



VieMed

First Quarter 2021 Earnings Call

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Brooks O’Neil, *Lake Street Capital Markets*

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Antonia Borovina, *Bloom Burton*

Nick Corcoran, *Acumen Capital Partners*

PRESENTATION

Operator

Greetings and welcome to the VieMed First Quarter 2021 Earnings Call.

It is now my pleasure to introduce Chief Operating Officer, Todd Zehnder. Thank you. You may begin.

Todd Zehnder

Thank you, Darryl.

Good morning, everyone. Please note that our remarks in this conference call may include forward-looking statements under the U.S. Federal Securities law, 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 our forward-looking statements. Examples of such risks and uncertainties are discussed in our disclosure documents filed with the SEC or security regulatory authorities with certain provinces of Canada. Because of these risks and uncertainties, investors should not place undue reliance on forward-looking statements. The forward-looking statements made in this conference call are made as of today and the Company undertakes no obligation to update or revise any forward-looking statements, except as required by law.

The first quarter financial news results and related financial statements are available on the SEC’s website.

Now I'll turn it over to Casey to get things started.

Casey Hoyt

Okay, thank you, Todd. Good morning, everyone, and thank you for joining our call today.

As customary, I'd like to lead my comments with acknowledgement of our VieMed family and express my deepest gratitude for their passion of our mission. Our people are the foundation of every successful metric within our business, and I remain humbled and blessed to be at the helm of this organization. The focus on safety, persistent messaging to our referral sources, and commitment to superior patient care has not waived once with our team, despite working through many challenges posed by this pandemic.

This morning, I'll focus my comments on how we've experienced an abrupt trend to new patient growth in the last month of the quarter that we believe is signaling we are nearing an end to the pandemic access challenges. We'll also talk about the various investments and product line sectors that have contributed to growth of our core business. Lastly, I'll refresh and update everyone on the stability of the regulatory landscape and we'll offer up perspective on how it will contribute to our growth strategy.

First, let me provide an update on the core business. January and February of 2021 were some of the toughest months we've experienced in VieMed in many years for our core business. We saw the pandemic peaking in January, February, similar to the peak in April and May of 2020. The impact of this kept patients in their homes, reticent to leave the house to address their healthcare needs. Most physicians were spending the majority of their practice time treating COVID patients in the hospital, and most facilities continued to severely limit access to outside companies.

Furthermore, we also literally had to weather the storm, that being the ice storms in the southern region of the country that left many of our patients without power, forcing them back into the hospital to receive care. Despite these major challenges, we still see growth in the quarter of 19% over last year's pre-pandemic and pre-ice storm first quarter.

We have expanded our coverage area to 45 states and started up 15 new territories by hiring 15 new reps through April. This execution is on pace to hire 60 new reps during the—during 2021, which is the goal at the baseline—which is the goal that this is the baseline of driving our organic growth. We also expanded our Home Sleep Delivered sleep apnea business into six new areas, which is another new growth initiative in 2021. HSD reps are a separate team of reps that specifically focus on home sleep testing, PAP therapy, oxygen, and remote patient monitoring. Their call points are typically cardiologists, internists, and family practice physicians. Most of the early success with View, our remote patient monitoring platform, has come by way of the HSD reps.

We now have approximately 400 patients in the View platform, utilizing scales, blood pressure cuffs, glucometers, and pulse oximeter devices to monitor these general physiological indicators within these patients. Physicians are actively receiving billable codes from our care team and their offices are billing for the monitoring of these patients. As a result of our RPM offering, our physician referral sources have naturally sent more sleep apnea patients our way. We are optimistic about this new trend and will continue to place more HSD reps around the country to expand both RPM and our home sleep delivery model.

We are equally pleased with the other arm of our technology platform, Engage, which is currently being deployed nationally to all new patients being placed on ventilation. Our metrics are showing an improvement in RT workflows and efficiencies, as well as improved compliance with these patients we serve. As we have mentioned in the past, the Engage catalyst acts as a hub in the home to connect our RTs to the ventilator. We can now see alarms, leaks, and indicators that allow our team to intervene with

care sooner rather than later. Engage also has a telehealth feature allowing the patient and RT to have a face-to-face interaction in a safe and efficient manner.

We also added a new feature to Engage in the first quarter called, Clinician, which allows the physician to have a portal where they can remotely tap in and have a real time look at the care delivered to their patients. The sales force is currently being trained on the features of Engage and we expect this to be another strong sales feature that will substantially differentiate us from the competition in 2021.

Our other new conversation with physicians has been about our behavioral health offering called VieMed Clinical Services. The VCS team has hired and trained licensed clinical social workers in six new areas. Many hospital systems have a strategic focus on helping prepare patients for the end of life. With these conversations being really tough for the physicians to have, our VCS team has proven that we serve as a nice complement for them to carry this conversation forward and give the patient and their family a next level of care. This is going to uniquely differentiate us from the competition. Our behavioral health workers have proven that they can help us retain more patients on vents, contribute to new core business, and help drive more hospital partnerships. We are actively recruiting to hire these social workers throughout our 45-state coverage area and feel it is yet another new offering that will help grow and differentiate our core business for years to come.

Last but not best news of the quarter is that most of the growth was captured in the month of March, our busiest month since COVID-19 for new patients. The spread of the vaccine throughout the country has driven patient security and confidence to see their physicians again. This pent-up demand from the patients needing to address their healthcare concerns has led to facilities opening up their doors to homecare clinicians with solutions that help free up hospital beds. For the first time in a year, our core business is showing signs that we will soon be growing at our normal pre-pandemic growth rates. We are encouraged by this new trend, especially since we have so many new offerings to review with physicians and patients in the years ahead.

On the acquisition front, we have been exploring multiple data rooms and learning a lot about several companies that could help springboard our patient growth. We are uncovering many synergies as it relates to product mix, care contracts, and further patient diversification. Our strategy is to look for accretive companies that come with strong human resources to help us carry our VieMed initiative forward at a faster rate. The companies we are evaluating are of medium to large sizes and are in areas that we have a geographic coverage gap. Acquisitions have not been part of our strategy in the past but with the new regulatory stability and our M&A team in place, we will make acquisitions a meaningful part of our expansion in 2021 and beyond.

The regulatory landscape has never been more stable since Mike and I founded the business back in 2006. As we have commented on in the past, noninvasive ventilation was eliminated from CMS's 2021 to 2024 competitive bidding round in May of last year. Furthermore, CMS presented data that showed many products, including oxygen and CPAPs were also not prone to realize savings and therefore moved to remove all of our products from this competitive bidding round. Recognizing the advantages of meeting more homecare suppliers, CMS also created innovative waivers supporting access to more homecare, while offering legislative relief from the 2% sequestration. These moves by CMS give us confidence in reimbursement stability through 2024 and possibly beyond. Todd and I have been highly active in creating awareness about the regulatory landscape to our investors to help better explain why we think the stage is set for exponential growth.

To help provide further detail on our capital market strategy, operational initiatives, and a further review of the financials, I'll turn the call over to our Chief Operating Officer, Todd Zehnder. 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 available on the SEC website, as well as SEDAR.

Our core business generated revenue of \$25.5 million during the first quarter of 2021, as compared to net revenues of \$22.8 million in the first quarter of 2020, which equates to a 12% increase. As previously discussed, this is a slower growth rate than our normal quarter, primarily due to the latest COVID spike in January and February, in addition to the weather issues that impacted us during the quarter.

During the first quarter we generated approximately \$2.9 million of equipment and service revenue from the ongoing COVID-19 pandemic. The COVID-related revenue has once again come primarily from contact tracing services and sales of PPE. When comparing total revenue, including COVID sales, our first quarter 2021 revenue was up 19% over last year's comparable quarter.

Our margin percentages, both gross and EBITDA, continue to fluctuate as COVID-19 related product sales during the current year skew comparability. However, we once again posted very strong margins during the quarter. Our first quarter gross and EBITDA amounts came in at \$17.7 million and \$5.5 million, respectively. Our diversification efforts have continued to pay off as our first quarter revenue from vents was approximately 81% of our core revenue as compared to 84% in the first quarter of 2020.

Our SG&A for the quarter totaled approximately \$14.5 million as compared to \$10.6 million in the first quarter of 2020. Our stock price increase of approximately 30% had an impact on our first quarter G&A due to the mark to market of outstanding stock, and we expect that our G&A will remain relatively flat this year.

We had another successful year of hiring and will continue to invest in new ways to achieve world class growth. We have previously proven that a historical investment such as technology, marketing, and payor relations, pay off when needed most. Our current investment in VieMed Clinical Services and the M&A team will have a positive impact in our coming years. We will continue to support these world class investments to stay ahead of ways to outperform the market from a growth standpoint.

We recorded an income tax benefit during the quarter as a result of the timing of recording some permanent differences. We expect to record income taxes in the future as more fully described in our financial statements.

Our balance sheet was strengthened organically during the quarter, with approximately \$31.1 million in cash at quarter end, \$13.3 million of accounts receivable, and an overall working capital balance of roughly \$26.4 million. We have once again grown our liquidity during the current quarter and continue to position ourselves to grow both organically and inorganically. Our long-term debt is approximately \$6.1 million and being serviced with operating cash flow.

By focusing our Company on returns, we have grown strategically and maintained a low leveraged profile to remain opportunistic in the ever-changing business climate. We remain perfectly positioned for rapid growth as we expect to come out of the COVID pandemic over the next few months in existing and new regions. We have developed a pipeline of opportunities when it comes to inorganic growth and have begun to build out a team to help evaluate and ultimately, integrate down the road. Our mission aligns us with many other respected healthcare companies and remain confident that we'll find something to augment our historically high organic growth rates.

Moving on to second quarter, we have provided net revenue guidance in the \$26.2 million to \$27.2 million range related to our core business and have also guided approximately \$0.5 million to \$1 million of revenue related to COVID-19. Our organic revenue is projected to grow 3% to 7% sequentially and is up 13% to 18% over the second quarter of 2020.

Our new patient signups are gaining momentum and we are confident that they will only get better with each passing month. The COVID revenue is primarily related to the contact tracing work that we have continued through April but as the pandemic has moved into another phase, those services have winded down. We're looking for ways to assist various states and healthcare systems, such as vaccine tracing but remain excited that as this pandemic revenue is slowing, our core business is getting back to our expectations.

On the investor relations front, we have once again presented at more online sell-side conferences during the last quarter, along with many non-deal roadshows. Our institutional investor interest continues to grow, as the sector remains exciting with new public peers, as well as an environment that is ripe for treating patients effectively in the home. We once again are bullish on the growth opportunities for our company and our shareholders.

At this time, I'm going to turn the call back over to Casey to wrap things up.

Casey Hoyt

Okay, thanks, Todd.

In summary, the trends of 2021 are already exhibiting this could be a year where we see patients, referral sources, hospital systems, payor sources, and lawmakers valuing more home care. All parties are connecting with the mortality benefit, cost effectiveness, and readmission efficiencies realized in the homecare setting.

Our recently published study in the *Respiratory Medicine Journal*, which can be found on our website, supports this statement. Surrogates for healthcare costs have always been ER visits and hospital admissions. Our data exhibits that for every 5.5 patients we put on therapy, we save a life. Every five, we save an ER visit, and for every 8.8 we save a hospital admission. These stats can no longer be debated and finally out there is public proof about the good that we've been doing in the home.

The pandemic helped our management team realize many financial opportunities, which contributed to our current healthy cash position. COVID also allowed us the time to really focus on finalizing our technology investments, further develop our training and recruiting protocols, deliver our behavioral health offering, amongst other initiatives. All these components we are creating are essential as payors and hospital systems look for partners who can provide awareness and actionable data insight.

I feel strongly that the time is now to capitalize aggressively on both inorganic and organic growth opportunities for this business and we would hope the investment community feels the same. Our patient-centric mission has always been the reason we uncover new opportunities, and we will continue to let the patient first focus be at the forefront.

I personally want to thank my team once more for their continued commitment to VieMed, and I'd also like to thank our fellow shareholders for their trust in us as we work hard to be good stewards of their investments.

This concludes our prepared remarks. We'll now open up for Q&A.

Operator

Our first question is coming from the line of Brooks O'Neil with Lake Street Capital Markets. Please proceed with your question.

Brooks O'Neil

Good morning, guys. Thanks for the comprehensive overview. I have a couple questions.

I'd like to start with, if you could provide any, I guess more specific or numerical color on the progression through Q1 and into the beginning of Q2 in terms of what your growth rates were. That would help us get a better feel for what you're seeing in the marketplace.

Todd Zehnder

Yes, I think the best way to think about it, Brooks, is the number of new patients we're bringing on on a monthly basis. To categorize it, we would say that the month of January and February were as low as anything we have seen since, really, April/May of last year where we were probably admitting maybe, call it 60%-65% of our pre-COVID new patients on a monthly basis. In the month of March, we were right on 90% of pre-COVID numbers.

A pretty dramatic comeback and it looks like those trends are staying pretty consistent in April. That's just a good sign that things are opening up around the country.

Brooks O'Neil

Yes, that's great. That's very helpful. I appreciate that color.

Secondly, I think Casey used the word medium to large in regard to potential acquisitions and I'm hoping you guys might frame that up for us in terms that we can get our arms around in terms of, are you thinking about a \$2 million acquisition, \$10 million, \$50 million, \$500 million? How are you thinking about it?

Casey Hoyt

Well, I'll say that we're not interested in doing about 10 acquisitions that are worth \$2 million, Brooks. While I don't...

Brooks O'Neil

Okay.

Casey Hoyt

... have an exact number to throw on medium to large, we are really focused on finding quality companies. Less of your fixer upper if you will; more quality management teams that are in place that carry our VieMed mission forward. We could introduce them to our technology platforms. We can leverage some of their payor contracts that are in place in areas that we're not.

I'd rather not just talk about what that number is because we're looking at so many different...

Brooks O'Neil

Sure, sure.

Casey Hoyt

I'd rather it be a larger acquisition than a smaller one. That's our preference.

Brooks O'Neil

Yes, I get that. That's very helpful.

Then, just a little color. Obviously, you're not announcing any transactions today but from your perspective, are you pleased with what you're seeing in the marketplace in terms of pricing for these acquisitions? Are you shocked but willing to go to where the market is? What are you seeing out there?

Todd Zehnder

We're not seeing enough to be giving a ton of color but I think that the environment is one in which, this isn't a low single digital multiple type world and we're going to be looking at things that are important to us. We're not just, like Casey said, we're not going to do a bunch of little things that we can buy at four and five times. That's not what we're focused on, so I don't think we're surprised because we've watched some of our peers be very acquisitive and we're watching what it takes to be in the game, I guess. Nothing that's necessarily surprised us yet but we're also not at the point where we have one teed up either.

Brooks O'Neil

Yes, yes. Okay, that's very helpful.

Then I'll just ask one more. Obviously, you didn't say anything about VA but it's still an area of, in my opinion, immense opportunity. Is there any progress you can comment on with the VA and maybe do you have any line of sight to when you might see some decent revenue from that source?

Todd Zehnder

Yes, the VA Pilot Study is still ongoing, Brooks, so there's no real major update from the last quarter so I didn't put it in my prepared remarks. It's moving forward. It's probably going to take us six to 12 months to really generate some real data that they can prove out and then from there you have to think about the national roll out. As far as to think about when we're going to realize that VA revenue, and that's why I'm just talking a little bit less about it. I really want to get through this pilot program and then reset with these guys on what the strategy will be for incremental revenue.

I agree with you 100% and we're not giving up by any means. This is a huge opportunity with the VA being the second to largest payor in the country and them not servicing COPDers on an IV, major, major opportunity. It's just, it's slow moving, and it's bloodying your nose out there for our Company but we're taking the necessary steps and moving forward with VA Pilot Study.

Brooks O'Neil

That's helpful. That's great, thanks very much.

Casey Hoyt

All right, Brooks. Thank you.

Operator

Thank you. Our next question is coming from the line of Anton Hie with RBC Capital Markets. Please proceed with your question.

Anton Hie

Hi guys, good morning. Thanks for taking questions.

Glad to see some improvement in the trends from month to month and that that's continuing on into April. Is there any one factor that you can address that's maybe driving those new patient starts to improve so well? Is there one way to characterize that?

Casey Hoyt

It's access. Access to our physicians and access to the hospitals. That's been the biggest driver of new patient growth. So much of what we do, Anton, is related to preventative, getting—proactive maintenance with the patient, if you will. It's educating the physician on the front end to look for these patients sooner rather than later. Don't give them to us when they're on their deathbed. Let's really drive quality of life by diagnosing immediately. Our data shows that they're three times more likely to die in the first 90 days after diagnosis, so that's another driver of why we've got to get out there and be progressive. But it's simply access now. We can have the conversation. We can start to make it top of mind for the physicians to get in there.

Then the second piece of that is really the patient and consumer confidence to get back in and take care of their health. They're now willing to go into the clinic, into the hospital to address their concerns because they're vaccinated. As we see the vaccines spread throughout the country, that's really driving the patient confidence for them to get back in there and help themselves.

Anton Hie

Okay, that's great. Thanks for that.

Well, okay, so margins came in quite a bit lower than we were expecting. Is there any reason? Obviously you had some top line headwinds. Is there any reason that margins can't get back well above 20% pretty quickly as you're seeing the new patient counts come in? Then, together with that, you mentioned G&A should be flat the rest of year, at least I understood it that way. Can you help rectify—again, I would imagine your T&E and more some of the discretionary spending may ramp back up as things normalize. Can you help rectify those two items?

Todd Zehnder

Yes, I think that your EBITDA margins will be back to normal for the rest of the year, really, and that's going to—that will immediately come back to us. I think, G&A, we said it's going to be flat for the rest of the year. For Q2, it very well could be down some, just like we had last year. I think it was 3Q was underneath what Q2 came in.

We are going to have less phantom expense in the third quarter—I mean, the second quarter than we did the first, but you're right, we're going to have some other initiatives that things are ramping back up.

We've hired some people in VCS and we've built out this M&A team. I do think that, long and short, expect margins to go back up. We're going to keep driving those up, both top line and the middle part.

Anton Hie

Okay, great.

One more real quick, we had—it seemed like last call we were talking some more about oxygen roll out nationally. Where are you seeing those? I believe that's mostly just POCs but where is the demand headed in that? Are you seeing any slow down as COVID winds down or opposite effect? Are you seeing more of those patients move over to more chronic stasis where they stay on your patient census longer?

Now I'll hop off, thanks.

Casey Hoyt

Yes, so O₂ is still on a national rollout and it will be our fastest growing product of the year. As it relates to COVID, we have gotten some COVID business. That is more short term because your COVID patients aren't your lifers and that's fine. We're there as a resource to serve our physicians and patients. But the national rollouts with the POC was pushed around. It also comes with the stationary as well, so it's both products, is going very well. We're investing more resources in our back office as our sales infrastructure. There's no reason that oxygen won't be a huge growth driver for the Company for years to come.

Anton Hie

Great, thanks, guys.

Casey Hoyt

All right, Anton.

Operator

Thank you. Our next question is coming from the line of Antonia Borovina with Bloom Burton. Please proceed with your question.

Antonia Borovina

Hi.

My first question is related to some of the questions that were already asked but can you give us a sense of some of the growth, or can you give us a sense of what proportion of the growth in (inaudible) patients that you're seeing in March is related to pent up demand, because you said some of the patients were apprehensive about going into the clinics versus new contacts with physicians and referrals coming out of that?

Casey Hoyt

I would say that a heavy portion of it is coming from pent up demand, just meaning that folks have been cooped up in their home, waiting for the time to get back in, as well as waiting for their physician to get back to work as well. Because a lot of those pulmonologists were pulled into the hospital systems to work with COVID-19 patients and now they're finally being able to get back into their normal routine. I don't

have a number for you, Antonia, but it's got a lot to do with pent up demand and we're seeing more and more of that as we go through April as well.

I don't know if that answered your question, but I feel like that is driven by the patients.

Antonia Borovina

Okay, no. That's helpful.

Then the average revenue per patient was down in first quarter sequentially, so can you maybe just provide some commentary on that?

Casey Hoyt

I don't know of anything dramatic, especially with other ancillary products coming in at a—we're down to 81% of our revenue coming from vents. I'll have to look into it. I haven't seen a massive decline though.

Antonia Borovina

Okay.

Casey Hoyt

There's really nothing—there's really nothing out there on vents specifically that would drive that number down, but we can look into it and get back to you, Antonia.

Antonia Borovina

Okay. then just finally, about the behavioral service that you talked about. I'm just wondering if you can give us a sense—or what the reimbursement landscape is for that kind of service?

Todd Zehnder

The reimbursement for the actual assessment is—it can range, depending on what type of visit it is but it's something like in between \$70 and \$80 each visit. It's less about the incremental revenue that the behavioral health screening itself would generate. It's more about how it will really help drive our core business in terms of vent pickup, prevention. Whenever someone appears to be done with the ventilation for the wrong reason, we can come in and if the RT is struggling, VieMed special forces, if you will, to have that conversation about the end of life and what's next, and the reasons to keep the vent.

Then, the other piece, I'll say, that's really hot right now is the fact that these hospitals are really training physicians to be less of fixers and more of coaches. They're really good at fixing things but they struggle whenever it's time to have that tough conversation about end of life. When you're offering them a solution that they—that you can help them with that and it's as easy as checking a box on your order form, then they're very inclined to take advantage of those services. It's another value add that ultimately will help drive more vent business for us, so that's the reason that we're so excited about it.

Antonia Borovina

Okay, great. Thanks.

Operator

Thank you. Our next question is coming from the line of Nick Corcoran with Acumen Capital. Please proceed with your questions.

Nick Corcoran

Good morning and thanks for taking my question.

The first question just has to do with the primary—or the Commonwealth primary care, ACO. Can you give an update on that and whether there is any other ACOs in the pipeline?

Casey Hoyt

Okay, what was the first part of your question, Nick? I missed it. I'm sorry.

Nick Corcoran

Commonwealth.

Todd Zehnder

Commonwealth? Yes, so Commonwealth is ongoing in Phoenix. We are taking care of patients and it's one of those things we're learning more and more as we work with their care teams. The ACO had the care team that is really—offers a lot of insight into which patients are candidates for our therapy, so our folks are becoming more internal, if you will, within the ACO to find these lists of patients that qualify for our care.

It's almost like having a warm lead. We go out there. We know the patient has a diagnosis. We know the patient has the need. We visit with the physician and then we're able to get the patient on therapy. It's really, really nice to have your access to that data to where you can walk around with these warm leads but it's no different then working a cold lead, if you will. Our process is pretty darn similar. We just have a big patient pool to work within.

Casey Hoyt

Then the second part, yes. The answer is we are taking those learnings and having discussions with other ACOs around the country. I think it's probably the most important thing about having Commonwealth is that we're learning ways to work together, and we are having those discussions both locally and around the country as well.

Nick Corcoran

Good. Then a housekeeping question for me. How many salespeople did you end 2020 with and where do you expect to end 2021?

Todd Zehnder

We ended 2020 with around 60 and we're trying...

Nick Corcoran

Yes.

Todd Zehnder

We're trying to double that for 2021.

Nick Corcoran

Great, thanks for taking my questions.

Todd Zehnder

You got it, Nick.

Operator

Thank you. There are no further questions at this time. I would like to turn the call back over to Management for any closing remarks.

Todd Zehnder

Yes, we'd like to thank everybody for their attention today and I'll follow up with you—any follow up questions that you might have, and we look forward to talking to you in the future.

Operator

Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Have a great day.