



**Nutex Health, Inc.**

**Third Quarter 2024 Financial Results Conference Call**

**November 8, 2024**

## CORPORATE PARTICIPANTS

**Vivian Sanders**, *Director of Marketing*

**Thomas Vo**, *Chief Executive Officer & Chairman of the Board*

**Jon Bates**, *Chief Financial Officer*

**Warren Hosseinion**, *President*

**Joshua DeTillio**, *Chief Operating Officer*

## CONFERENCE CALL PARTICIPANTS

**William Sutherland**, *Benchmark Company*

**Thomas McGovern**, *Maxim Group*

## PRESENTATION

### Operator

Greetings and welcome to Nutex Health, Inc. Third Quarter 2024 Financial Results Conference 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.

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

### Vivian Sanders

Good morning and welcome to Nutex Health, Inc., third quarter earnings call for the period ended September 30, 2024.

My name is Vivian Sanders, and I will be your moderator for today's call. We appreciate your participation and interest in our Company.

Today's call is being recorded.

With me this morning is our Chairman and CEO, Dr. Tom Vo; CFO, Jon Bates; President, Dr. Warren Hosseinion, and COO, Josh DeTillio. Our team will provide some prepared remarks and then we'll take questions.

Before I turn the call over to Dr. Vo, let me remind everyone that today's call can contain forward-looking statements that are based on Management's current expectations, numerous risks, uncertainties, and other factors that may cause actual results to differ materially from those that might be expressed today.

More information on forward looking statements and these factors are listed in Thursday's press release and in our various SEC filings.

On this morning's call, we may reference measures such as Adjusted EBITDA, which is a non-GAAP financial measure. A table providing supplemental information on Adjusted EBITDA and reconciling net loss attributable to Nutex Health, Inc. is included in the press release and forms 10-Q filed earlier this week.

This morning's call is being recorded and a replay of the call will be available later today.

With that, I'll now turn the call over to Dr. Vo, our Founder and Chief Executive Officer.

### **Thomas Vo**

Thank you, Vivian, and thank you all for joining us today.

We are pleased to report another excellent quarter for Nutex Health.

In the third quarter of 2024, we achieved substantial revenue growth as well as volume growth and continue to show our commitment to enhancing profitability and operational efficiency.

I would like to start with some highlights from this quarter. For the three-month ended September 30, 2024, we reported total revenue of \$78.8 million, which is a significant increase compared to \$62.7 million for the same period last year. This equates to a growth of 26%.

Some of this growth was due to the four new hospitals that we opened in 2023. The rest were from mature hospitals, which are those opened prior to December 31, 2021, which had revenue increase of 20.7% during this same period.

On the net income side, we incurred a net loss attributable to Nutex Health of \$8.8 million as compared to a net loss of \$5.5 million in the third quarter of 2023. This \$8.8 million amount does include a \$6.7 million non-cash loss on warrant liability as well as a \$2 million non-cash stock-based compensation expense.

Our Adjusted EBITDA, on the other hand, was \$13.5 million positive for this quarter, compared to just \$1.3 million from one year ago, an increase of 938%.

In terms of cash flow, as of September 30, 2024, we reported net cash from operating activities of \$23.1 million as compared to cash from the same time last year of \$3 million, an increase of 670%.

From a debt perspective, our total long-term debt remained low at \$26.8 million compared to \$26.3 million for the same period last year.

Our finance lease liabilities, which we are required to report due to GAAP accounting policies, did increase slightly from \$213 million to \$241 million. This is mainly due to new leases that were signed for facilities opening within the past nine months.

From a patient perspective, our hospital division reported 41,668 visits in the third quarter, reflecting an

11.3% increase over the same quarter last year. Of this visit growth, mature hospitals increased by 3.8% in 2024 compared to the same period in 2023.

I would like to take a moment to share some insights regarding our operational performance that is responsible for these positive results.

First, I want to emphasize that the achievements we reported today are not just numbers. They reflect the dedication and hard work of our team across all levels of the organization. The growth we have experienced in both revenue and patient volume is a testament to our commitment to delivering exceptional health care throughout our micro hospitals as well as population health divisions.

Second, our recent opening of four de novo hospitals in 2023 have all ramped up nicely and contributed to this positive trend. Our mature hospitals are also growing—are also showing robust growth in both outpatient and inpatient services. Our ability to adapt to the needs of our patients is key to our ongoing success.

Third, our internal coding, billing, and collections departments operationally are getting more experience in working the No Surprises Act, or NSA claims, adapting to specific nuances, and solving complex problems in dealing with insurers post-NSA. As a result, we are seeing better reimbursement per patient.

Looking forward, we are focused on a few strategic initiatives that we believe will drive continued growth. First, continue de novo expansions of new hospitals. We are still on track to open between two to four hospitals per year. For 2024, we have already opened hospitals in Green Bay, Wisconsin, as well as Post Falls, Idaho. We are on track to open two more facilities later this year.

As it takes about 18 to 24 months to open a hospital, we are already working on the 2025, 2026, and 2027 hospital pipelines. We still get requests from all over the country to open these hospitals on a regular basis. Our challenge is to keep up with the demands in areas of the country that have the most immediate need for our brand of medicine and focus on those opportunities for our future pipelines.

Second, continue expansion of services for our mature hospitals. We will continue to explore opportunities to expand both our inpatient side as well as outpatient services to meet the evolving needs of our patient population. This may include adding new specialties or enhancing our current offerings, all aimed at providing concierge-level care closer to home.

By having a licensed hospital consisting of a 24/7 emergency room as well as inpatient services, we have all the tools necessary to pivot to service lines that are lacking or underserved in the communities that we serve and actively try to fill that void to provide the maximum value to the community.

Third, continue to work with insurers for better reimbursement. As we continue to learn more and more about the No Surprises Act, we are slowly getting better reimbursement, as evident in our improved financials. We continually strive to obtain fair in-network contracts with insurers. If this is not possible, we make serious attempts to get a fair Qualified Payment Amount, or QPA, from the insurers. If we do not get a fair QPA as described in the NSA bylaws the first time, we proceed with the Independent Dispute Resolution, or IDR, which includes both the open negotiation as well as arbitration process options. The IDR is the formal process that is available to all providers under the guidelines of the NSA. As we proceed with putting more charge through the IDR process, we will continue to report our findings in future reports.

Fourth, operational efficiency. Improving operational efficiency remains a priority, as it allows us to manage costs effectively while enhancing patient experience. We are implementing best practices across our facilities to streamline processes, reduce waste, and improve turnaround times for our patients. Josh DeTillio, our COO, will address this in further details later.

Fifth, innovation and technology. We remain committed to embracing advanced technologies that can improve patient care and operational efficiencies. Whether it's through electronic medical records, telemedicine capabilities, artificial intelligence to automate our coding, billing, collection services, or other digital tools, we aim to leverage innovation and provide enhanced services to our patients. As more technology becomes available, we are able to treat more and more patients at our micro hospitals, providing patients an attractive alternative to the often overcrowded hospital systems.

Lastly, driving awareness and community engagement. We will continue to engage with our local communities to raise awareness of the services that we provide. By focusing on targeted business development, marketing, brand awareness, and community events, we hope to build trust and maintain a strong presence within our region.

Overall, we're optimistic about our trajectory and believe that our focused approach will lead to sustainable growth and value creation. The healthcare landscape is constantly changing, and we are committed to staying ahead of these changes.

In closing, I would like to acknowledge and thank you to all our Nutex physicians, nurses, technologists, technicians, front desk personnel, administrators, and the entire Nutex corpus team from over 13 states for working as one unit to achieve these great results. We all share and believe in the same vision and mission of Nutex Health and are all aligned to continue to strive to create a long-term and profitable Company.

Anyone that has been involved in healthcare for a long time will recognize that what Nutex Health is doing is very unique and very special and fills a definite void in many aspects of medicine. We believe our momentum will continue, and we are excited about what the future holds for Nutex Health.

Now, I would like to turn it over to Jon Bates, our Chief Financial Officer, to discuss our financial results in greater details.

### **Jon Bates**

Thank you, Tom, and good morning, everyone.

It's great to see how our financial results reflect the effectiveness of our strategic initiatives and operational improvements.

Our third quarter 2024 results showed yet another great operational quarter, continuing the great quarter improvement in each of the last three quarters this year. We have seen continued growth with increased success in both top-line growth as well as in our cost controls company-wide.

Let's start with the third quarter ended September 30, 2024, first and compare those results to the third quarter ended September 30 of 2023.

For the third quarter of 2024, total revenue grew 26%, or \$16.1 million, to \$78.8 million versus \$62.7 million for the same period in 2023. Of the total revenue increase, mature hospitals, which are hospitals that were open prior to December 31 of 2021, and therefore provide two full years of comparative results, increased their revenue by 20.7% for the third quarter '24 versus third quarter '23.

For hospital division visits, we saw growth as well during the quarter as they increased by 11.3% or 4,225 visits to 41,668 visits in the third quarter 2024 versus 37,443 visits in the same period of 2023 with mature hospitals growing at 3.8% in the third quarter of '24 over the third quarter of '23.

Additionally, the population health division had a revenue reduction of \$1 million to \$7.1 million in the third quarter of '24 from \$8.1 million in the similar period of '23 due to the divestiture of two small entities within the division in the second and third quarters of this year.

Now, we discussed the growth in the hospital revenue and visits we have seen in the third quarter of '24. Now let's discuss the overall facility and corporate cost structure and the improvements in that area.

Total facility level operating costs and expenses represented only 72.2% or \$56.9 million of total revenue for the third quarter of '24 versus 88.7%, or \$55.7 million for the same period in '23.

As a result of the revenue and facility cost improvement, our 2024 third quarter gross profit was \$21.9 million or 27.8% of total revenue as compared to \$7.1 million or 11.3% of total revenue in 2023, a 210% improvement in the third quarter of '24 over '23.

From a corporate and other cost perspective, the general and administrative expenses as a percentage of total revenue for the third quarter of 2024 remain consistent at 12.5% compared to 12.4% for the same period in '23.

Additionally, on our third quarter income statement, you'll see a line item for stock-based compensation with the amount for the third quarter of 2024 being \$2 million. Most of that expense is explained in our third quarter 10-Q filing, which is within Note 11 for your reference.

Within that note, we explain that under the terms of four separate contribution agreements for hospitals that were deemed to be underdevelopment hospitals when Nutex went public in April of 2022, when each of the hospitals at that point—so at that—when each of the hospitals have been open for two full years, they are then eligible to receive a one-time additional issuance of common stock based upon the earnings of the hospital in the second year of their operations, which we denote as the earn-out period.

With four of these hospitals now entering that earn-out period, we began to accrue for the potential earn-out for each. In the third quarter of 2024, that amounted to \$2 million that will be accrued up each quarter and until we get to the end of year two for each hospital, at which time a final calculation will be done, and payment will be made 100% in Company stock and reported as a non-cash stock compensation expense.

With regard to the population health division, as mentioned previously, we did divest two smaller entities in the second and third quarters of 2024 that had very little impact on the operational side of the population health business as we move forward, but did impact population health revenue by around \$1 million in the third quarter as we discussed.

When it comes to operating income, including operating income, which did include the negative impact of that \$2 million of non-cash stock-based compensation expenses noted above, for the third quarter of 2024 was \$9.7 million compared to an operating loss of \$821,000 in Q3 of '23, representing a \$10.5 million improvement quarter-over-quarter.

Now, net loss attributable to Nutex Inc. was \$8.8 million for the third quarter of 2024, as Tom mentioned, but was negatively impacted by \$8.7 million for the two non-cash items noted above for the \$6.7 million non-cash loss on warrant liability and the \$2 million non-cash stock-based compensation expense.

The comparative net loss attributable to Nutex was \$5.5 million for the third quarter of 2023. Removing the effect of the \$8.7 million of non-cash items in the third quarter of '24 would show a \$5.6 million improvement quarter-over-quarter from '23 all the way to '24.

Now, Adjusted EBITDA attributable to Nutex, which did remove the effect of those two non-cash impairments noted above, increased \$12.2 million or 938% from \$1.3 million in the third quarter of '23 to \$13.5 million in the second quarter, excuse me, third quarter of 2024.

Now on to the nine months ended September 30 of '24 compared to the nine months ended '23. Total revenue for the first nine months of '24 grew by 25%, or \$44.3 million, to \$222.3 million versus \$178 million for the first nine months of '23.

Of the total revenue increase, mature hospitals increased their revenue by 13.5% for the first nine months of 2024 versus the same period in '23.

Now, hospital division visits saw a similar growth as they increased by 19.6% or 20,146 visits to 122,944 visits in the first nine months of '24 versus 102,798 visits in the same period in '23, with mature hospital visits growing at 7.7% in the nine months ended September '24 versus that same period in '23.

Additionally, population health division had a revenue growth of 2.1% to \$23 million in the first nine months of '24 from \$22.5 million in that same period in '23, despite the divestiture of the two small entities within the division during the second and third quarters as mentioned previously.

In addition to the revenue visit growth noted above, facility and corporate level costs also showed improvement for the first nine months of '24 compared to the first nine months of '23. Total facility level operating costs and expenses represented 75.4% or \$167.7 million of total revenue for the nine months ended September 2024 versus 87.9% or \$156.4 million for the same period in '23. It represented a decrease of 12.5% in relation to revenue.

The gross profit for the nine months ended September 2024, was \$54.6 million or 24.6% of total revenue as compared to \$21.6 million or only 12% of total revenue in the same period in '23, which represented a 153% increase for the nine months ended September '24 compared to the same period in '23.

From a corporate and other cost perspective, the G&A expenses as a percentage of total revenue for the nine months ended September of 2024 decreased to 13.1% or just \$29.2 million from 13.9% or \$24.7 million for the same period in 2023.

Operating income for the nine months ended September 30, 2024, was a positive \$16.4 million compared to an operating loss of \$5.6 million for the nine months ended September of 2023. Net loss attributable to Nutex Inc. improved by \$4.7 million from a loss of \$4.2 million in the first nine months of 2023 to a loss of \$9.5 million in the first nine months of 2024, even with four non-cash expense items related to stock, a comp expense, the impairment of assets, impairment of goodwill, and the loss on warrant liability, as you'll see in our income statement. Those negatively impacting this loss by \$10.2 million. Removing these four non-cash items, the Company would show net income attributable to Nutex Health Inc., for the nine-month period, of a slight positive number of just over \$600,000.

Adjusted EBITDA attributable to Nutex, which removed the effect of the four non-cash impairment items noted above, increased \$22.4 million, or 290%, from \$7.7 million in the first nine months of 2023 to \$30.1 million in the first nine months of 2024.

Enough about the income statement. On our balance sheet, as you can see, the balance sheet remains very strong with cash and cash equivalents at the end of September of 2024, at \$46.9 million, up \$24.9 million, or 113.2% from \$22 million as of December 31, 2023.

With regard to cash flow, net cash from operating activities increased by \$20.1 million for the nine months ended September 30 of 2024, to \$23.1 million, as compared to only \$3 million for the same period in

2023.

On the liability side, our total bank equipment debt decreased by \$570,000 to \$41.9 million at September 30 of 2024, down from \$42.4 million at December 31 of 2023, with the majority of this debt related to equipment loans at our hospitals for such items as MRIs, X-rays, ultrasound, CT machines.

This is a slight decrease from year-end, but the overall balance is a relatively small amount of true operating debt for a company of our size. Outside of this normal \$40-plus million of bank equipment-type debt, the only other items of materiality that look like debt on the balance sheet are the liabilities related to financing and operating lease liabilities, which are just the future lease payments to our landlords on our hospitals.

Now these are reflected on the balance sheet because the accounting rules require us to aggregate all lease payments that we pay to a landlord for the entirety of each lease, which in our case could be anywhere between 15 year to 20 years. Then present value the total lease payments for each of those leases back to the inception of the lease and record both the right-of-use asset and correspondingly a right-of-use liability on the balance sheet for that result.

As a result, on our balance sheet at September 30, 2024, the net asset balance for the operating and financing right-of-use assets amounted to \$209.9 million, which is roughly 48% of the total asset. The net liability balance for the operating and financing right-of-use liabilities amounted to \$262.5 million, which is 73.2% of total liabilities.

Now most investors and analysts don't view these right-of-use assets and right-of-use liabilities as real operating debt. I wanted to clarify that to you since we seem to get that question a lot.

With that, now I'll turn it over to Warren to discuss more about the population health business.

### **Warren Hosseinion**

Thank you, Jon, and good morning, everyone.

I'd like to take this opportunity to discuss our Population Health Management Divisions and the results we've seen in the third quarter of 2024 as outlined in our quarterly report.

Our Population Health Management Division is important in our overall strategy at Nutex Health. As many of you are aware, this division focuses on providing integrated care solutions aimed at improving the health outcomes of our patients. We operate primarily through our networks of independent physician associations, or IPAs, which are central to our model.

For the three months ended September 30, 2024, the Population Health Management Division reported total revenue of approximately \$7.1 million. While this marks a slight decrease compared to the \$8.1 million reported in the same period of 2023, it is essential to understand the context behind these numbers.

As Jon mentioned earlier, the decline in revenue is primarily attributed to the sale of two smaller subsidiaries earlier this year. Both of these subsidiaries were unprofitable. Although these divestitures temporarily impacted our top-line results, they have enhanced our bottom line and will allow us to concentrate more closely on our core competencies and strategic objectives within the population health space.

Adjusting for these divestitures, our core population health management efforts have continued to



demonstrate growth. We now manage just over 40,000 patients under value-based care arrangements with multiple payers. The division is focused on enhancing the quality of care provided to our patients while managing risks and costs. This is particularly critical as we navigate an environment that increasingly emphasizes value-based care and population health strategies.

One of the key drivers behind our positive trajectory is our emphasis on building relationships with local physicians and health care providers. By fostering these collaborations, we aim to create a robust network that can share resources, expertise, and best practices in managing chronic diseases, coordinating care, and improving treatment outcomes. This collaborative approach not only adds value to our services, but it enhances patient engagement and continuity of care.

Furthermore, we are enhancing the capabilities of our management services organization, which enables us to better support our IPAs and physician groups. In line with our focus growth strategy, we are actively working to launch new IPAs and expand our existing ones, thereby increasing the number of patients we serve under our population health framework. This expansion is integral to achieving economies of scale that can translate into improved financial performance over time.

As we move forward, we hope that our population health management initiatives will become an even more significant contributor to Nutex Health revenue mix. The growing focus on preventative care and holistic patient management aligns well with today's health care landscape, which increasingly seeks to address not just individual health events, but the overall well-being of populations.

In conclusion, while the revenue results for the population health management division reflect a temporary decline due to strategic divestitures, the underlying initiatives demonstrate a solid foundation for growth and improvement in our overall business model. I remain optimistic about our ability to drive both patient engagement and financial performance in this key segment.

With that, I will turn it over to Josh now.

### **Joshua DeTillio**

Thank you, Warren.

I appreciate the opportunity to speak with you today about Nutex Health operational efficiency, cost strategies, and growth endeavors during the third quarter of 2024.

As many of you know, operational efficiency is critical in our industry, as costs have increased significantly for hospitals, especially in labor and supplies. I'm pleased to report that our efforts to control costs, while driving volume, have yielded significant results so far this year.

We have implemented several cost-saving measures that have greatly contributed to our operational efficiency. Over the past few quarters, we've focused on three primary areas, labor costs, supply chain management, and contract services costs.

By closely monitoring labor hours and scheduling efficiently, we have successfully optimized staffing without compromising patient care. We are incorporating more software programs to help us become more efficient with labor, including an HR and procurement software that went live in the first quarter of this year, a scheduling software, which is projected to go live in the first quarter of 2025, and a software solution for labor analytics in the second quarter of 2025. As our volumes grow, we need more tools to optimize our hospitals, and these programs will give us more transparency and metrics to achieve this.

Our active management of our supply chain has resulted in notable savings and has helped us mitigate

inflationary pressures. We have aligned our suppliers and supply contracts with our primary group purchasing organization, our GPO, and we are experiencing this alignment to deliver at least a 15% reduction in supply costs for 2025 from a prior year run rate. This savings is on all of our existing hospitals, as there will be incremental supply costs for our new hospitals, but new hospitals will also be on the reduced GPO rates and pricing going forward.

In contract services, we continue to standardize where appropriate for discounted and bulk pricing. We are looking at areas like facility maintenance, shredding services, office supplies, DME, waste management, and pharmaceuticals. We have executed on a number of initiatives but have more to go. The local hospital teams have continued to renegotiate local contracts, as the whole Company has been very focused on cost in 2024.

In addition to these cost controls, we're seeing increased volume due in part to strategic growth initiatives. As previously mentioned, for the first nine months of 2024, the hospital division total visits increased to 122,944, which was up 19.6% from 2023, while mature hospitals were up 7.7% in visits. This growth is a direct reflection of both our business development and marketing strategy, and the local engagement of our leadership teams across our facilities.

Our business development team has been actively pursuing relationships with various local healthcare providers and groups, and working to enhance and grow our mix of services offered. One of the strategies we've developed is utilizing a new customer relationship management software. This program enables us to manage relationships more effectively, track engagement with both prospective and existing patients, and analyze data to refine our outreach strategies.

We've also placed a strong emphasis on community engagement. By participating in local health fairs and offering educational seminars on various health topics, we have been able to build strong relationships within the communities we serve. This initiative not only helps in raising awareness about our services, but also positions Nutex Health as a trusted health provider. Engaging directly with our community fosters goodwill and helps drive patient volume through referrals and repeat visits for the whole family.

Our leadership teams across the facilities have been pivotal in our success. Empowering our local leaders to make decisions tailored to their community's needs has been an important aspect of our strategy. Their on-the-ground insights allow us to adapt quickly to demand fluctuations and service needs. This decentralized approach enhances our responsiveness and supports our commitment to delivering quality care.

Looking forward, we are committed to maintaining this trajectory of growth and operational efficiency. As we expand our footprint by opening new facilities and transitioning existing operations, we will continue to prioritize cost management while ensuring that we meet the health needs of our communities.

In summary, our focus strategies in managing cost and driving volume growth combined with strong leadership and community engagement are shaping a promising future for Nutex Health. Our commitment to operational excellence remains a top priority as we strive to enhance shareholder value while keeping patient care at the forefront of our efforts.

I will now turn it back over to our moderator, Vivian, to open the line for questions. Thank you.

**Vivian Sanders**

Thank you, Josh. On the call, we have Bill Sutherland from the Benchmark Company, as well as Thomas McGovern from Maxim, who will now ask our team their question.

**William Sutherland**

I guess I'll start off. It's Bill. How's everybody doing?

**Thomas Vo**

(Multiple speakers) Very good. Thank you, Bill.

**William Sutherland**

Good. Good quarter. Hey, I wanted to think about the fourth quarter a little bit, thinking about the seasonality as you're seeing it, the timing of the two new hospitals, and particularly interested in how you're seeing patient visits in the fourth quarter. I think you get some positive seasonality as I recall.

**Thomas Vo**

This is Tom. Bill, yes, I could answer this. No, definitely our business does have seasonality to it. Fourth quarter with being colder, flu season typically have higher volume, and that continues through the first quarter, and then second and third quarter, it dips a little bit. For sure, we are expecting better numbers in the fourth quarter in terms of volume, but as you know, this year has been a little bit warmer. The flu season hasn't been upon us yet, but having said that, that will come because typically every year it's the same pattern.

**William Sutherland**

Okay. Your hospitals are going to be near the end of the quarter then, the two new ones?

**Thomas Vo**

Yes, the two new ones are projected to open in November and December.

**William Sutherland**

Okay. On the CapEx line, Jon, notice it's been very—it's been a lot lower this year, year-to-date, than last year. What's the outlook for CapEx going forward, given your plans?

**Jon Bates**

Yes. I think that you'll see that as we—certainly, as we reopen up the facilities, we will definitely be adding more in each one of those as we go. We've had two this year, and then potentially, as Tom indicated, two more later in this year. I think we talked about, on average, every year, somewhere being in the two to four range. I would anticipate that going up a little bit as we go through this process of adding that equipment as we open each of those facilities. Right now, everything's pretty much in line and we have a real solid opportunity for getting those in place. As you probably know, we talked about this before, where you have to put some of the equipment in months before something would open. There's some that you can wait until right around opening, but there's—MRIs and some of those machines you have to do several months ahead of time, so we have to plan for that. We'll continue to watch it, but I think it should be consistent with a little bit of an uptick, I would anticipate, over the next couple quarters in that line.

**William Sutherland**

Okay. Last for me, Tom, can you give us a little more color on your progress with the NSA arbitrations, or

not just the arbitration, but negotiation, and I guess the degree to which you're taking on more arbitrations, talk about the impacts that that has near term on revenue and then longer term.

**Thomas Vo**

Yes. From an arbitration standpoint, it's going well. We started the process at the end of June. As you know, it takes about six months or so for the whole process to get completed from beginning to end, where if we win on the arbitration side, the money then enters our bank account. We're still working on that. We still have some data that we're still trying to sort out. So far, the trend is going well, and so far, our results are consistent with published data out there regarding arbitration. We will know a lot more, hopefully, in the fourth quarter when we report, and definitely the first and second quarter of next year, regarding our success and our experience with arbitration for Nutex Health.

**William Sutherland**

Remind us what the data has been in terms of industry wide. I think it's been a pretty high success rate, right?

**Thomas Vo**

Yes. Industry, the data that's publicly available essentially shows a win rate of roughly 70% to 80% for the provider. The return that they get is, according to published data, almost doubles that of what they get initially. That's what the data shows. So far, once again, our trend is pointing toward similar data, but once again, we're still very early because June was only maybe five months ago, and it does take roughly six months to get money in the bank. Even after you win the arbitration, the insurance company still has to pay, and the definition of arbitration is that it's binding. Since we're all new at this, we're still waiting to see what happens even after we win, and we get a favorable result as to what the insurance company actually does with that information. We'll know a lot more, hopefully, in this quarter and next quarter.

**William Sutherland**

Let me—if I could sneak one more on this. What percentage of your claims are you putting into arbitration?

**Thomas Vo**

From our standpoint, between 60% to 80%. (Multiple speakers). Yes, what we find is that the insurance company are paying relatively low the first time. We initiate the process through the IDR process, and then, from there, we go to open negotiation first. If we can't negotiate, then we go to arbitration. There's definitely a stepwise approach to that process. You just can't go straight to arbitration. You have to go through open negotiation.

**William Sutherland**

Right. The 60% to 70% relates to just going through the entire process, not just arbitration?

**Thomas Vo**

Entire process. That's tight.

**William Sutherland**

Yes. Okay. Okay. Thanks, Tom. Thanks, everybody.

**Thomas McGovern**

Hey, guys. This is Thomas McGovern with Maxim Group. Yes. First question, going to touch on—and congrats on the quarters, guys. Great performance there. First question, going to piggyback on one of the earlier questions I had from the hospital opening. It sounds like you guys have pretty clear visibility on the two that will open by the end of 2024. Just curious, though, one of the great things about your business model is you have a lot of levers to pull that can augment the timeline for these openings. I'm just curious, is there anything you see now that might push that December opening into 2025, or are you fairly confident that it will occur by the end of the year?

**Thomas Vo**

Yes. Thomas, thank you for the question and welcome. Welcome to the team, so to speak. Thank you for joining us. To answer the question, our first opening in November is pretty certain. We already have licensing from the state. We have a team assembled. We have all the staff trained. That opening is relatively on track for this month, November. The second opening, I think, to your question, is slightly not as certain, and the reason is that it is located in Florida where we had a hurricane. That pushed everything back a few weeks with dealing with the hurricane and everything else. In essence, we're still on track to hopefully open by December, but there are a few levers to your point that we have to push in order to make that happen. We're still very optimistic that we're going to be able to open that.

By the way, the hurricane really did not do any damage to our hospitals. Just a side note, I mean, we've been in about probably 10 different hurricanes in the past with our operation in Texas, Louisiana, and now Florida. For the most part, our hospitals have fared very, very well. There's a reason for that. The reason is that for the most part, these hospitals are built to withstand pretty much anything that nature could throw at us. Typically, the state wants these hospitals to be the last structure standing so that if everything is wiped out, at least the hospital is still open, and we can see patients afterwards.

**Thomas McGovern**

Got you. Glad to hear that from you guys.

**Thomas Vo**

(Multiple speakers) yes.

**Thomas McGovern**

Yes, no, absolutely. I'm glad you guys managed to get through the hurricane relatively unscathed. Okay. As we look at 2025, you guys have been saying around four hospital openings we could expect, two to four per year, but it's looking more like four in 2025. Again, considering that you guys have a good deal of influence on the timing of these openings, what should we expect in terms of cadence? Should we expect maybe a hospital a quarter, or do you think that these openings might be weighted to one half of the year, maybe one in the first, three in the second? Any visibility on that would be very helpful.

**Thomas Vo**

Yes. No, we have four hospitals planned for 2025 also, just like in 2024. I think in terms of the cadence, one will open, I would say, in either first or second quarter of 2025, and then we should have three at the end of 2025. All four of them are essentially under construction as we speak, and so really it just depends

on construction time.

**Thomas McGovern**

Got you. Okay. Something that was mentioned earlier on the call is driving patient volume, which you guys have seemed to have done very successfully, particularly it's great to see that mature hospitals are seeing higher patient volume. One of the things you guys called out was the introduction of new services and capabilities across your portfolio of hospitals. I'm just curious now, you guys in the past year, just correct me if there's anything else I'm missing here, but you guys introduced some behavioral health specialties. You guys did substance abuse or—particularly for alcohol, I believe, abuse disorder. You guys have also in the past worked with the VA when those hospitals are overrun. It's great to see that your hospitals are very customizable to meet the community needs. I'm curious if across your facilities, and maybe with some of these new openings, you're seeing different trends in these communities, but have you identified any new services that you're looking to introduce in Q4 or in '25 or—any visibility or color you could add on that would be helpful for our outlook?

**Thomas Vo**

Thank you. Yes, and Josh could probably chime in also, but no, we're always trying to innovate. We're always looking for solutions to problems. The great thing about being in a lot of different localities and different states and different communities is that we see the needs of each of these communities and we try to solve it. Behavioral health or treating substance abuse, depression, alcohol detox, opiate detox, those are all as a result of the community reaching out to us and say, hey, can you help us with this? With us being a licensed hospital with pretty much all—most of the tools to do this, we work with our local physicians and nurses to pivot to those service lines and try to resolve them as best as we can. That was like the genesis of behavioral health and some of the other service lines.

Going forward, once again, we're always innovating, always looking for ways to solve the problems of the community, and so now we're looking at a PI, personal injury, and taking care of those types of patients. We're looking at wellness, health, things like that. Once again, these are all basically solutions to the community. We're looking at doing more procedures at our hospital. In a few states, in a few hospitals, we're starting to do procedures in our hospital. The point is that, because we're able to pivot, we're relatively a flatline organization. We can move in many different directions. Our hospital is, think of it like a car. You have a car, and we could pivot and drive it in any different direction that we need to, just depending on the need of the community and our ability to solve problems and create solutions for the communities.

**Thomas McGovern**

Great. I appreciate that response. Next question is on some of the cost savings that you guys have achieved and then looking forward at how you guys are going to continue this trend as you expand your network. You guys, Josh called out specifically the labor cost supply chain and the contract services. First, just maybe high level, what do you see as something that—of those three, what do you think is the greatest opportunity for you guys to further improve your cost structure? Maybe if you'd go in a little bit more detail on the labor cost, you mentioned that there were two softwares that were going to be implemented between the fourth quarter and early '25, or maybe it was both '25. Maybe if you could just talk a little bit about that specifically and kind of what you're hoping to achieve by implementing these software services.

**Joshua DeTillio**

Sure. Yes, this is Josh. A couple things. We really view all three buckets as big opportunities. There's not

really one that's more than the others. We've already executed on a number of the items. In terms of the labor software, we are creating an entire labor suite where we had, as I mentioned, the HR and procurement software, as well as the next one coming is a scheduling software. The teams will be able to schedule their teams more efficiently, communicate better, and then really optimize staffing to the volume. The last one is a labor analytics metric tool software that we will implement, which will give us a little bit more insight into daily trends and really being able to staff the volumes better.

We already operate our hospitals very lean from a labor standpoint. We're already pretty much there, but there are always opportunities to improve there. As you heard on the supply chain, we're looking at about a 15% reduction, and that's really reduced pricing across the board. The contract services really leveraging our size and scope to get some of those ones that I mentioned really at national-type contracts with significant discounts across the board. We're continuing to focus on cost.

**Thomas McGovern**

Got you. I know that's very helpful. My last question will just be on the variable interest entities. you guys discussed and explained on the call why you have to carry some of those on your balance sheet. You guys were successful in removing 18 variable interest entities from your balance sheet through discussions with lenders. I know that there were two—last time we spoke, there were two still on your balance sheet, and you guys were in active conversations with the lender to remove them. Just curious if there's been any progress on that, if you guys have had any discussion or any indication as to when we could expect those to be removed from the balance sheet.

**Joshua DeTillio**

Yes. No, we've made a lot of progress in trying to remove those two facilities, and both of these are in Albuquerque, the two hospitals in Albuquerque. In essence, the bank has already told us that they plan to remove that by the end of the year. That's where we're at. Once again, it's up to the bank, but they have confirmed that their intention is to remove those by the end of the year. We'll see what happens, hopefully.

**Thomas McGovern**

Great. That's all great to hear. I appreciate you guys taking the time to answer all of my questions. Again, congrats on the quarter.

**Thomas Vo**

Thanks, Thomas.

**Joshua DeTillio**

Thank you, Thomas, and thank you, Bill.

**Thomas McGovern**

You're welcome.

**Vivian Sanders**

All right.

As there are no additional questions for us, on behalf of the Nutex Health Management team, we appreciate everyone for dialing in and listening to our third quarter earnings report. A recording of this call will be available on our website for a limited time. If there are any additional questions, please send an email to [investors@nutexhealth.com](mailto:investors@nutexhealth.com), and we will do our best to answer in a timely manner.

Take care, everyone.

**Thomas Vo**

Thank you, everyone.

**Operator**

Thank you. This does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.