FINAL TRANSCRIPT

Medical Facilities Corporation

2016 First Quarter Results Conference Call

Event Date/Time: May 12, 2016 — 8:30 a.m. E.T.

Length: 18 minutes

CORPORATE PARTICIPANTS

Seymour Temkin
Medical Facilities Corporation — Chair of the Board

Michael Salter
Medical Facilities Corporation — Chief Financial Officer

Britt Reynolds
Medical Facilities Corporation — Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Joel Hurren
RBC Capital Markets — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Medical Facilities Corporation 2016 First Quarter Results Conference Call.

Before turning the call over to management, listeners are cautioned that today's presentation, and responses to the questions, may contain forward-looking statements within the meaning of the Safe Harbor provisions of Canadian provincial security laws.

Forward-looking statements involve risk and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements.

For additional information about factors that may cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements, please consult the MD&A for this quarter, the Risk Factors section of the Annual Information Form, Medical Facilities, and other filings with the Canadian securities regulators.

Medical Facilities does not undertake to update any forward-looking statements. Such statements speak only of the day made.

Listeners are also reminded that today's call is being recorded for the benefit of individual shareholders, the media, and any other interested parties who may want to review this call at a later time.

I will now like to turn the call over to Mr. Seymour Temkin, Chair of the Board of Medical Facilities. Please go ahead, Mr. Temkin.

Seymour Temkin — Chair of the Board, Medical Facilities Corporation

Thank you, Operator, and good morning, everyone. Joining me today is Britt Reynolds, CEO of Medical Facilities Corporation, or MFC; along with Michael Salter, our CFO.

As many of you know, we announced Britt's appointment as CEO in March, and he joined us on May the 1st. We are very pleased to have Britt join our team. He has over 28 years of industry experience, including the three largest hospital companies in the US. And prior to joining MFC, he was the president of hospital operations with a large health care provider and oversaw 84 hospitals and over 170 hospital-affiliated outpatient facilities.

Britt's experience and industry relationships will help MFC advance into the next phase of its development, by further strengthening its operation and executing on accretive acquisition opportunities.

Britt will be present at our annual general meeting later today, and tomorrow he will start his first meetings with the capital markets.

For today's call, I will start by discussing the results of the first quarter. Mike will then review the financial results. Britt will then provide some outlook comments; after which we will open up the call to questions. Let's start.

Prior to the market opening today, we released our 2016 first quarter financial results. Our news release, financial statements, and MD&A may be accessed through our corporate website at www.medicalfacilitiescorp.ca, and were also filed on SEDAR today.

In the quarter, we reported increased revenues, completed an acquisition, and as mentioned, appointed a new CEO.

We reported revenues of 75.9 million, up by 5.1 percent from 72.2 million in the first quarter of 2015.

In general, revenue growth was attributed to higher case volumes, shift in payor mix, and increased revenues from ancillary services. We also had incremental revenues contributed from Integrated Medical Facility Delivery, which we acquired in January.

Consolidated income was impacted by an increase in consolidated operation expenses, as a result of higher salaries and benefits, drugs and supplies, and general administration expenses.

Together, these caused operation expenses to increase to 80.5 percent of revenue compared to 77.6 percent of revenue in the first quarter of 2015.

As the Company communicated in previous calls, quarterly results will vary based on the number and types of cases performed and the payout.

On a trailing 12 months basis, operating expenses represented 76.6 percent of revenue compared to 75.8 percent in 2015.

For the quarter, consolidated income from operation was 14.8 million, an 8.4 percent decline from 16.2 million in the first quarter of 2015. On a trailing 12 months basis, consolidated income from operations was 73.3 million compared to 74.7 million for 2015.

Optimizing our facilities to increase our capabilities and enhance patient care continues to be our priority. Worthy of note is the further expansion of our urgent care footprint at our Black Hills Surgical Hospital, which is a confirmation of our initial decision to enter into the Urgent Care business.

Also, Sioux Falls Surgical Hospital is investing in new imaging equipment and building remodelling, which will increase their ability to expand the type of cases they can handle.

Before I turn the call over to Mike, I'd like to mention the acquisition we made in January of Integrated Medical Delivery, L.L.C., or IMD, for 1.75 million. IMD supplies outsourcing business services to the health care provider, including physicians, facilities, and insurance companies. The Oklahoma Spine Hospital is a customer of IMD.

After 12 years of being Chair of Medical Facilities, I feel it's the right time to step down as the Chair and Director. I'd like to thank you all for giving me the opportunity to Chair this extraordinary company.

Now Michael will provide more detailed insights into our financial performance for the first quarter of 2016; and then Britt will provide comments on the outlook for the Company, looking into the rest of 2016 and beyond. We will then open up the call to questions. Michael?

Michael Salter — Chief Financial Officer, Medical Facilities Corporation

Thanks, Seymour, and good morning, ladies and gentlemen.

Before I begin, please note that all dollar amounts expressed in today's call are in US dollars, unless otherwise noted.

As Seymour mentioned, in Q1 2016 we recorded revenue of 75.9 million, an increase from 72.2 million in the same quarter last year, a result of higher case volumes at most of our centres, which added about 5.8 million compared to Q1 2015.

On a consolidated basis, we saw an increase of 8.5 percent for surgical case counts and a slight decrease in pain management procedures of 0.7 percent.

On the other hand, revenue was impacted by about 2.9 million as a result of an unfavourable payor mix, meaning less of the cases were funded by private insurance, and unfavourable case mix in terms of level of severity and complexity.

The payor mix trend is a result of the majority of the case growth in the period coming predominantly from Medicare beneficiaries as compared to Q1 2015.

The net outside revenue contribution from our acquisition of IMD was about $800,000.

So let's look specifically at the results for each of our centres. Black Hills had an increase in outpatient surgical cases, offset by a decline in urgent care revenue.

But the Sioux Falls revenue increased due to a favourable shift in case mix, an increase in surgical case volume, and ancillary revenue from its MRI, and pain clinic, and higher primary care revenue.

We have an expansion program underway at Sioux Falls that includes remodelling and reconfiguring an operating room for larger, more complex surgeries. That expansion is expected to take around nine months.

Arkansas saw increased volumes, as well, due to surgeon vacation scheduling and this drove strong growth in revenue of over 11 percent at Arkansas.

Oklahoma had increases in surgical and pain case volume, both, along with the addition of urgent care revenue. Overall revenue was down, however, due to an unfavourable change in case and payor mix.

Turning to our ambulatory surgery centre in Newport, California, had a strong quarter in terms of increased complex orthopedic cases, which improved the case mix, higher flow-through charges—the way that billing for implants is handled compared to prior periods, and a better payor mix.

Due to a slight decrease though in surgical case counts, however, there was a small decline in revenue of about 1.5 percent.

This was the first quarter that we recognized revenue from IMD, which was 1.7 million. There was an elimination from this of $900,000 which was IMD service revenue from our Oklahoma Spine Hospital unit.

During the first quarter, we recorded net income of 759,000 compared to 17.8 million for the same quarter last year. This change is primarily due to the noncash charges for changes in value of the convertible debentures and the exchangeable interest liability.

As you are all familiar, the change in recorded value of the debentures is driven by the change in market price for the debentures and changes in the foreign exchange rate. In Q1 2016, the increase in value of the convertible debentures was 3.8 million compared to a decrease of 3 million a year earlier.

Foreign exchange fluctuation is also a factor in the fair value assessment of our exchangeable interest liability, along with our share price and the number of shares issuable for the exchanges.

The liability had an increase in value to 10.6 million in the Q1 2016 compared to a decrease in value of 14.5 million the previous year.

Turning to cash available for distribution, it decreased by 3.7 percent compared to the same period last year. Decreased due to weaker cash flows from our centres, offset by the favourable variance from foreign currency.

On a common share basis, cash available for distributions was C $0.384 per common share compared to C $0.358 in Q1 2015, resulting from the favourable currency exchanges we've been encountering.

Accordingly, our payout ratio for the first quarter of 2016 was 73.2 percent and very favourable compared to 78.5 percent in Q1 of 2015.

As at March 31, 2016, we had cash, cash equivalents, short-term and long-term investments totalling 65.8 million compared to 40.2 million on March 31, 2015.

We are confident we are well resourced for the business going forward and to fund our growth strategy.

With that, let me now call on Britt for his closing comments. Britt?

Britt Reynolds — Chief Executive Officer, Medical Facilities Corporation

Thank you, Michael. Today, I'm coming to the end of my second week at Medical Facilities Corporation. I am very pleased to have joined MFC. It is a great company that has a great track record and great potential. Our highly qualified physicians and staff play a vital role in our communities, by providing optimal quality outcomes and superior service.

Furthermore, MFC has been a stable generator of value to its shareholders for over a decade. In May, it will have distributed 146 consecutive dividends to its shareholders, with a total return of 369 percent since inception. These are admirable features.

And as the new CEO, I will focus on navigating MFC, such that shareholders can continue to view us as a solid investment. I'm most excited about our growth opportunities. There has been considerable movement among US health care providers, as they execute on both consolidation and portfolio rationalization in response to the changing markets, demographics, and reimbursement models.

By looking to grow in various aspects of the entire delivery system, we can diversify our income stream and lower our costs by leveraging the fixed operating expenses against a larger network. By evolving into a differentiated organization, we will deliver on our commitment of optimal outcomes and superior patient service.

MFC has the track record and the proven expertise at operating facilities and also in integrating new facilities into its network. From this platform, we have a strong cash position, and we have access to the capital markets as a source of funding for accretive acquisitions.

Finally, as I become firmly integrated at MFC, I will be working with Michael, as well as our talented facility operators, dedicated physicians, and Board of Directors to establish strategies that will allow MFC to continue to deliver predictable value while further capitalizing on the significant growth opportunities available.

With that, we would now like to open the line, and open it for questions. Operator?

Q&A

Operator

At this time, if you would like to ask a question over the phone, please press *, followed by the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Neil Maruoka with Canaccord Genuity. Your line is open.

Michael Salter

Good morning, Neil. Have we lost him?

Seymour Temkin

Operator, are you still there?

Operator

Looks like his line has disconnected. If you wanted to press *, 1, again, to get back in the queue.

Your next question comes from the line of Doug Miehm from RBC Capital Markets. Your line is open.

Joel Hurren — RBC Capital Markets

Hi there, guys. It's Joel on for Doug. Congratulations, on the quarter. Nice to see some great top line growth there. Quick question on operating expenses. Just wondering if you could comment on the trends for the remainder of the year, if you have any guidance in terms of what that's going to shape up as for the rest of the year?

Michael Salter

Yeah. Joel, as in the past, we have—we do not give guidance going forward, for a number of practical and regulatory reasons. I think to address your question, I would say what you've seen at work in this quarter is the typical interactions between the revenues, the types of revenues, who's paying the bill, the cases that are performed. And that's clearly what's been at play in this quarter, and that has impacted what you're referring to, which was the operating expenses.

Again, I think in our MD&A, we're very transparent; you can see centre by centre. And I would keep coming back to echo what I've said, many times in the past on it, is it's also a centre-by-centre phenomena. It's not—I would not walk away from the results this quarter saying that there were overall trends inherent in those numbers. They're—they vary by centre and the type of things that have been happening in those centres. So if you have any specific questions on a centre, I'm more than delighted to delve a bit further into those.

Joel Hurren

Okay. Thank you. And then one quick second question on Sioux Falls, with the transition to some larger operating rooms, is that in response to payor requests? And will that favourably shift reimbursement?

Michael Salter

I wouldn't say it's a payor request. I would say it's just the demand for surgery that our physician partners are seeing and the types of cases that they would be able to perform. And certainly, by increasing and really adjusting some of the operating rooms, certainly it does open up the opportunity to do cases, and typically, higher acuity and more complexity, bigger case, bigger revenue numbers.

Joel Hurren

Perfect. Thank you.

Operator

Again, if you would like to ask a question over the phone, *, 1 on your telephone keypad.

There are no further audio questions at this time. I'll turn the call back over to the presenters.

Britt Reynolds

Thank you for participating on today's call. And thank you for your continued interest in MFC. We look forward to reporting on our progress next quarter. Thank you.

Operator

Ladies and gentlemen, this does conclude today's conference call. You may now disconnect.

*****