



CRH Medical Corporation

Third Quarter 2020 Results

Conference Call Transcript

Date: November 13, 2020

Time: 8:00 a.m. E.T.

Speakers:

Richard Bear

CRH Medical Corporation — Chief Financial Officer

Dr. Tushar Ramani

CRH Medical Corporation — Chief Executive Officer

Jay Kreger

CRH Anesthesia — President

Tom Sanders

CRH Medical Corporation — Vice President, Commercial Development

Conference Call Participants:

Richard Close

Canaccord Genuity — Analyst

Antonia Borovina

Bloom Burton & Co. — Analyst

Stephen Kwai

National Bank Financial — Analyst

Presentation:

Operator

Good morning, ladies and gentlemen, and welcome to the CRH Medical Corporation Q3 Results Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Friday, November 13, 2020.

I would now like to turn the conference over to Richard Bear. Please go ahead

Richard Bear:

Thank you, operator, and good morning, everyone. I am joined today by our CEO, Dr. Tushar Ramani; the President of CRH Anesthesia, Jay Kreger; and the Vice President of Commercial Development, Tom Sanders.

Before we start, I'd like to remind everyone that certain statements you will hear today constitute forward-looking statements within the meaning of the applicable security laws. For important assumptions, definitions, and cautionary statements about forward-looking information and the risk inherent to our business, please refer to the cautionary notes in our Annual 10-K.

During this call we will discuss non-GAAP financial measures as indicators of our performance. You can refer to our Management's Discussion and Analysis for the three months ended September 30, 2020 for the reconciliation of non-GAAP measures to reported GAAP measures. These documents are available on SEDAR, EDGAR, and the investor section of our website.

With that, I will turn it over to Dr. Tushar Ramani.

Dr. Tushar Ramani:

Thank you, Richard. Thank you also to everyone on the call for joining us to discuss CRH's third quarter 2020 results.

Before we dive into our financial and operational performance for the quarter, I'd like to again thank our team for their continued dedication to delivering outstanding patient care during this COVID-19 pandemic. The protocol that we and our ASA partners have implemented has allowed us to be effective at preventing the spread of infection among our providers and support staff as well as the patients that we serve. The executive team that you'll hear from this morning has been working remotely since March but continues to work cohesively to push ahead on several strategic fronts.

Although our businesses continue to experience or continued, excuse me, to experience a negative impact from COVID-19 in the third quarter, primarily in the first few weeks of the quarter. We experienced solid recovery relative to financial performance that we reported in the second quarter when the disruption from COVID-19 was at its greatest at that point. Our anesthesia revenue grew 125% from the second quarter of 2020, while our O'Regan segment saw sales growth of 104% relative to the second quarter. We remain hopeful that we can continue to sustain or even improve on this level of performance, but let's be somewhat cautious given the recent rise in COVID-19 cases as we approach now the winter months.

I'd like to provide everyone with an update around the three primary pillars of our business strategy. First, with respect to our rate strategy, we remain in active dialogue on multiple fronts as we look to more fully

optimize our commercial case mix. We're confident that we can continue to reduce our non-contracted case volumes as we leverage our expanded scale, our exceptional service capabilities, and our commitment to patient outcomes. And although COVID-19 has somewhat hindered our progress in 2020 on this front, we believe that continuing this effort will drive long-term revenue and profit visibility for the Company and its shareholders.

Second, after temporarily pausing our acquisition-related capital spend earlier this year due to the impact of COVID-19, we have extended the business development momentum that restarted in June; in fact, since June 8th we've announced five majority acquisitions and two de novo expansions, with the acquisitions bringing nearly \$12 million in new revenues into our anesthesia business. We remain in active discussion with a number of potential acquisition targets and de novo partners and we're hopeful that we can continue to report on BD momentum in the fourth quarter and beyond, provided, of course, that we don't experience the type of disruptions from COVID that we saw earlier in the year.

And then lastly, we are focused on reaccelerating the growth in our O'Regan segment. We believe the addressable market for our hemorrhoid product is sizable, exceeding \$100 million annually, and we believe that O'Regan is a best-in-class product. We're pleased to see a strong sequential rebound in sales relative to our second quarter results, despite experiencing some of the earlier negative headwinds from COVID, and Tom Sanders will talk a little bit more about our O'Regan strategy during his commentary.

So in short, we're not out of the woods yet, of course, with respect to COVID, but we've seen steady recovery as we progressed through the second and third quarters of this year and our team is working hard to execute against our strategy within this challenging operating backdrop.

I will now turn the call over to Jay Kreger, who is the President of CRH Anesthesia.

Jay Kreger:

Thank you, Tushar. Good morning, everyone, and thank you for joining us on today's call. I'd like to provide some highlights for the anesthesia segment during the third quarter.

Our third quarter anesthesia revenue of \$28 million was roughly flat with the third quarter 2019 levels. This is in spite of COVID's negative impact and, as Tushar mentioned, we did see a nice recovery relative to the second quarter of 2020 as anesthesia revenues increased 125% on a 119% improvement in case volumes. The segment generated adjusted operating EBITDA of \$12 million, which is a drop of 7.5% when compared to the third quarter of 2019, but represents a strong 297% increase compared to the second quarter 2020 levels.

As Tushar noted, we've completed a number of business development activities, including three acquisitions and one start-up joint venture during the third quarter alone. We now provide anesthesia services at 66 locations across 13 states, which is up from the 62 ASCs that we provided services for at the end of the second quarter.

Lastly, I'd note that all of our facilities are currently open and remain operational.

I'll now turn the call over to Tom Sanders, who oversees our O'Regan business segment. Tom?

Tom Sanders:

Thank you, Jay.

As Tushar noted earlier, although COVID continued to negatively impact O'Regan sales, particularly early in the quarter, third quarter O'Regan sales totalled \$2.4 million, a drop of just 3.4% versus third quarter of 2019. We're pleased to see strong sequential rebound in the O'Regan sales, which more than doubled over



our second quarter 2020 levels. The O'Regan sales rebound is an indication of the resilience of our partner gastroenterology groups as they restore their normal clinic volumes as well as to the importance of our O'Regan treatment device for their patients.

During the past quarter the CRH O'Regan team continue to make progress in three key initiatives: Number one, we've signed agreements with two partner practices, which marks milestones in the development of our turnkey CRH O'Regan treatment ancillary service line. We're actively testing our new platform offerings under this program as part of the pilots, which are launching this month.

Number two, the development of our digital strategy and supporting platform continues to evolve and we're preparing to implement programs to drive new patient awareness while creating the demand for our practice partners.

And number three, our CRM infrastructure development continues to be a focus to support our 2021 growth in key initiatives.

We've been very encouraged by the continued interest in the CRH O'Regan system, as well as the early interest in our new ancillary and digital programs. As we execute on the above initiatives, we remain confident that CRH O'Regan is well positioned for the growth in this sizable market opportunity.

I appreciate your time this morning. I'll now turn the call over to Richard Bear, our Chief Financial Officer.

Richard Bear:

Thank you, Tom.

We reported consolidated third quarter revenues of \$30.3 million, a decrease of 0.2% versus the third quarter of 2020, as COVID continued to weigh on our business, primarily in the early part of the quarter. Anesthesia revenue per case as reported was \$298 during the third quarter. We note that after adjusting \$4.8 million in negative prior-period adjustments, our third quarter revenue per case would have been approximately \$306. So we are pleased with the stability in our revenue per case that we have seen through the first three quarters of 2020.

Total adjusted operating EBITDA for the quarter totalled \$11.8 million compared to \$13.1 million in the third quarter of 2019. Adjusted operating EBITDA attributable to shareholders during the quarter was \$8 million compared to \$9.4 million for the third quarter of 2020.

We finished the quarter with \$5.1 million in cash and cash equivalents and \$75 million in notes payable. As of September 30, 2020 we had drawn \$275 million on our credit facility. As a reminder, the facility includes a \$125 million committed facility with an accordion feature that could increase available credit to \$200 million.

I will now turn the call over to Tushar for closing comments.

Dr. Tushar Ramani:

Thank you, Richard.

So, before we finish our prepared remarks, let me just expand on a couple of topics that we highlighted earlier in the call.

First, with respect to our payer strategy, as you'll recall on our second quarter call, our non-contracted case mix was down to approximately 16% of our second quarter total case mix. For the third quarter, our non-contracted case mix stayed relatively consistent with our second quarter. We remain in constructive discussions on this front and continue to believe that our patience and persistence here can drive our non-

contracted case mix into the single digits. We believe that this will have a positive impact on revenue per case and this effort should serve to improve both revenue and profit visibility.

Second, given the impact that COVID has had on the timing of our rate strategy, coupled with the still unresolved potential for volume disruptions due to the pandemic, we'll continue to refrain from providing a precise estimate for where we will be in terms of revenue per case to finish the year, but we're encouraged by the stability that we've already seen in this metric through the first three quarters of 2020 and we're hopeful that we'll continue the progress that we've made.

And finally, we are constructive on the potential for additional BD transactions in the fourth quarter and beyond but, consistent with our previous commentary, our 2020 acquisition-related capital spend, which totalled \$19 million through the first three quarters, may not reach the levels that we've enjoyed historically, which is simply a function of a COVID-related pause in our transactions earlier in the year.

So with that, I'd like to turn it back to the operator for questions.

Operator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment for your first question.

Your first question is from Richard Close of Canaccord. Richard, please go ahead.

Richard Close:

Great. First question, I guess, is directed towards Tom. Can you go into those initiatives again maybe in a little bit more detail there? I think some of that's new to us, so if you could go through that, that would be great.

Tom Sanders:

Yes, I can touch on it a little bit. As I mentioned, it's really early in the process. But I mean really the metrics and milestones are focused on improving diagnosis, symptom identification, patient conversion, patient engagement. The pilots will be kind of measured against that. And we'll have more to report. I mean, as you can probably appreciate, the agreements right now are confidential with each of the parties. But those are the kind of the pillars that we're driving and reporting on. And we've done preliminary analysis, so I feel really confident that we'll be able to drive patient and treatment volumes with some of the initiatives.

Richard Close:

Okay. And then the digital, is that different than the pilots? Or is that a component of the pilots? What is that?

Tom Sanders:

There's a component of it that sits in the pilot and there's also separate initiatives that are being driven as well, so it's kind of two part.

Richard Close:

Okay. And is that a function of just, you know, with respect to COVID, you guys aren't out in the field so you're doing it virtually? Is that the thesis there?

Tom Sanders:

No, it's more of a digital kind of marketing. It's basically digital marketing and web strategy to supplement the platform and to drive and educate patients and the medical community. So it's not really related to virtual visits.

Richard Close:

Okay. Great. That's helpful.

Tushar, I was wondering if you could just help us with volumes or cases, maybe how it progressed through the third quarter, but really, more importantly, what you're seeing in October and November. I know you guys don't give guidance, but obviously there's flare-ups here across the whole US, it seems, on the COVID. It doesn't seem like outpatient is necessarily being impacted, but I just want to get your thoughts on current trends.

Dr. Tushar Ramani:

Sure, Richard. Good morning. Thanks for that question.

Let me just start first by amplifying a little bit of what Tom just said about O'Regan. Part of the shift in our strategy there is to take a more active role in helping our gastroenterologist partners identify patients for treatment of hemorrhoids and then helping them put together a process within their office to be able to get these patients scheduled and treated. We're finding that GIs are very receptive to our assistance on that regard and so we've actually formalized some of these programs to make them, I guess, as automatic as possible. And so we're looking forward to rolling that out with some good initial feedback.

Shifting to your question with regards to volumes, yes, earlier on in the third quarter we still continued to see part of the ramp-up and recovery, both at the ASCs as well as the clinics, affecting both our anesthesia endoscopy volumes as well as our O'Regan product sales volumes. But then, within relatively short order, I would say certainly by August, we were operating pretty much at our full expected volumes and that has continued to persist through September, October, even through this past week.

And then with regards to effects of the pandemic, one of the things I think that we should all be cognizant of is that over the past six or seven months, through some of the worst of the pandemic, outpatient care environments, particularly ASCs, really demonstrated the ability to be able to process patients in high volumes through these acute care settings safely without high risks of transmission so long as we are adhering to safety protocols using proper protective equipment, which we now have available and protocols that we now have experience in. So we're pretty optimistic about what things would look like if we had to go through that type of a period again. And I think that nationally we see recognition that there's no need to sort of shut down these environments in the same way that they did in March and April, that care can actually be provided safely, certainly in our operating environments.

Richard Close:

Okay. Thank you. I'll jump back in the queue. Thanks.

Operator:

Your next question comes from David Martin from Bloom Burton. David, please go ahead.

Antonia Borovin:

Hi. Good morning. This is Antonia on the line for Dave. Just one question for me. I'm wondering if there are any expense reductions that you've implemented during COVID that you expect will persist beyond the pandemic.

Richard Bear:

No. Hey, Antonia. It's Richard. I will take that question. No, most of the expense reductions that we initiated as a result of COVID impacted Q2. As we report Q3 and enter Q4, we are operating as we did prior to COVID.

Antonia Borovina:

Okay. Thanks.

Operator:

Your next question comes from Stephen Kwai from National Bank Financial. Stephen, please go ahead.

Stephen Kwai:

Hey, guys. Thanks for taking my question. I'm just calling in for Endri. I just have one quick one here. Do you guys see any impact from the proposed CMS changes for next year? Thanks.

Dr. Tushar Ramani:

Stephen, I'll take that. We are aware, certainly, that there are a number of proposed changes to both proceduralists' fees as well as primary care fees. I think that it's still a point of contention for just about every specialty in medicine out there and we know that very active and robust dialogue continues, some of which we are participating in. And so a long answer just to tell you that it's still early, but we're hopeful that much of that will be retracted.

Operator:

Ladies and gentlemen, as a reminder, should you have a question, please press star followed by one.

Okay. It appears there are no further—oh, actually, we have a follow-up question from Richard Close from Canaccord. Richard, please go ahead.

Richard Close:

Great. With respect to acquisitions and the pipeline, Tushar, I was wondering if you can maybe dive in a little bit deeper there. Sometimes, when you get elections and a possible change of administration, that it affects timing of acquisitions, so any thoughts with respect to the pipeline and any changes would be great.

Dr. Tushar Ramani:

Yes. I think both as I and Jay indicated, we think that the pipeline remains very active. We have good dialogue and good discussions in some late stages on several deals. But your point is a good one around the election and sort of potential for any changes. We have heard from a number of groups about their concern around change in tax rates, specifically capital gains tax rates and whether that means we can move some deals up into this year versus next year. It remains to be seen, but at least those discussions have started.

Richard Close:

Okay. Thank you.

Operator:



There are no further questions at this time. Please proceed.

Dr. Tushar Ramani:

Thank you. Well, that concludes our conference call. As you see that we're pleased with the results that we've been able to deliver in the third quarter and we look forward to executing on our plan in the fourth quarter. Again, on behalf of myself and my team, I thank everybody for their time on this call.

Operator:

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.