Equipment generated during 2024. Once that acquisition closes, likely in the third quarter, we intend to update our forecast to include that expected contribution.

As we look ahead to the balance of the year, we are well-positioned to continue the growth in each of our businesses. Our balance sheet has proven to be a strategic asset in preparing us for both near-term and long-term growth. And the combination of organic growth and an expected layer of inorganic growth coming, position us for another successful year.

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

Operator
Thank you. Ladies and gentlemen, the floor is now open for questions. If you do have a question, please press star, one, on your telephone keypad at this time. Again, that's star, one, if you do have a question or comment.

And we'll take our first question from Brooks O'Neil from Lake Street Capital. Please go ahead, Brooks.

Brooks O'Neil
Thank you very much. Good morning, guys. Congratulations on the strong start to the year.

Casey Hoyt
Thanks, Brooks.

Casey Hoyt
I guess I'd start asking a bit about the strong hiring in the sales reorganization. It sounds like that's going really well. And I had some recollection that there were some staffing challenges in the past, but it sounds like maybe the environment's more conducive to your ability to grow the business and grow the company by internal hiring. Can you just comment on that a little bit?

Casey Hoyt
Yeah. I mean, the staffing challenges we experienced in the past were intentional last year, Brooks. While we were going through the restructuring, we kind of put a pause on aggressive recruiting while we dialed in all of our new sales managers that were in place, got them trained and out in the field, up and running in their new territories, got all the territories restructured. That's all past us now, so we're back to aggressively hiring and recruiting and finding sales reps.

And so I wouldn't call it a challenge. We always had the ability to find these people. It's just making sure that once we got them, they were properly prepared to enter the field and set up for success. That's happening, lots of positive trends organically around the country, with those new folks getting up to speed at faster rates. Our managers are developing as good leaders and mentors, and we couldn't be more pleased with what we accomplished last year and we're going to reap the benefits here in 2025, of really doubling down on that growth.

Brooks O'Neil
Great. That's fantastic. Are you seeing anything different from a competitive perspective in the marketplace right now?

Casey Hoyt
No, not necessarily. It's not like we wake up every day trying to go beat out our competitors. I mean, sometimes that naturally happens whenever we enter into new markets just because our complex respiratory offering is so unique compared to the field. But what we're competing against or what we're losing sleep over is just the underserved population. It continues to grow, and it continues to swell, despite us having all this research and growth and so on and so forth. So it's good problems from that perspective, but it's less about beating out the competitor, it's just more about getting to the people who need us right now, and that's us and all of our competitors combined with that challenge right now.

Brooks O'Neil
Great. That sounds good. So let's just talk a little bit, I know the acquisition is still pending, but when you mentioned the huge opportunity you have in the core respiratory business, talk a little bit about expanding into women's health, in particular, and how that business dovetails with your current business or not, how you're thinking about that in terms of realistically a different patient population, or at least a somewhat different patient population, perhaps different payer group, different doctor referral sources. How are you thinking about that? And how do you see it fitting in with your existing operations?

Casey Hoyt
Yeah. It's a pretty simple business, Brooks. You can compare it to the resupply business. I mean, you're talking about a maternal breast pump that is accompanied with a resupply segment of products of its own. And so it becomes more about -- and it's a private insurance game versus a Medicare game. So you have a little bit of a diversification by payer, even though Medicare is a great payer for us. You're leveraging -- or we are going to leverage all of our contracts, private contracts around the country that Lehan can expand too. And that was the genesis of why they were so excited about the transaction on the maternal side.

And then 40% of their business is respiratory, and so we were really excited about teaching them how to do complex respiratory in a unique manner, helping them grow their sleep business in a different way, moving from the more traditional sleep lab referral source business to a home sleep referral model. That's something that we teach very well. We were able to do that with HMP, our previous transaction, and have been reaping some benefits from that. So it's a similar business in terms of size to HMP, with 90 employees, $26 million transaction.

I believe HMP was about $31 million. They had roughly about 140 employees. But we see the same playbook with their respiratory business that we did and have been accomplishing with HMP. And then the maternal seems to be a really simple, not complicated, easy to double-down through our contract type of business line. So we're very excited about the expansion opportunity there.

Brooks O'Neil
Great. Let me just ask one last one. So with the potential wind-down of the refurbishment of your equipment portfolio and the strong cash flows that are going to come, do you anticipate ramping up the pace of acquisitions, or are you going to continue to take that on a measured basis?

Todd Zehnder
I would say that we're always looking to ramp that up, but we are also very patient, Brooks. It's not like capital has slowed us down. I mean, we have a pristine balance sheet, as I said in my prepared remarks. We've got plenty of capabilities. We're net debt zero and generating upwards of high 50s in EBITDA this year. So we're not really capital constrained from the acquisition standpoint, but we're also very diligent, and that's why we're very excited about the Lehan's deal.

Brooks O'Neil
Great. Congratulations. I'm excited for the future.

Casey Hoyt
Thanks, Brooks.

Todd Zehnder
Thank you.

Operator
Thank you. Once again, star, one, if you do have a question or comment. And we'll take our next question from Ryan Langston from Cowen. Please go ahead, Ryan.

Ryan Langston
Hey, guys. Good morning. On Lehan's, I know it's a mix of respiratory and women's health. I think you said that the majority is breast pumps. Is there any other equipment or product types we should be thinking about there? And it sounds like this is sort of a longer-term family-owned business. I guess, was there anything else in particular that drew you to this particular asset?

Casey Hoyt
Yeah, I'll take it. Yes, they have six locations, full-line DME, similar to HMP. If you recall, we were able to leverage the full-line DME to help us get in with the East Alabama joint venture opportunity. That also expands our outreach for different payer contracts as well. So we're not turning our nose up to full-line DME. But yeah, I would say they've got the rehab. They have the back braces, the wound care and so on and so forth that any other DME around the country will have, so we'll leverage that along the way as well.

Ryan Langston
Got it. And then just last one, I know on the last call, you said it was a little too early to kind of pontificate on the new administration. I know you gave some comments on tariffs. But just for sort of your business and maybe DME in general, is there anything else you've gleaned over the last few months here in terms of visibility, or is it just still a little bit too early to know what this administration means?

Todd Zehnder
It's kind of early, but I mean, we're in the process that we comment on the NCD. I'm not entirely sure if this administration launched that or not, but they've been positive from the standpoint of being receptive to hearing our position along with the rest of the industry and others on the pros, the cons and so forth of the NCD. Look, we're all for the changes that are being made to make processes more efficient, make departments more efficient.

There's been a lot of speculation about Medicaid and so forth. We haven't heard anything, although we're always paying attention to that, and there could be changes. And outside of that, it's just really status quo. So I wouldn't say anything large that is impacting 2025, but some things that could be positive for our business going forward.

Ryan Langston
Got it. Thank you very much.

Todd Zehnder
Thank you.

Operator
Thank you. Once again, star, one, if you do have a question or comment. And we'll take our next question from Andrew Rem from Odinson Partners. Please go ahead, Andrew.

Andrew Rem
Hey, gentlemen. Can you share what the growth profile, or the historical growth profile has been for Lehan?

Todd Zehnder
It's been double digits, and we are expecting that to continue anywhere in the teens. They're coming off a smaller base, so there's been years where it's higher than that. I think last year was mid-double digits. We are hopeful that that continues in that local area, but what we're really excited about is what Casey said, can we go and push that growth rate higher around the country in some VieMed strong areas to increase that.

Andrew Rem
And then can you also comment -- you said or referenced kind of a Chicago beachhead. Can you talk about what the potential is to grow? I guess, if they're primarily servicing Chicago, is there more to go in the Chicago area, more in the Midwest?

Casey Hoyt
Yeah. I mean, I'll give you an example. I mean they have six locations. They have four sales reps. In a coverage area that Lehan is responsible for, we would probably have at VieMed, I don't know, maybe 10 to 12. So there's a lot of room for growth to improve sales. We'll leverage some of their referral sources, their champion physicians and get some better education into their hands and teach their folks how we walk and talk. And so yes, I think it's a big opportunity to just kind of double-down on their local market around them from a respiratory standpoint, and then it's even probably a greater opportunity for us to leverage the maternal on our network throughout the country.

Andrew Rem
And then it looks like it has an EBITDA margin profile that's higher than VieMed. Can you just comment on what it is about that business that allows the higher margins?

Trae Fitzgerald
Yeah, I'll take that, Andrew. Yeah, Lehan's, 70% of their total business when we think about not just their product mix, but sort of the revenue streams between rental and sale, they are much more transactional. 70% of their business is via sales, whether it be resupply from maternal or on the sleep side. And so really, their EBITDA margins reflect more of that less back office, using more technology on this transactional side that doesn't come with a higher margin of SG&A. And so you are correct in seeing that they have pretty good operational leverage in that business and carry a little bit higher EBITDA margins than we carry here consolidated.

Andrew Rem
Maybe last one, you guys haven't talked for a while about the VA opportunity. Can you just give an update on where that is at, how things are going there?

Casey Hoyt
The VA opportunity, I'm just going to go ahead and say it, is dead. We've had so many different folks coming and going through different administrations. It's been a broken system, a crying shame. At some point, they're going to have to come around back to us because we've had this thing at the one-yard line for multiple years, and it just hasn't come to fruition. So yeah, we've moved on from that. And if they circle

back with us, looking to take care of their veterans the right way, we'll be ready to do so. But at this point in time, we don't have a pursuit inside of the VA.

Andrew Rem
All right. Well, thanks a lot, you guys. Another great, boring quarter. Appreciate it.

Thanks, Andrew.

Operator
Once again, star, one, if you do have a question or comment. And there appear to be no further questions at this time. I'd like to turn the floor back to management for closing remarks.

Todd Zehnder
All right. We want to thank everybody for joining us today. We're always available for follow-up calls. We hope everybody has a great day.

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