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

<u>Q&A Participants</u>
Ryan Langston – TD Cowen
Ilya Zubkov – Freedom Broker

Operator
Greetings, and welcome to the VieMed Healthcare Second Quarter 2025 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. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Trae Fitzgerald. Thank you. You may begin.

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 and are subject to certain risks and uncertainties, which could cause actual results or events to vary from those indicated in forward-looking statements.

Examples of such risks and uncertainties are discussed in our disclosure documents filed with the SEC or the security regulatory authorities in certain provinces of Canada. Because of these risks and uncertainties, investors should not place undue reliance on forward-looking statements. The forward-looking statements made in this conference call are made as of today, and the company undertakes no obligations to update or revise any forward-looking statements, except as required by law. The second 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 our CEO, Casey Hoyt, to get things started.

Casey Hoyt
OK. Thank you, Trae. Good morning, everyone, and thank you for joining us today. First and foremost, I want to give a big shout out to our more than 1,200 employees and publicly welcome our newest family members from Lehan's Medical Equipment. Thank you for all that you do to care for our patients, providers, partners and each other as we continue to grow VieMed's trusted place in the home. We have an incredible team, and each of you are making a difference in the lives of our patients.

This quarter underscores a clear theme. Our disciplined execution of the long-term strategy is driving tangible, measurable results. We sustained impressive growth on our core in-home ventilation business, where we've established ourselves as a national leader and innovator. For the 17th consecutive quarter, we've increased our active ventilator patient count at a strong and steady pace. That kind of consistency and scale doesn't happen by chance. It happens because we built a best-in-class clinical and operational model that addresses the deeply underserved population, and we continue to expand our leadership in this critical area of care.

At the same time, we're seeing even faster growth in our complementary product offerings, especially sleep and resupply, which have been long strategic priorities. These offerings were developed intentionally to meet the evolving needs of our patient base. Results are clear, both sleep therapy and resupply have shown strong sequential and year-over-year growth, accelerating the diversification of our revenue mix and strengthening our margin profiles.

Building on this momentum, we are successfully advancing another layer of the strategy, expanding our addressable at-home market. The recent acquisition of Lehan's Medical Equipment marks a critical step forward in this initiative. With Lehan's, we're entering the maternal health space, further diversifying our patient base and leveraging VieMed's national infrastructure and payer relationships to reach new patient populations earlier in their health care journey. At the same time, we're using Lehan's footprint to expand our existing complex respiratory and sleep offerings in Illinois and Wisconsin, just as we've done organically in other markets.

Lehan's brings a scalable platform focused on maternal health, introducing a new population for us. This fulfillment technology aligns with our resupply model and with our payer relationships that extend nationally, we are well-positioned to grow this service beyond Illinois and Wisconsin. This represents a natural and strategic extension reaching patients earlier in their care continuum with the same operational discipline and compassion that define our respiratory services.

Ultimately, our goal is to serve patients from the beginning of life, through to the end and every stage in between. Our organization continues to become more efficient every quarter, supported by the fact that we've been able to enhance our growth while leveraging our cost structure. We are proud of our progress to date and this has clearly become a story of diversification and execution.

Now let's focus on the performance within our business in more detail in the second quarter of 2025. Vents accounted for 54% of our revenues and remained a strong performing product sector once again this quarter. Vent revenue was up 5% sequentially and up 11% year-over-year. This steady, reliable growth reinforces the strength of our core business.

Right now, we're seeing our fastest growth in the sleep business. During the quarter, sleep therapy patients were up 15% sequentially and 51% year-over-year. New patient setups were up an incredible 72% year-over-year. We're focused on aggressively maintaining this growth trend with eight new sleep areas launched since the beginning of the year.

We're seeing a similar growth trajectory with our patients in our resupply program, which was up 10% sequentially and 25% year-over-year. With the rapid growth of new patient starts and patients under therapy, we're expecting to see strong growth in resupply in the back half of this year and beyond as these patients get forward into our program. We are also pleased to see an influx of patients transferring their sleep resupply needs to our program from our competitors. This is a signal that our care continuum is working efficiently and solves a real problem for sleep patients and [inaudible].

While our staffing business was up year-over-year, for the first time, we did experience a sequential slowdown during the second quarter, resulting from a softened labor demand. This business has seen significant growth over the past two years, and we believe we will be on a more normalized pace going forward as we close on contracts that will be fulfilled throughout the back half of the year. Last quarter, we discussed some of the new regulatory announcements that have been recently introduced. Now that the final rule, or what we anticipate is close to final, is in place on the NCD, I want to provide some color around what we're thinking.

Overall, we're pleased with the NCD final rule. It's a major opportunity in terms of what we've been fighting for as a collective industry and as an individual company. The big win is that tried and failed approach on BiPAP and step therapy is over. That's a huge victory for patients because the MA plans have been leaning on the step therapy as a means to divert and defer using noninvasive ventilation on patients. Now, all the MA plans will have to follow the NCD, making this less burdensome for the patient and reducing our operational [inaudible] of swapping out equipment.

The new NCD does require us to document and report usage metrics on the patient. However, we've been preparing for this requirement for a while and are ready with our Engage Care Manager technology platform, which has been designed to help us document usage and compliance. The last point I'll make here on the NCD is that not everyone in the industry is ready for this. We believe the mom-and-pop operators who don't have the scale may struggle with this NCD. We expect this could lead to some asset opportunities down the road of possibly industry consolidation.

This is where our business model, which emphasizes improving quality of life across the full patient journey, not only benefits patients, but also positions us to operate effectively in an increasingly complex environment. We're pleased that CMS heard us on the patient struggles and connected with just how effective noninvasive ventilation is for this high-touch COPD population. The industry is still working through a handful of specifics and open questions with CMS, but their responses have been very encouraging.

AAHomecare noted it's never seen such an abrupt shift from what was originally proposed to what we ended up with as they acknowledged the patient concerns. The other recent news of the potential return of competitive bidding for DME is now being discussed by this administration. As before, we remain well-positioned to navigate any future iteration of the program. Our view is that the more sophisticated providers tend to succeed in a competitive bidding environment.

Although CMS has not indicated when the program might resume, typical 12 to 18-month implementation period following rule finalization suggests that the earliest it could take effect is 2027, with the possibility of delays taking it into 2028 or 2029. The good news is, thanks to the recent NCD resolution, our industry has never been more aligned and well-positioned to educate regulators and present solutions nationwide. Overall, we're proud to be so well-positioned in the current environment. This quarter's results reaffirm the resilience of our model and the discipline of our execution.

We said we would lead in complex respiratory care, and we've delivered 17 quarters of consecutive growth in our core ventilation business. We said we'd scale complementary services and sleep and resupply are now our fastest-growing segments. We said that staffing would enhance our ability to meet clinical demand across the organization while adding a new layer of diversification. And today, it accounts for approximately 10% of our total revenue, with 75% of the offering supported by behavioral and social service needs.

We said we'd expand through disciplined M&A. Our successful integration of HMP and HomeMed prove that we have the team to do so. And now, our transaction of Lehan Medical stands to prove we are headed towards another frontier of delivering on diversification to a new batch of patients in maternal health. This isn't just progress. It's execution at the highest level. It's proof that our long-term diversification was deliberate, and our vision is coming to fruition. We are more confident than ever in our ability to keep delivering further value for our stakeholders.

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 website. In my comments today, I'll reference disclosures we have made available in our quarterly financial supplement. This supplement can be found on our IR website. Our year-over-year revenue increased 14.7% and was entirely driven by organic growth this quarter, keeping us within the range we had anticipated for organic growth during the year.

The core vent business accounted for 54% of the revenue. The sleep business increased to 19% of revenues. The staffing business was 8% and oxygen was 10% of revenue. Gross margin was 58.3% for the quarter compared with 59.8% for the second quarter of 2024 and 56.3% in the first quarter of '25. The year-over-year decline was consistent with what we've been calling out the last several quarters, mainly that while margins remain quite strong and steady in our core vent business, its percentage of overall revenue has declined year-over-year on a much larger base. The year-over-year comparisons for us on the gross margin line are becoming less relevant as we focus more on the CapEx-light businesses such as sleep resupply and staffing that allow us to leverage SG&A and drive net income, adjusted EBITDA and cash flow growth.

That being said, we did see a sequential improvement from Q1 due to the growth in the sleep business outpacing the growth of all of our other businesses. When we layer in Lehan's in the second half of the year, we'll continue to see even more evolution of the gross margin as a less relevant measure. Adjusted EBITDA for the quarter grew 12% year-over-year to $14.3 million, driven by strong organic growth and contributions from each of our businesses.

Adjusted EBITDA margin for the quarter was 22.7%, in line with our full year projection compared with 23.3% a year ago. We continue to leverage our investments in new sales talent and technology with SG&A at 45.7% of revenue in the quarter, a 250-basis point improvement year-over-year. This improvement not only puts us ahead of our original full year projections, but also sets the stage for continued SG&A leverage as we benefit from a more favorable product mix and sustained operational efficiencies.

Turning to CapEx. Recall that last quarter, we introduced some incremental disclosure in our supplemental for net CapEx over the trailing eight quarters to highlight the impact of our vent exchange program with Philips. This was a once-in-a-lifetime opportunity to upgrade our vent fleet and significantly extend the life of the fleet as well. We believe this program has set us up to support the continued growth we're experiencing from net vent adds.

Now that we've completed the exchanges, we expect our CapEx to normalize going forward. We also expect this completion and the lower cash taxes from the final legislation packages to lead to improvement in our adjusted free cash flow sequentially through the balance of the year. We continue to fund our CapEx out of discretionary cash flow and manage the business in order to drop free cash flow onto the balance sheet.

Tariffs continue to be in the news, but like others in our industry, we have yet to see a material impact. For 2025, our supplier contracts are already locked in, and we're in constant contact with our suppliers for any indications that tariffs could impact us. I would also note that we believe the Nairobi Protocol should continue to exempt most medical equipment from any tariffs.

Our balance sheet continues to create optionality for us to grow. As of June 30th, we had $55 million available on our credit facilities and a $30 million accordion if needed, $20 million of cash on hand at quarter end and a working capital balance of $18 million with no net debt. This liquidity enabled us to put in place our third share repurchase program since going public.

In early June, the Board authorized us to repurchase up to 5% of our outstanding common stock. We wasted no time in executing on the program during the quarter. By June 30th, we had acquired and subsequently canceled approximately 270,000 shares under the program for a total cost of $1.8 million. The share repurchases are an accretive use of capital, and we have ample liquidity to fund the program and inorganic growth.

The strong balance sheet gave us the confidence to pursue the Lehan's acquisition as well. The transaction closed on July 1st, and we funded it with a combination of $9 million of cash and $18 million of borrowings on the credit facility. With the strong cash flow, we're anticipating with the Trilogy exchanges completed, we anticipate paying down this debt opportunistically in conjunction with executing on the share buyback.

Based on our results for the second quarter and the inclusion of Lehan's effective July 1st, we've raised our guidance for the full year 2025. Our net revenue range is now $271 million to $277 million, implying 22% growth over 2024 at the midpoint. We also raised the adjusted EBITDA range to $59 million to $62 million, which implies 18% growth over 2024 at the midpoint. Both increases in the ranges are primarily related to the inclusion of Lehan's for the second half of this year.

In our quarterly supplement, we provided some additional commentary and assumptions on our guidance. I'll cover these briefly. First, we still expect organic growth year-over-year in each quarter to be roughly consistent with increases we experienced in 2024. With the inclusion of Lehan's, we'll obviously see a bit more of total revenue growth than we had originally forecast. We expect organic sequential revenue growth in Q3 through Q4 to be in a range of 5% to 9%. The adjusted EBITDA ranges for the full year assume an adjusted EBITDA margin of approximately 22%.

With the completion of our ventilator exchange program in June, CapEx is expected to normalize for the remainder of the year. With two quarters of record revenue so far built on solid execution and organic growth, we're entering into the second half of 2025 with even a stronger outlook. We've actively deployed capital into a tremendous growth opportunity in Lehan's that sets us up nicely for this year and beyond. And we've used our available liquidity to repurchase over $1.8 million worth of shares in the second quarter with additional shares already bought during the third quarter.

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

Operator
Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from the line of Ryan Langston with TD Cowen. Please proceed with your question.

Ryan Langston
Thanks. Good morning. On the vent program upgrade and exchanges, can you maybe go into a little bit more detail on sort of the benefits of that move, I guess, both from a financial and a clinical perspective?

Todd Zehnder
Yeah. Sure, Ryan. I mean, the financial part is pretty clear. Philips ended up buying these back. The price that they paid us depended on the age of the vent. So we got cash back for the vent, which was generally higher than our net book value, as you can see through the gains that came through the P&L. And the true clinical value is that we got a vent that had a born-on date of this year versus vents that could be anywhere from 5 to 10 years old.

So we got a new asset that had lower repairs and maintenance, didn't have to get PM'd as much and a new, what we depreciate a 10-year life. The vents have obviously gotten more and more technologically favorable, Bluetooth connectivity, different features. So it's just been a good program. It's unfortunate that Philips had to go through it, but we took full advantage of it.

Ryan Langston
Got it. And I guess, Dr. Oz now has been kind of in his seat for a few months. I think CMS has been fairly aggressive to some places like MA, home health, the OPPS rule in particular. I guess, do you have a view or do we know maybe what he sort of thinks about DME in general? Thanks.

Casey Hoyt
Hey. I wish I knew what Dr. Oz was thinking. But I mean, the administration has just shown that they're looking to cut costs in all sectors of government. And so the competitive bidding pressure is definitely coming from, from what we understand, the White House level all the way to the top. And they were the ones that initiated the first go-round, in the first Trump

administration. So they took a page out of that playbook and kind of dusted it off, refreshed it and submitted it.

So we'll just have to wait and see, but we're going through the same process as an industry to just kind of give them the feedback that they need to roll out a successful competitive bidding program. Because competitive bidding doesn't have to be a bad thing if it is structured the right way, and so that's the level that we're at. It's just providing a lot of education, a lot of feedback to Dr. Oz and his team.

Ryan Langston
Got it. Thank you.

Todd Zehnder
Bye [ph]. Thanks, Ryan.

Operator
Thank you. Our next question comes from the line of Ilya Zubkov with Freedom Broker. Please proceed with your question.

Ilya Zubkov
Good morning. Thank you for taking my questions. So I have a couple of questions on the revenue side. I see that there's been a notable uptick in sleep therapy patient count. I'm just curious, was there are any unusual factors that contributed to this growth?

Todd Zehnder
Nothing that we can point out, Ilya. I mean, obviously, we have grown our sleep sales staff some, but we've also just opened it up over the last few years of letting our entire sales force sell sleep. And as we become more operationally sound and savvy, maybe more of those referral sources are sending more orders into us. We read everything like most of the investors do, and it does not appear that GLP-1s is doing anything negative to us. It may be coincidental, but maybe not, that our sleep business has been growing rapidly since GLP-1s have come about.

So that might play into some of the manufacturer studies that show that people are taking sleep health a little bit more seriously as they lose some weight. So it could be a combination of all of that. We're very happy with the growth and the scalability of sleep around the country. As you can see, it makes 19% of our revenues now and we're just going to keep growing it as fast as we possibly can.

Trae Fitzgerald
Yeah. And I'd add to that, Ilya, that just a reminder, when we're thinking about the sleep therapy patients, we will see a lag between our PAP therapy patients that then become three, six months later roll into our sleep program, and Casey alluded to that in his prepared remarks. And so when we talk about new PAP therapy setups being up 72% year-over-year, you're not going to see that type of growth in the resupply. It's going to be delayed a little bit longer tail for another three, six months, which is really why we're excited about the back half of the year and then looking into next year as we have a more maturing sleep program.

Ilya Zubkov

OK. Got it. Thank you. And could you also elaborate on the quarterly revenue dynamics in the staffing business? So what drove the decline in service revenue in Q2?

Casey Hoyt
Oh, well, 76% of the business is coming from behavioral health and social service needs, and we're fulfilling it throughout the country with different state agencies and so on and so forth. So we're getting appropriations to do business and then it's up to the state to kind of let us know how many folks they need. But yeah, we're pleased with that shift in the business. When we started staffing originally, it was in the middle of a clinical labor shortage to find our own respiratory therapists, to find some nursing for our referral sources, and that has shifted over the years.

And so they've been pretty scrappy. Even though they had a sequential slowdown this quarter, we're optimistic for some of the appropriations that they landed for the back half of the year. It's kind of up to the states that we want to work with to see how much they want to fulfill those needs. But we're in a good spot with it, for it to be on a more normalized level.

Ilya Zubkov
Great. Thank you. That's very helpful.

Todd Zehnder
All right. Thank you, Ilya.

Operator
Thank you. And as a reminder, if anyone has any questions, you may press star, one, on your telephone keypad to join the queue. And it looks like we have reached the end of the question and answer session. I'll turn the call back over to management for closing remarks.

Todd Zehnder
We want to thank everybody for participating. We're obviously very excited about the back half of the year. And if anybody has follow-up questions, just reach out to us. Have a great day.

Operator
Thank you. This concludes today's teleconference. You may disconnect your line at this time. Thank you for your participation.