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Nutex Health, Inc.

First Quarter 2025 Financial Results Conference Call

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Jon Bates, *Chief Financial Officer*

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PRESENTATION

Operator

Greetings. Welcome to Nutex Health's First Quarter 2025 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 from your telephone keypad.

Please note, this conference is being recorded.

At this time, I'll turn the floor over to your host, Jennifer Rodriguez, Investor Relations for Nutex. Jennifer, you may begin.

Jennifer Rodriguez

Good morning, everyone, and welcome to Nutex Health, Inc. first quarter 2025 earnings call. I'm Jennifer Rodriguez, and I'm pleased to moderate today's discussion. Thank you for joining us as we review our performance and outline our plans for the future. This call is being recorded for future reference.

With me today are our key leaders, Dr. Tom Vo, Chairman and CEO; Jon Bates, Chief Financial Officer; Mr. Warren Hosseinion, President; and Josh DeTillio, Chief Operating Officer. They will provide insights into our financial results, operational progress and strategy direction, followed by a Q&A session.

Before we begin, a few reminders. Today's discussion may include forward-looking statements based on Management's current expectations. These are subject to risks and uncertainties that could cause actual results to differ. For details, please refer to our press release and Form 10-Q filed yesterday and our other SEC filings.

We'll also discuss non-GAAP measures like Adjusted EBITDA, with reconciliations available in our press release and Form 10-Q.

With that, I'm pleased to turn the call over to Dr. Tom Vo, our Founder and CEO, Dr. Vo, the floor is yours.

Thomas Vo

Thank you, Jennifer, and good morning, everyone. I am pleased to resent Nutex Health results for the first quarter of 2025, which reflects continued progress following a strong 2024. Our mission of delivering accessibility with high-quality care and a patient-first approach has driven consistent growth and operational stability.

Operationally, Q1 2025 show steady progress, with total patient visits reaching 48,269 patients, a 20.5% increase from 4,068 in Q1 2024. Mature hospitals achieved a 5.3% increase in visits, demonstrating sustained demand for our services.

Financially, Q1 2025 delivered solid results. Total revenue reached $211.8 million, a 214% increase from $67.5 million in Q1 2024. Adjusted EBITDA was $72.8 million, up from a negative $400,000 from the same quarter last year. Net income attributable to Nutex Health, Inc. was $14.6 million or $2.65 per basic share compared to a negative $400 million loss or a negative $0.08 per basic share in Q1 2024.

Our balance sheet remains stable with long-term debt reduced to $20.7 million from $22.5 million at year-end 2024 and cash in the bank at $87.7 million, up from $43.5 million from year-end 2024. Our net cash flow from operating activities in the first quarter of 2025 was $51 million compared to just $3.1 million in the same period in 2024 and surpassing the cash flow for the entire year of 2024. These impressive growth metrics reflect our company's efforts to enhance patient volume, increase inpatient admissions, cost streamlining and optimization, and improved revenue per patient through effective revenue cycle management, particularly via the arbitration process. Every month, we are gathering more data collections and arbitration wins which help us refine our accruals, and we believe we are getting closer to a steady state. While there's a lot of work that needs to be done, we are very encouraged by the positive progress.

Let me take a few moments to discuss the arbitration process that we first implemented in July of 2024. Overall, it is a small but very important part of our operation. In the first quarter of 2025, we submitted between 60% to 70% of billable visits through the arbitration portal. We achieved an 80% plus win rate of these emissions, resulting in facility collections increasing by between 200% to 300% compared to the initial insurance payments. This means that an independent arbitrator has legally determined that the insurance companies are paying us initial payments that are much lower than fair and reasonable rates over 50% of the time.

So far, even with these winning percentages, we have not seen any significant behavioral changes. We are constantly monitoring legislative and legal developments at both CMS and in Congress, to make sure we are on top of any potential changes. However, from all our research and discussions with subject matter experts, it appears that the No Surprises Act and the associated arbitration process is here to stay. One

main reason for this is the fact that very few of the charts that are eligible for arbitration actually yet arbitrated. In fact, public data shows that only about 5% of eligible charts are actually arbitrated. The reasons for this low level of arbitration participation include the high monetary cost as well as the extended length of time to get paid once HR goes through the arbitration process.

In terms of the arbitration process itself, it is constantly getting more refined day by day. We are seeing some improvements to the arbitration process, including more IDREs or arbitrators being added to the list of available arbitrators as well as new guidelines to provide safeguard to the integrity of the system.

In fact, one legislative development that may be germane to our industry will be Bill H.R.9572, being introduced by representative Greg Murphy of North Carolina that proposes a penalty of three times the difference between the insurers' initial payments and the IDR award amount, less interest if the insurers do not pay in 30 days as required by rules in the No Surprises Act. This bill will only help us get paid faster in a more reasonable manner.

Looking ahead, we are well positioned for 2025. We continue to expand our micro hospital model in high demand markets. There is no lack of demand for our innovative micro hospital model as we still receive requests to build these hospitals monthly from all over the country. For 2025, we have plans to open three additional hospitals. Our pipeline currently extends from 2025 to 2028, and has 10 less projects in various stages of development, targeting markets where our high-quality care is needed. Each facility is designed to reduce emergency waiting times, increase accessibility and provide tailored medical services.

Our company growth strategy emphasizes four priorities: increasing patient volume, expanding services to provide care to more observation and inpatient emissions, optimizing revenue through efficient revenue cycle management and arbitration, maintaining disciplined cost and aggressive debt management. We feel that as long as we receive fair and reasonable payments, from either the arbitration process or from changes in payer behavior, our lower cost model will be sustainable and repeatable. Because of our experience of having been through multiple cycles, and our ability to pivot and adapt to any market conditions and with the balance sheet and a clear pipeline, Nutex is well positioned for continued sustained growth.

Now I'll turn the call over to Jon Bates, our CFO. Jon?

Jon Bates

(Audio interference) financial performance for the first quarter of 2025 which reflects another solid quarter with consistent growth. I'll compare some key financial metrics for Q1 of 2025 versus the same period in '24, highlighting percentage changes across areas such as revenue, Adjusted EBITDA, net income, EPS and other indicators as detailed in our Form 10-Q filed yesterday.

Starting off with total revenue. Total revenue for Q1 of 2004 as Tom indicated did reach $211.8 million, a 214% increase from $67.5 million in quarter one of 2024. The hospitals revision drove most of this growth, generating $203.9 million, which is up 240% from $60 million in the first quarter of '24 with $105 million tied to arbitration efforts through the independent dispute resolution process. Of that $105 million in arbitration revenue, $60 million related to data service for the first quarter of '25, $26 million related to date of service for the fourth quarter of '24 and $12 million related to dates of service for the third quarter of '24 following the remaining $7 million relating to periods prior to the third quarter.

Of the total hospital division revenue, mature hospitals, which are hospitals operational before December 31, 2022, it saw 186.5% revenue increase for the first quarter of '25 versus the same period in '24. For the hospital division visits, we did see growth as well during the quarter as they increased by 20.5% or 8,201 visits up to 48,269 visits in the first quarter of '25 versus 40,068 visits in the same period in '24 with mature

hospitals growing at 5.3%, as Tom indicated before, in the first quarter of '25 versus the same period in '24. Additionally, the population health division revenue did increase by roughly $400,000 or 5.4% up to $7.8 million in the first quarter of '25 from $7.4 million in the same period in 2024.

Now let's discuss the overall facility and corporate costs and the continued improvement in that area. Total facility level operating costs and expenses increased $36.2 million during the period, but only represented 44.1% or $93.5 million of total revenue for the first quarter of '25 versus 84.9% or $57.3 million of total revenue for the same period of '24. Of the $36.2 million increase in these facility operating costs and expenses, $26.3 million related to arbitration costs for the additional arbitration revenue recorded during this period, which approximated 25% of that incremental addition of revenue I mentioned previously.

As a result of the revenue and facility cost improvements, our 2025 first quarter gross profit was $118.3 million or 55.9% of total revenue as compared to $10.2 million or only 15.1% of total revenue in the same period of 2024, which represented 1,065% improvement.

From a corporate and other cost perspective, the general and administrative expenses as a percentage of total revenue for the first quarter of '25 decreased down to 4.7% compared to 12.8% for the first quarter of '24, showing our continued focus on controlling costs while improving revenue.

Additionally, on our first quarter 2025 income statement, you will see a line item for stock-based compensation and expense and it's been there this year and last year and before. But with the amount for the first quarter of 2025 being $36.1 million, most of that expense is explained in our first quarter 2025 10-Q within Note 10. But within that note, we explained that under the terms of four separate contribution agreements for hospitals that were deemed to be under development hospitals when Nutex went public back in April of 2024. At the point in which each of the hospitals have been open for two full years, they are eligible to receive a onetime additional issuance of company common stock based upon the earnings of the hospital in the second year of their operations, and that second year is which we denote to be the period of what the earnout period is.

With four of these hospitals in the earn-out period currently, we are accruing for the potential earn-out for each. In the first quarter of 2025, that accrual amounted to $36 million that will be trued up each quarter until we get to the end of year two of each hospital after opening. At which time the final calculation will be done and payment will be made 100% in common stock and recorded as noncash stock compensation expense in our financials, which is how it's presented currently.

In the first quarter of 2025, one of these four facilities did reach the end of the earn-out period, leaving the other three to complete their earn-out period by the early part of the third quarter of 2025. The good news is that after these limited number of legacy hospitals have matured, there will not be a significant noncash earnouts in the future.

Now let's talk about operating income. Operating income, including the negative impact of the same $36.1 million in non-cash stock-based compensation expense for the first quarter '25, was $72.2 million compared to $1.5 million in Q1 of 2024, representing a $70.7 million improvement quarter-over-quarter. Net income attributable to Nutex Health was $14.6 million for the first quarter of '25, again, also including the negative impact of that $36.1 million noncash stock-based compensation expense that we talked about previously. The comparative net loss attributable to new tax was $400,000 for the first quarter of '24, showing a $15 million improvement period-over-period.

From an earnings per share perspective, our diluted EPS for the first quarter of 2025 was $2.56 share compared to a loss of $0.08 per share in the first quarter of '24, showing at $2.64 per share price increase period-over-period.

Now Adjusted EBITDA attributable to Nutex increased $73.2 million from a loss of $400,000 in the first quarter of 2024 to $72.8 million in the first quarter of 2025. One small change in our calculation of Adjusted EBITDA this quarter, which we will continue using as we go forward, was that we now include in our calculation, the impact of cash rents paid that fall under our right-of-use asset financing accounting treatment for our building leases for all periods presented. In our previous treatment of these rent payments within our calculation, the cash rent paid impact was not being reflected as a reduction in this calculation, so we felt it appropriate to include it.

Finally, our balance sheet remains very strong with cash and cash equivalents at March 31, 2025 at a record high of $87.7 million, up $44.1 million or 101.1% from $43.6 million as of December of 2024. Our continued success with the collection efforts related to the arbitration process is allowing us to get paid more fairly to the services we provide and was obviously a big part of this success.

With regard to the accounts receivable, our balance at March 31, 2025 was $295 million, an increase of just under $63 million from $232 million at the end of the year of 2024. To give you some perspective of that $295 million ARR, $199.3 million or roughly 68% relates to visits in the arbitration process, which was similar to our position at the end of 2024. During the first quarter of 2025, the Company collected around $140.4 million in cash, of which $103.7 million or approximately 45% of that related to AR as of December 31, 2024.

Regarding cash flow, Tom mentioned this earlier, but net cash from operating activities is very strong this quarter at $51 million which was an increase of $47.3 million from the same period in 2024. On the liability side, our total bank and equipment type debt increased by nearly $1.8 million to $43.2 million at March 31 of 2025 from $41.4 million at December 31, 2024. With the majority of this debt, as we talked about before, relating to equipment loans at our hospitals for such items as the MRIs, X-rays ultrasounds and items like CT machines.

Outside of this normal $40 million plus of equipment type debt, the only other items of materiality that look like that on the balance sheet are the liabilities related to financing and operating lease liabilities, which are just the future lease payments due to our landlords on our hospitals. We've discussed this in previous periods, but I just wanted to walk through again so that we remind people what this really means because these are reflected on the balance sheet because the accounting rules require us to aggregate all lease payments that we pay the landlord for the entirety of each lease term, which might be 15 to 20 years of payments. Then present value that total lease payment back for each, all the way from inception of that lease and record both a right-of-use asset and a corresponding right use liability on the balance sheet for that result.

As a result, on our balance sheet, at March 31, 2025 the net asset balance for the operating and financial right-of-use assets amounted to $243.7 million, which is about 32% of our total assets. The net liability balance for the operating and financing right-of-use liabilities amounted to $288.7 million, which is 61.2% of total liabilities. I just wanted to provide some perspective as most investors and analysts don't view these right-of-use asset liabilities as real operating debt. I wanted to clarify that for you.

With all this said, our balance sheet remains very solid, and we continue to strengthen it with our positive operating performance. Our current financial position has put us in a great position to execute on all of our initiatives in our 2025 operating plan, including the opening of three new hospitals later this year, as Tom mentioned earlier.

With that, I'll now turn it over to Warren Hosseinion. Warren?

Warren Hosseinion

Thank you, Jon, and good morning, everyone. Thank you all for joining us today. I'm pleased to provide an update on Nutex Health population health division which supports our commitment to value-based care.

As a reminder, our overarching strategy at Nutex Health is to build an integrated health care delivery system combining hospitals and medical groups also referred to as IPA. Our IPAs are comprised of networks, as primary care physicians and specialists located around our facilities. The IPAs enroll patients from different health plans and are responsible for the total care of these patients.

By combining hospitals and IPA, we believe we will be able to deliver care that is more coordinated, cost-effective and with better outcomes for our patients. Our IPAs send patients to our hospitals and our hospitals deliver more efficient and cost-effective care, reducing the medical loss ratios in our IPAs. This is a long-term strategy that will take several years to bear fruit, but we are in this for the long run at Nutex Health.

We are pleased to report a strong start to the year with first quarter results that reflect the continued momentum behind our strategy. We currently have over 40,000 patients enrolled in our IPA in various risk-based arrangements. Of note, I am happy to report that we now have almost 1,400 Medicare Advantage members in our Houston physician IPA.

In Q1, our IPAs generated $7.8 million in revenue, a 5.4% increase from $7.4 million in Q1 2024. This is despite the fact that we divested two non-core assets in mid-2024 that were generating revenues but had operating losses. Operating income improved to $0.1 million from a $0.3 million loss in Q1 2024. Margins continue to be moderated by ongoing investments in new markets such as Houston, Phoenix and Dallas.

With that, I will now turn it over to Josh DeTillio, our Chief Operating Officer.

Joshua DeTillio

Thank you, Warren, and good morning, everyone. I'm pleased to share Nutex Health's operational results for Q1 2025 which demonstrate our ability to deliver high-quality care while achieving steady growth and cost discipline. Our micro hospital model centered on patient needs continues to perform very well, and I'll discuss some volume trends, cost management, patient acuity, and advantages of our approach.

Total patient visits, as Tom mentioned, reached 48,269 a 20.5% increase from the 4,068 in quarter one 2024 which reflects growth in both new and mature hospitals. Mature hospitals grew by 5.6% in the first quarter. This growth reflects our leadership team's efforts in community engagement, business development and adding specialists to manage more complex cases by increasing observation in inpatient space to meet the community need.

Our capacity to provide observation inpatient is a key strength. Observation days help avoid unnecessary admissions while inpatient services ensure comprehensive care for appropriate cases. This approach improves outcomes and patient satisfaction by offering efficient high-quality care. Our model reduces emergency room wait times and provides personalized services positioning Nutex as a trusted provider in the communities we serve.

Cost discipline for us remains a priority. Excluding arbitration costs, operating costs remained stable despite higher volumes and new hospitals this year. Labor costs increased 29% from $27 million to $34.9 million, which was comprised of increased payroll and benefits for opening four new hospitals or higher ER volumes and an increased volume of higher acuity observation and in patients.

Overall labor costs continue to be a much smaller percentage of net revenue than most hospital companies at 16.4% for the first quarter, which exemplifies our lean, high-quality model. Supply costs continue to be a very good story for us. Supply costs decreased 28% from $5.3 million to $3.8 million in the quarter due to

our 2024 GPO and vendor realignment even while we opened four new hospitals in the year. We will continue to see supply cost savings throughout 2025 as stated in the third quarter 2024 earnings call.

We're continuing to explore technology investments, including AI, for patient check-ins, staffing optimization, provider note writing and coding accuracy to improve productivity and efficiency. These tools will help further streamline our operations, enhance care delivery and productivity this year and going forward.

We continue to believe our micro hospital model is the future of health care. This model provides efficient access, high-quality concierge care, a lower cost structure in a more intimate and personalized setting versus the large general hospitals. We believe the micro hospital model will continue to grow rapidly over the next few years and in the industry. As we've seen in our existing hospitals when patients have a choice to prefer fast, high-quality personalized care with our model and profitability, we are well positioned to continue our growth and progress in the coming years.

Back to you, Jen.

Jennifer Rodriguez

Thank you, Josh, and thank you to Tom, Jon and Warren for those updates. We'll now move to the Q&A. Operator, please provide instructions.

Operator

Thank you. If you'd like to ask a question at this time, you may press star, one from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to withdraw your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions, and that's star, one. Thank you.

Thank you. Our first question comes from the line of Bill Sutherland with Benchmark Company. Please proceed with your question.

Bill Sutherland

Thanks. Hey, everybody, and congrats on all the progress. Jon, wanted to think about—you said you're getting a lot more clarity on the arbitration process as far as how the cash comes in. It looks like your metrics are holding steady in terms of the submissions and the success rate. Should we think about 1Q as something that is essentially repeatable in the following quarters this year? You do have a viewpoint here at the midpoint of 2Q? Thanks.

Jon Bates

Yes. No, great question. Obviously, we're still in the middle of the second quarter. I'm not going to speak much to that. But what I can tell you is, and I mentioned this at year-end when we went through this first discussion around what was going on with arbitration, it was early stage. We felt like we had an understanding of the early on payments that were coming in, the realization of what was happening because we had a little more time to hold off as we're going through year-end, going into the early March time period to see how the true realization was happening. That's when we created the receivable we had at the end of the year.

I think what you can see from this, while it's going to take time to get to the point of normalizing. After one quarter, we're starting to see a little more of what we would expect. I think I mentioned then that I think it's really going to be two quarters until we're really prove this out. But if you look at the raw numbers at, think about how we talked about at the end of last year compared to now when we're looking at where the reimbursement rates were, and you saw back then at the end of '24, if you look to the full year, it was in the $2,700 mark, but that was really only with six months of arbitration in it.

Now we're moving forward, and you can continue and think about, okay, for the quarter of 2025 where the reimbursement, as you looked at it per visit was a little over $4,000 over $4,200. That's a guide, but I think you need to look back more, I believe, let's say, the last nine months from July through the first quarter. If you look at the nine-month number, it's in the $3,800 area. I think when you're talking about normalization of revenue, it's starting to work its way down based on assuming similar acuity, certainly similar level of volume, which we've had some improvement there. I think it's starting to work itself out, but to predict and say that this quarter is representative of what would happen in the next seasonality.

Also, I think that we're still getting the complete information now that we've been in this. We started in July, but really we didn't see activity until middle of the fourth quarter. We've really only had about four, four and half months of cash coming in. I think as we see the second quarter and add another quarter or two, and I think we'll really define that. But generally, it's trending in that direction, but I don't think we're at a steady state yet. We're going to have to watch that closely over the next quarter or so.

Bill Sutherland

Well, yes, I was thinking about it in terms of how it laid out with what you realized in terms of claims that were actually in this quarter and then what came in from fourth quarter and third quarter, etc., and whether that pattern feels like it's something that is going to follow in other words.

Jon Bates

Repeatable, yes.

Bill Sutherland

Yes. You can't say, obviously, no one's looking for, we understand the vagaries of all this. But that's a pattern just in terms of the trail, if you will.

Jon Bates

Yes, absolutely. It's a good point. The trending, as you mentioned about the pattern. What we can say is we put out numbers at the end of the year, just like we put out numbers here. I can tell you that the numbers at the end of the year, I feel like they were representative of what was happening and what is expected to happen and we've continued that into the first quarter. Barring major changes other than the other independent variables that affect revenue. I think the trending is solid. This engine, the process that we go through has been in place since even before when we went public, we set up just the regular accrual process of our revenue.

All we did was add on this feature and the engine is there. We're feeding, as we talked about 60% to 70% of our visits are rolling through this process, and it's on a consistent basis still happening in that fashion. We're still seeing the same level of success over 80% or more so. Based on that, the trending has been solid and we hope to watch that continue as we move forward.

Bill Sutherland

Great. You did just reaffirm something I want to make sure I understood. The three remaining underdeveloped hospitals receiving income on their model. That is going to run through third quarter and then they'll be done?

Jon Bates

Correct. Yes. That's the main three are finished by the early part of the third quarter.

Bill Sutherland

Okay. Then with the cash growing the way it is, I'm just curious, as you guys think about your capital deployment plans and how you may be prioritizing going forward?

Jon Bates

Yes. That's a great question. I know Tom can speak more to that too as well. But cash has been strong. We actually have an investment approach internally in the short term as we look at the different opportunities that are out there, in particular. Certainly, we're always looking for continued growth in opening up facilities, which does take, as he's talked about, he's got several in the pipeline. That's a big piece of potentially opportunities for us, we could increase that rate if we wanted to.

I know as Warren mentioned on the population health side, there's opportunities to invest in that side of the business as well. As well as potentially even looking at other similar smaller hospitals that would fit our layout to basically potentially add existing businesses that maybe aren't performing as well and then adding the features or functionality that we have to it and getting off the ground a little bit quicker. There's opportunities in those three areas.

Tom, you can talk more about others.

Thomas Vo

Yes. No, thank you, Bill. Thank you for following us. Thank you for covering us. But like Jon said, we're very fortunate to be in a position to have a lot of cash in the books. Obviously, we're going to be very conservative with that cash and use it to maximize shareholder value. We have a lot of options. The good news, though, is that opening one of these hospitals, as you know, is not that capital intensive. Even if we open these three hospitals this year, we should still have a lot of cash left over. We're still discussing internally on how to best deploy that cash and to maximize shareholder value.

Bill Sutherland

Great. I'll jump back in queue and let other people to get in question. Thanks, guys.

Jon Bates

Thanks, Bill.

Operator

Next questions from the line of Thomas McGovern with Maxim Group. Please proceed with your question.

Thomas McGovern

Hey, guys. Congrats in the quarter, the strong performance, especially underscored by the collections in arbitration. That's going be my first question related to—during the quarter, a little bit over 40% of the arbitration related revenue was related to dates of service prior to the first quarter, right? If you look back between the fourth quarter and this quarter, you recognized around $95 million in 4Q. What I'm getting at is how have you guys started to look at working through prior quarter dates of service revenue? Have you guys worked through most of what you recognize for the fourth quarter? Can we expect the first quarter to be similar to the fourth quarter as of the end of the second quarter? You guys recognized $60 million, sorry, to clarify it. It's recognized $50 million from 1Q. Would it be reasonable for us to assume you guys will be able to recognize somewhere around $35 million in the second quarter consistent with what you did in 4Q?

Jon Bates

It's a great question, Thomas. The reality is, I'd say we don't know as we watch the process. I can tell you that as I mentioned before, I think the ironing out of the realization piece, assuming steady state is starting to become clearer and clearer, which allows us to, in the period that we're in, improve the accuracy of the revenue that we're recording. I think we've done a really, really good job. Quite frankly, even prior, as I mentioned before, prior to arbitration, this is the way we've captured revenue to the best recent historical data, assuming things remain consistent for similar acuity, similar insurance payer, similar location. We're doing it down to the granular level.

What happens is as we see things like, okay, maybe there was an additional amount in the current quarter or current month that may be related to a previous month or a previous quarter. What that does is it helps us update the model. It could be up or down, in this case, there's clearly, it's a little bit higher. But I think it's helping us to better align, better identify and better predict really what's going to happen. I think we've done a really good job up to this point and we're continuing to get better and better. But a lot of it depends on the timing of cash coming in and each of the different payers, we have different situations with each one. Some might pay slightly quicker, some slower and there's all sorts of individual situations one by one.

But on a consistent trend basis, I think that previous period component should continue to work its way down, but that's always going to be there. Because someone's walking in the door today. Potentially, if it goes through the arbitration process, it could be five months before you ultimately get final payments. You're anticipating when you might get you get a piece of that in 30 to 45 days, which is how it works and then you go into the process and then you got to wait four months after that to potentially get paid. It will just be watching that and managing that in each of it watching it closely with different payers and the different levels of acuity and also different locations in different states that we're in.

Long answer to your short question is, I can't predict exactly what we'll be to expect, say, in the second and third quarter. But I can tell you that I feel like we're getting tighter and tighter on the realization based on the more data that now we're getting that we've now had a solid if you think about the first payment coming in September, October last year. Now we've got six, seven months of payments and by the time we close out second quarter, it will be up to close to nine months of payments on this process. I think we'll have a much better feel for it. But I think you see the trending, and I think you have an idea of where it's heading and I think you're on target with your thought process.

Thomas McGovern

Understood. I appreciate that color. How should we be looking at the addition of new eligible arbitrators? Do you think this could accelerate the arbitration process or any way shift your strategy for submitting claims?

Jon Bates

Yes, it's a great question. We believe ultimately that will only help us. Because I think one of the things that we've been made known and we've been a couple of different seminars speaking at some and listening to other groups, including a couple of these IDREs in particular, a couple of the larger ones, along with the government. They all indicate that the most important thing that needs to happen is that they need to find some additional arbitrating groups that can be certified and come in and help with some of the backlog. Because there's no doubt that the backlog is there, and you can see it in industry data as well, we see it too. They have been picking that pace up a little bit. Several of them have done a great job.

There's a couple that have lagged and they're actually being communicated with to try to help them get resources and improve on that plus than they've added, potentially as you mentioned, adding a couple more. I think adding a couple more will only help the situation. We'll have to watch their impact and their communication in the process as we start using them because each one is a little bit distinct and different. We have to watch their approach to how they handle the information that we provide them when it comes to their resolution of who wins or who loses, but we think it will only be a positive as you move down the road as they add more and more of these. They are getting better at it, which is good and most of them are adding resources as we speak.

Thomas McGovern

Understood. Thanks for that. Last question, then I'll hop back in queue. Just looking at the acuity mix, one of the largest drivers of mature hospital growth as well as the increased inpatient and observation visits. You guys have added specialists to facilitate this and continue to drive growth in that regard. I'm just curious, do you think that you're now operating at a steady run rate in terms of acuity mix and inpatient volume? Would you expect that to continue to ramp as we move through 2025? If you do expect it to continue to ramp, maybe just touch on some of the key points that you expect to drive continued growth in the high-level acuities and inpatient and observation visits? Thanks.

Thomas Vo

Yes, hi Thomas, this is Tom. First of all, thank you for following us, and thank you for covering us. I'll elaborate a little bit on that question, and then I'll pass it over to Josh. But the way to think about this is that we still have a very high capacity in our inpatient capacity. In other words, as we ramp up these hospitals to be able to emit more patients, and that includes getting more specialist on, getting the proper equipment, getting the proper software technology, so on and so forth. We feel that there's room to grow, not just on the volume side on the ER side, but also on the inpatient side.

Josh, do you have anything else to add from that standpoint?

Joshua DeTillio

No, not much on, well said. I would just add that, as Tom said, we do have bed capacity, and we are increasing our reputation as being prepared to take care of most patients but the specialist component is a big component, adding cardiologists, adding neurologists and other specialties has helped us take care of more patients, more observation and (audio interference). We expect that to grow. We haven't put out guidance on that yet, but that will continue to grow over the next coming quarters.

Thomas McGovern

Understood. I appreciate that clarity. I'll hop back in queue.

Operator

Thank you. Next question is from the line of Gene Mannheimer with Freedom Capital. Please proceed with your question.

Gene Mannheimer

Hi, thanks, good morning. Congratulations, guys, another above average quarter. Appreciate it.

Jon Bates

Thank you, Gene.

Gene Mannheimer

You're welcome. The arbitration payments that we've been discussing, when you get those in a successful dispute. Is there a penalty payment that you are receiving in that, that you would not otherwise receive if the bill was paid right the first time? Where I'm going with that question is, over time, as arbitration revenue moderates and perhaps it's offset by higher base reimbursement, does that make year-over-year comps tougher like when you get out to, say 2026?

Jon Bates

Yes. Gene, great question. On the first piece, in the arbitration concept and how that process works. Right now, there is no "penalty" for them to pay, pay timely or not pay timely. I know Tom indicated one of the acts earlier, the Murphy Act. One of the components of that listed and has in there is somewhat punitive penalty concept that I think is important and something that is if and when a gain that gets put in will significantly improve the timeliness of payments. Answer to your first question is it should not have—in our numbers, it's basically us providing the support for each component of the visit itself, supporting the value of the services that we're providing. That's what's going on to the arbitrator.

Now there is the ability you'll see in the NSA, it specifically says this, you can include cost to collect because you have to go through this process and you have potential to have to get lawyers or just spend time and effort. You are able to include some type of cost component in addition to the services that you have, which in a lot of cases, that is included in and the ultimate argument that ultimately goes to that arbitrator and part of the 80% plus win that we do get. But there is no "penalty" as you asked at this point for them not paying or not paying timely.

The answer based on that, then you asked about how that would affect '26, I don't think there would be any necessarily impacts in future periods based on that changing other than certainly, if they do put in place the action for a punitive measure for the payers if they don't pay time. Then that certainly will increase the ability to have additional revenue. But at this point, that is not the case in the way we do our current process.

Gene Mannheimer

Great, thank you, Jon for that color. My follow-on is really more in the core business, you cited a 5.3% increase in the mature hospital visits, which is strong. I'm just wondering if there was any element of outsized seasonality there? In other words, was the flu season worse this Q1 than last Q1, and therefore, maybe played a bigger factor?

Thomas Vo

Yes. Hi, Gene. I can answer that, and maybe Josh can chime in. By the way, Gene, thank you once again for following us and covering us. This year's flu season was quite interesting. What we saw was that the flu season started later, I would say, mid-December and it progressed through February and maybe even early March. It was not just the flu, but it was RSV that was, obviously, COVID also and some GI bugs that was also involved. The point is that, yeah, this flu season was a little bit longer last year. But even then, if you compare it quarter-to-quarter like year-over-year, and that successive quarter, we still achieved a 5% increase.

I think that's basically to Josh's point that the communities are more aware of our services. We still provide fantastic services to the community. If you take a look at any of our, say, Google review, we consist in 4.5 to 5 stars which is very unusual in health care. As the further we continue to operate in each community, the more the word gets out of how greater hospitals are so that more patients continue to come.

Josh, any more color on that?

Joshua DeTillio

Yes, Tom. Well said; a couple of things. One, about year and half ago, we really and I have to give credit to our teams, really started with a big business development effort, which continues to bear fruit. Our challenge really is getting the word out on our hospitals. We feel that we have the best service in the industry. Once a patient comes in, they see how great it is, they get the concierge care, they're going to come back, they're going to bring their family back. We continue to try and get the word out to educate the community on all the services we provide, and I think that's why you're seeing the continued mature household growth as well as increased observation and in patients.

Gene Mannheimer

Yes. That's great. Congratulations on that progress. If I could just squeeze one more in. The three new hospitals planned this year. Can you just share maybe the timing of when you think those will open? Thanks.

Jon Bates

Yes. Hi, Gene. I could elaborate on that. All three hospitals this year will be third and fourth quarter. All three of them are going to be in Texas. One of them is going to be in Houston, where our corporate office is. It's essentially our backyard. The second half of all is going to be in San Antonio. The third hospital is going to be in Sherman, Texas, which is located in north of Dallas on the Texas and Oklahoma border. All three are very fast-growing areas with very good job growth for each of the communities, and we think that we could make a difference by bringing our brand of medicine to all three of those areas this year.

Gene Mannheimer

Well, that's great. Thanks, everybody, and congrats again.

Jon Bates

Thank you, Gene.

Operator

Our next question is from the line of Joshua Cohen with Westbury Capital. Please proceed with your questions.

Joshua Cohen

Hi, good morning. Thanks for taking my questions and congrats on the strong quarter. Going back to the discussion around the excess cash, could you talk through the options you guys are considering and whether capital return could be in the cards?

Jon Bates

Yes. Absolutely. In addition to the things that we talked about earlier, thanks Josh for the question. We're always looking at whatever is going to make sense from a shareholder perspective to add value. We have discussions about whether there'll be share buyback certainly happened. We've talked about things like dividends at some point down the road, whether that would happen year time soon. But certainly, along with those, as we mentioned earlier, certainly, the investments in or current hospitals and maybe growing that pipeline a little bit quicker, the population health side, which I think is a great opportunity there to take on some situations that will help us really add value quickly. Those are a couple of different areas,

Tom, you can add to that.

Thomas Vo

Yes. No, thank you, Josh, for following us. To Jon's point, we have a lot of options. Obviously, we need to be very cautious with our cash and maximize shareholder value. But the way that I see it, obviously, we could talk about dividend share buyback and all those are on the table. But a more interesting way of looking at this is maybe to increase more in our development pipeline and increased growth. There's several levels for that. The first lever is adding more de novo hospitals. But the problem with that is that it's all development and construction. What I mean is that even if you want to grow faster today, it still takes about two years to build these hospitals from ground up because these hospitals do not exist. We're the pioneer in the country in building these hospitals. Unless we want to build a hospital, we can operate the hospital. You have to build it from the ground up. As you can tell, building these developing these is challenging. Not that we can't do it, it's just that there's only a certain amount that you could do even if you want to start now.

The second question is, is there M&A activities or is there acquisition opportunities? Once again, from a hospital standpoint, there's just no hospital out there to be bought. Even if you want to buy a hospital, they don't exist unless you buy these very massive big traditional hospitals. But then a lot of these hospitals may have failed for a certain reason, and they don't have the same model that we do with the smaller and less number of beds and more cost efficient. That's a little bit of a limitation.

The third lever is to maybe increase our number of IPAs as to what Warren was talking about. But that is a possibility. Currently, we have four IPAs in Houston, Phoenix, Los Angeles and Miami, and we have 24 hospitals. The idea is that if we could put an IPA around each of the hospital that may be doable. But once again, we need to be very prudent in our spending and only look at certain businesses that will have a good correlation as well as benefit our current hospital. The point is we look at all options at this point.

Joshua Cohen

Okay. Yes. Thanks for that. Just a follow-up. I appreciate that you guys are only halfway through the quarter here. But on the accounts receivable, curious if you could provide any additional color on both the confidence for collection and then also the expectations for pacing manner.

Jon Bates

Yes. That's a good question, Josh. As I talked about earlier on one of the previous questions, when I think about AR and I think about where we were at the end of the year and doing based on early information on how realizability was happening through then. Then now watching it after first quarter, I'm pretty confident, much more confident in what we had at the year-end, which is fantastic, and then it's continuing into the first quarter because I think the trending has been pretty consistent. As we watch it, of course, payers can change their behavior or situations can happen, but I think the time lines that it takes to collect in the current environment that we're in—somewhere on average, all in, it's four months, but you get the piece that doesn't go through arbitration coming in just like it did before, and that normally would come in, in the 60 to 70-day mark. If you remember back into 2023 or even early 2024, our collection time period for a lot of it was in that 60 to 75 a day, but that was pre arbitration. Then now the arbitration clearly has extended that because it can take from date of walking in the door up to five-plus months for the final payment to come in. Do you still get the first payment after that 30 to 45 days, and then you just have to wait from there.

Long answer to your short question is, the average of that comes to somewhere in the 120-day mark is what we're seeing overall blended. We'll watch it closely with some of that coming in, in that normal 60 to 75-day period and a larger chunk of the arbitration coming on the back end between the four or five and sometimes slightly longer than five-month process to get paid from day one. Hopefully, that helps.

But I think what we were anticipating at the end of the year, which we were seeing that early on with limited numbers continued into the first quarter. I think that substantiated where we had finished the year, and I feel pretty confident that what we have sitting at the end of March is continuing on that run rate and barring any major changes that the time period that collects all of this will continue to stay on the period timeline that I described.

Joshua Cohen

Got it. Thanks for that and congrats again on the strong quarter.

Jon Bates

Thanks, Josh.

Thomas Vo

Thank you, Josh.

Operator

Thank you. This now concludes the question-and-answer session. I'd like to turn the floor back over to Jennifer Rodriguez for closing comments.

Jennifer Rodriguez

Thank you all for those valuable questions and answers. To all those joining us today, if you have more questions, please email us at investors@nutexhealth.com, and we'll get back to you promptly.

On behalf of the Nutex management team, thank you all for joining us for our first quarter 2025 earnings call. We've covered a lot, growth, strategy, challenges and our vision, and we appreciate your time and interest. A recording of this call will be available on our website for a limited time, so feel free to revisit it. Take care, everyone, and we look forward to keeping you updated on our journey.

Operator

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference.