



MEDICAL  
FACILITIES  
CORPORATION

2019 ANNUAL REPORT

# FOCUSED

**We are pleased to provide our 2019 Annual Report. In 2019 and the early part of 2020, Medical Facilities Corporation (“MFC”) made significant progress realigning its portfolio of surgical hospitals and ambulatory surgery centers (“ASCs”) and improving its financial flexibility.**

While there have been a number of changes over the past several months, what has not changed is our focus on our core strengths – our people, our high-quality standard of care and our industry-leading facilities.

Our efforts are aimed at strengthening our position to capitalize on the expected growth in the United States healthcare market. Our growth strategy continues to include both organic initiatives and strategic acquisitions of physician-aligned ASCs.



## Investment Highlights

- Large, growing and fragmented market for outpatient services
- Diverse portfolio of highly rated, high-quality facilities
- Scalable platform for growth – organically and through acquisitions
- Experienced, entrepreneurial management team
- Competitive dividend

**Our 2019 financial results from continuing operations<sup>1</sup> benefited from higher surgical case volumes at most facilities and positive variances in case and payor mix.**



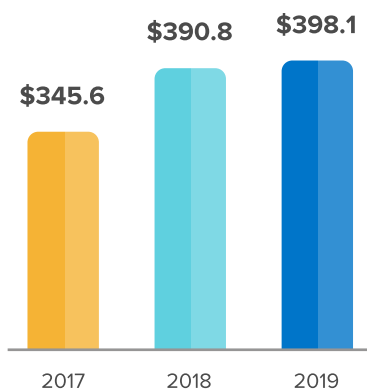
1. Continuing operations is defined as consolidated operations excluding Unity Medical and Surgical Hospital and RRI Mishawaka Hospital, LLP which are treated as discontinued operations in all periods.

2. Non-IFRS Financial Measure. Refer to Medical Facilities' 2019 Management's Discussion and Analysis.

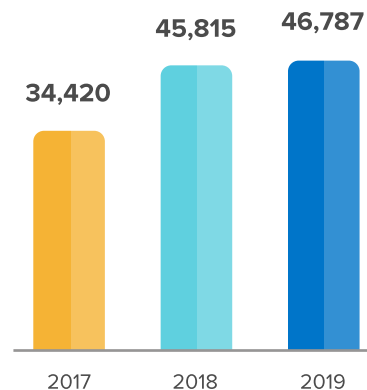
# FINANCIAL HIGHLIGHTS

## Financial Results from Continuing Operations<sup>1</sup>

Revenue  
(\$ millions)



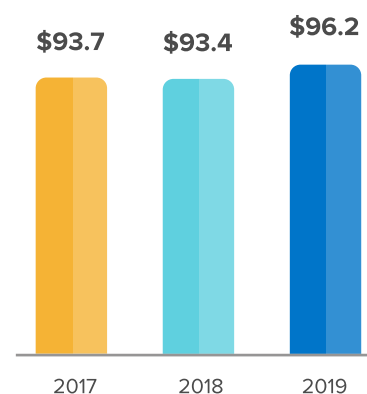
Surgical Case Volume



Income from Operations  
(\$ millions)



Adjusted EBITDA<sup>2</sup>  
(\$ millions)

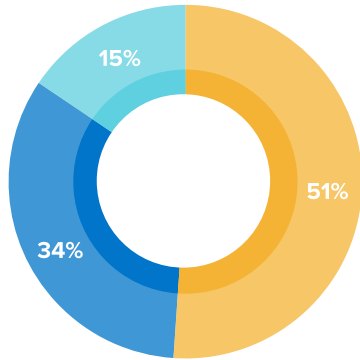


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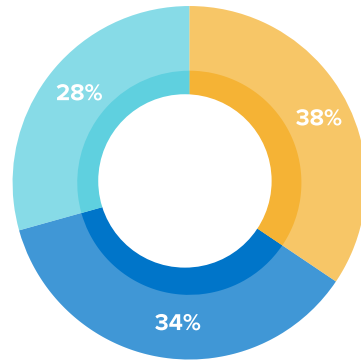
# Payor Mix

2019 MFC Facility Service Revenue



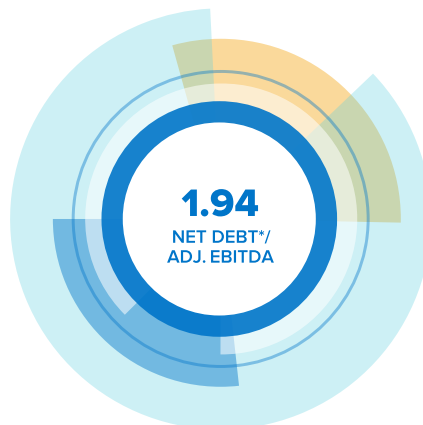
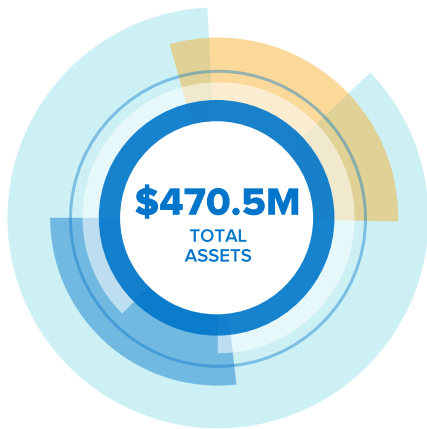
● Private Insurance ● Medicare/Medicaid ● Other

2019 U.S. Healthcare System Revenue\*



● Private Insurance ● Medicare/Medicaid ● Other

\*Source: Centers for Medicare & Medicaid Services, National Health Expenditure Projections



\*Inclusive of lease liabilities per IFRS 16



# FOCUSED ON OUR STRENGTHS

**As we build on our past success, we will focus on our strengths provided by the diversification of our portfolio and three core elements to our business – our people, industry-leading standard of care, and the quality of our facilities.**

## **Our People**

To deliver the utmost quality of care to our patients, we rely on all of our employees and medical professionals – from our top tier physicians and nurses, to the hardworking staff keeping our facilities operating efficiently.

As experts across a variety of respective medical fields, our physicians attract top medical teams and employ leading technologies; resources used to drive our commitment to quality care, efficiencies and responsiveness.

To ensure an alignment of management and investors, a majority of physicians at our facilities are significant investors in their local facility. Besides retaining a financial interest, the physicians are also actively involved in the management of their facilities.

## **Industry-Leading Standard of Care**

There is nothing standard about our standard of care. Each of our facilities places high levels of patient care at the core of their approach to business. Our comfortable facilities are welcoming to family members and visitors. To our patients themselves, our offerings are unsurpassed – from spacious, state-of-the-art operating facilities to some of the best nurse-patient ratios in the industry.

## **High Quality Facilities**

Our facilities offer a range of specialized inpatient and outpatient surgeries, with more flexibility for physicians and their patients, and without the higher costs associated with large traditional hospitals.

Our facilities continue to rank as the best hospitals in the nation for high quality of care. In key categories such as medical teams, facilities, services and communication with patients, the survey data consistently reflects our facilities as equivalent to, or surpassing, other top facilities across the country when it comes to customer satisfaction.

# HCAHPS Survey\*

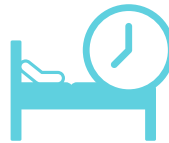
**89%**

**Average of MFC patients who would definitely recommend MFC hospitals.**  
(72% U.S. average)

\*Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS), a survey conducted by the U.S. Department of Health and Human Services, is the first national, standardized and publicly reported survey of patients' perspectives of hospital experiences, based on ten important hospital quality topics. Ratings presented above are as of January 2020.



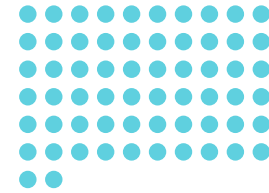
Total Facilities



ASCs



States



Operating Rooms



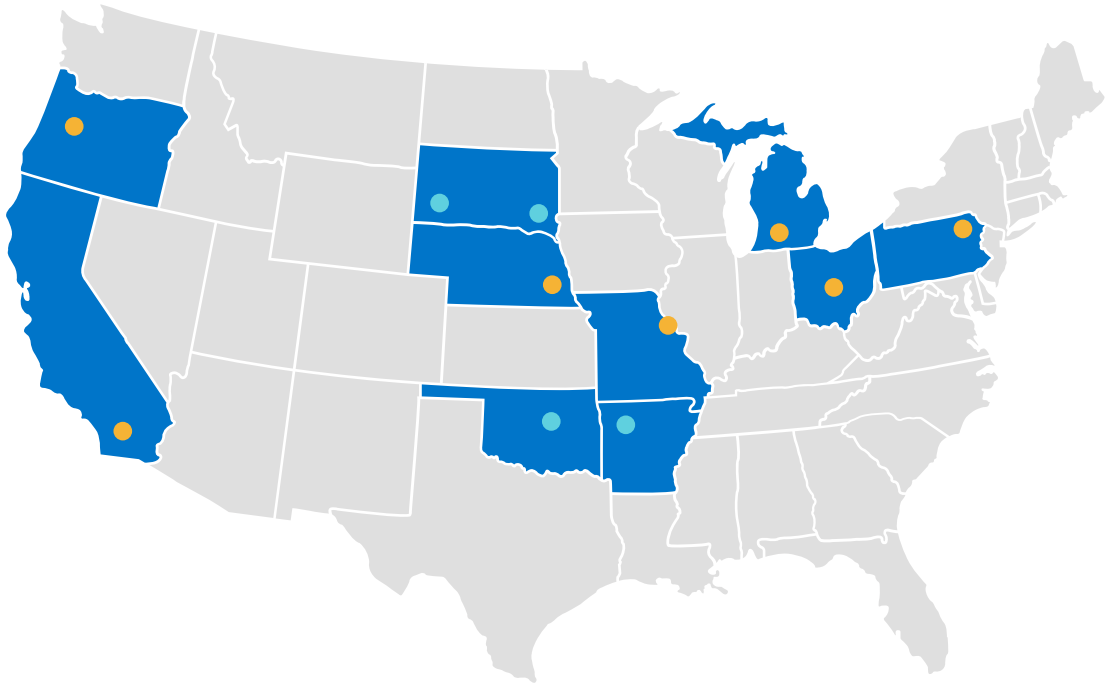
Procedure Rooms



Urgent Care Clinics



**Black Hills Surgical Hospital**  
Rapid City, South Dakota



● Specialty Surgical Hospital

● Ambulatory Surgical Center

**Arkansas Surgical Hospital**  
North Little Rock, Arkansas

**The Surgery Center of Newport Coast**  
Newport Beach, California

**Eastwind Surgical**  
Westerville, Ohio

**Oklahoma Spine Hospital**  
Oklahoma City, Oklahoma

**Brookside Surgery Center**  
Battle Creek, Michigan

**Two Rivers Surgery Center**  
Eugene, Oregon

**Black Hills Surgical Hospital**  
Rapid City, South Dakota

**City Place Surgery Center**  
Creve Coeur, Missouri

**Riverview Ambulatory Surgical Center**  
Kingston, Pennsylvania

**Sioux Falls Specialty Hospital**  
Sioux Falls, South Dakota

**Miracle Hills Surgery Center**  
Omaha, Nebraska



# FOCUSED ON GROWTH

**While we remain focused on operational improvements and strengthening our balance sheet, our overarching goal is to ensure that MFC is ready to capitalize on the expected growth in the United States healthcare market.**

More specifically, our business is well aligned for two of the major growth drivers for our industry – the aging population and the growth in outpatient procedures.

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**With an aging population, the number of total knee and hip replacements are on the rise. These procedures are increasingly being done on an outpatient basis, allowing patients to go home the same day of the surgery.**

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## **Our Growth Strategy**

Our decision to strengthen our core has enabled us to have a strong base from which to grow – and be ready to meet the future demands of this sector.

We continue to grow organically by enhancing services at our existing facilities, including recruiting new physicians and adding ancillary services, such as urgent care clinics.

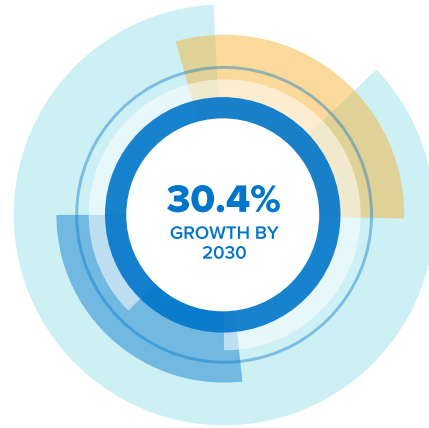
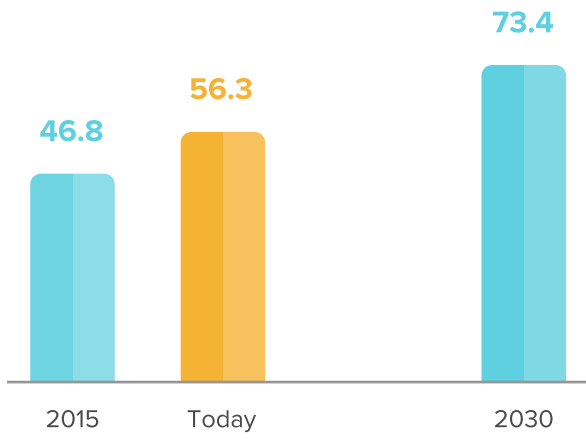
On the acquisition side, our priority is to grow our ASC platform. In addition to acquisitions, we are evaluating ASC de novo opportunities.

The ASC market is an especially attractive one for us. Already accounting for more than half of all U.S. outpatient surgical procedures today, ASCs are expecting increased volumes in the years ahead as the number of outpatient procedures is forecast to grow by 15% by 2028.<sup>1</sup>

1. ResearchandMarkets.com - <https://www.businesswire.com/news/home/20191029005757/en/United-States-Ambulatory-Surgery-Center-ASC-Market>



## U.S. population aged 65+ (millions)



# LETTER TO SHAREHOLDERS

## Dear Shareholders,

Medical Facilities Corporation (the “Company” or “MFC”) faced a challenging 2019 in which our cash flow and profitability were impacted. We are encouraged by the results of the fourth quarter of 2019 as we continue to focus on improving our balance sheet while restoring profitability and growth. We enter 2020 with a strong leadership team and a sharpened focus on the considerable strengths that have led to our success in the past.

One of the key challenges for the Company was to resolve the issues at Unity Medical and Surgical Hospital (“UMASH”), which were largely attributable to underutilization of the facility and an undersized physician complement. This, combined with a softer payor mix and a weighting to lower acuity cases, had a negative impact on our financial results throughout the course of 2019, reducing our cash available for distribution.

We spent considerable time and effort working on strategic alternatives for UMASH and, on February 26, 2020, announced that we had partnered with three of the premiere physician groups in the South Bend, Indiana area, which now have a 55.9% ownership stake in the facility. By bringing in new partners and capital, we believe our plan will significantly improve facility utilization and the financial performance of UMASH.

In addition, in December 2019, we sold our interest in Central Arkansas Surgical Center, which was part of a platform acquisition with NueHealth LLC of a group of seven ambulatory surgical centers (“ASCs”). The sale of this ASC was consistent with our objectives of improving our profitability and strengthening our balance sheet as this facility had relatively small market size and limited growth opportunities.

## Changes to our Leadership Team

In January 2020, we welcomed John Schario as our Chief Operating Officer. We look to leverage his extensive experience building and operating surgical hospitals and ASCs with both multi-state and international healthcare companies. His background includes two terms with Nueterra Healthcare, including from 2001 to 2011 when he served as Principal and Chief Executive Officer. He has also served as Senior Vice President, Consumer Health and Innovation, at Mountain States Health Alliance (now called Ballad Health), and previously held several progressively senior roles with Health Midwest, which was a large horizontal and vertically integrated not-for-profit health system serving the greater Kansas City Metropolitan area.

John’s appointment follows our hiring of David Watson as Chief Financial Officer midway through last year. David previously held CFO roles with both Florida-based Clearway Pain Solutions Institute, and National Surgical Hospitals. He has helped lead the growth and expansion of multi-site and multi-state operations, brings significant experience working with physician partners, and understands the complexities of the payor landscape. We believe that both John and David are excellent additions to our team, and we look forward to their involvement in our continued growth.



**Robert O. Horrar**  
President and  
Chief Executive Officer

## **Focused on our Strengths**

Our success over the years has largely been attributable to our core strengths – our people, industry-leading standard of care, and the quality of our facilities.

Importantly, our physician partners at each of our facilities share the same commitment to provide the best patient experience and hospital care. Our shared commitment to care is reflected in high patient quality and satisfaction scores. Our facilities rank among the highest in industry surveys and studies of patient satisfaction and quality scores.

In the latest Hospital Consumer Assessment of Healthcare Providers and Systems, or HCAHPS, survey results published at the end of January 2020, our hospitals once again scored well above the national average. The results released by the U.S. Department of Health and Human Services, and based on ten important hospital quality topics, revealed that 89% of MFC patients would definitely recommend our hospitals, compared with the national average of 72%, and three of our hospitals received a five-star rating. This is a strong foundation to build upon.

## **Restoring Growth**

MFC remains well aligned for one of the major trends in U.S. healthcare, which has been the growing number of surgical procedures that are being performed in outpatient settings. Additionally, the demand for health care services continues to grow, as a result of a growing and aging population, as well as increasing in breadth and scope of procedures, such as knee replacement surgery.

### **Aging Population**

With an increasing proportion of the population reaching retirement age, the seniors' population is the fastest-growing age group in the United States. After steadily growing over the past decade, there are now approximately 56.3 million<sup>1</sup> people aged 65 and over in the U.S. This 65 and over population is expected to increase by 30.4% to approximately 73.4 million<sup>1,2</sup> by 2030. As far as our long-term outlook is concerned, a growing senior citizen population is expected to translate to greater patient volumes.

### **Growth in Outpatient Procedures**

We expect the macro shift toward more outpatient services to continue, driving a significant increase in the number of ASCs in the United States over the next five to ten years. This trend is being driven by several factors. Minimally invasive surgical procedures, such as laparoscopy and robotic surgery, along with new anesthesia techniques, are reducing complications and enabling patients to return home sooner. Additionally, the lower-cost settings and the convenient outpatient facilities help create a consumer-friendly experience.

### **Multiple Growth Opportunities**

While strengthening the balance sheet remains a priority, we are focused on operational improvements and growing the business with our partners. Our physician partners are committed to ensuring that the facilities continue to rank among the highest in industry surveys and studies of patient satisfaction and quality scores. We continue to expand the utilization of our existing facilities, including recruiting new physicians, and look for opportunities to increase our market share in and performance of the urgent care clinics that our facilities opened in the past few years.

We are evaluating our options to grow our ASC platform. We believe our platform is well-positioned to take advantage of the shift to outpatient surgeries and while relatively small at this time, will benefit from scale.

In addition to potential acquisitions of ASCs, our pipeline includes de novo opportunities, like the development of an ASC in Chesterfield, Missouri, with a local hospital. St. Luke's Surgery Center of Chesterfield will initially offer five specialties (orthopedics, gynecology, gastrointestinal, plastic surgery and general surgery) and have extended care rooms to support total knee and hip replacements. Construction commenced in November 2019, and 13 local physicians have already signed up as owner-partners. This new facility, which remains on target to open in June this year, will be one of our larger ASCs.

Finally, I would like to comment on the potential risks to our business as a result of the novel coronavirus (COVID-19) pandemic. We expect COVID-19 to have an impact on our business and financial results in 2020, but it is difficult to estimate this impact at the time of writing this letter. To date, as you would have expected, we have seen some impact on our elective surgery volumes. We are also taking all reasonable action to protect the health and safety of our staff, our medical professionals, patients and supply chain during this challenging time.

I am grateful for the hard work and dedication of our physicians, nurses, other medical professionals, and all our employees for helping us deliver the utmost quality of care to our patients. I would like to thank our Board of Directors for their ongoing counsel and guidance, and our management team for their contributions. Lastly, I would like to thank you, our shareholders, for your continued support over this past year.

Sincerely,

**Robert O. Horrar**  
**President and Chief Executive Officer**