Strata Critical Medical - Fiscal Second Quarter ended June 30, 2026
Earnings Call Script - August 4, 2026 - 8:00 am

Mat Schneider (CFO Clinical Services, VP Finance and Investor Relations):
Before we get started, I would like to remind you of the company's forward-looking statement and Safe Harbor language. Statements made in this conference call that are not historical facts, including statements about future time periods, may be deemed to constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties and actual future results may differ materially from those expressed or implied by the forward-looking statements. We refer you to our SEC filings, including our Annual Report on Form 10-K and our Quarterly Report on Form 10-Q, each as filed with the SEC, for a more detailed discussion of the risk factors that could cause these differences. Any forward-looking statements provided during this conference call are made only as of the date of this call. As stated in our SEC filings, Strata disclaims any intent or obligation to update or revise these forward-looking statements except as required by law.

During today's call, we will also discuss certain non-GAAP financial measures, which we believe may be useful in evaluating our financial performance. A reconciliation of the most directly historical comparable consolidated GAAP financial measures to those historical non-GAAP financial measures is provided in our earnings press release and investor presentation. Our press release, investor presentation and our Form 10-Q and 10-K filings are available on the investor relations section of our website at ir.stratacritical.com. These non-GAAP measures should not be considered in isolation or as a substitute for financial results prepared in accordance with GAAP.

Melissa Tomkiel (Co-CEO and General Counsel):

We’re pleased to report strong results for the second quarter of 2026, highlighted by accelerating growth in our Clinical business, increased cash flow generation and great progress on our capital deployment plan.

On an organic basis, excluding acquisitions made during Q2, Clinical revenue increased 15.1% sequentially in Q2 2026, driven by 23.8% growth in Transplant Clinical revenue, while Clinical gross margins rose to 26.1% in Q2 2026 up from 25.0% in Q1 2026.

We generated $5.7 million of operating cash flow and $2.9 million of Free Cash Flow in the quarter, our second consecutive quarter of cash generation, and we expect even stronger cash generation in the second half of the year.

This strength was partially offset by a softer result in Logistics this quarter, driven largely by significantly reduced flying with one non-exclusive customer towards the end of the period. We expect the customer's lower flying levels to persist, which are specific to just one of the customer's transplant programs and involve a unique set of circumstances that we don't expect to be replicated elsewhere. In Q3 we will see the full-period impact of the volume reduction, which represents about 3% of our Logistics revenue, before we expect it to be largely mitigated through organic growth and new customer wins during Q4. Though this is an unfortunate bump in the road, we view the impact as simply a delay in our Logistics growth plan for one or two quarters, and our long-term outlook for Logistics and the business as a whole remains very positive.

Our capital deployment plan is running well ahead of schedule. We closed 3 bolt-on acquisitions during Q2, all of which fit squarely within our capital allocation framework at mid-single-digit acquisition multiples and are highly strategic in nature.

Within our Other Clinical business line, we completed the acquisitions of Louisville Perfusion Services and Ohio Valley Perfusion Associates, both regional providers of perfusion services to cardiac surgery programs that, together, will strengthen our competitive positioning and enable further organic growth through new customer wins. In addition, these acquisitions serve to expand our national footprint of staff and equipment available to support organ transplant customers.

In our Transplant Clinical business, we completed the acquisition of Heart and Lung Transplant National Recovery Program, a provider of surgical organ recovery services. This acquisition strengthens and adds scale to our platform by increasing our network of experienced surgeons available to complete recoveries, especially in key markets such as Florida and California.

In addition to these deals, we signed an agreement to take over Statline's Transplant Center Organ Placement customer relationships on a rolling basis over the next year.

Though this is not material to our financial picture today, it's a great example of how we can be creative to help industry participants continue the lifesaving work they do, while creating opportunities to win additional business in the future.

In this situation, Statline's parent company was seeking to exit organ placement, which is non-core to their broader mission. We worked hand-in-hand with the Statline team and their customers to develop a structure that prioritizes continuity for both transplant centers and Statline employees during the transition of this mission-critical service. We landed on a rolling transition structure over the next 12 months where we will pay Statline a fee per contract, when and if customers and employees sign on our paper with unit economics that are consistent with our current business. Operationally, this is just like onboarding a new customer, rather than making an acquisition. The maximum aggregate potential fee, which approximates a low-single-digit multiple of the contracts' contribution margin, is under one million dollars, but what we're really excited about is that this arrangement brings long-term contracted attachment points with up to eight new customers that could lead to incremental Clinical or Logistics business over time.

Following these acquisitions, Strata has a more attractive growth, margin and cash generation profile. We're also more diversified with increased exposure to the fastest-growing parts of the transplant ecosystem.

We expect our business mix in the back half of the year to be roughly 40% Clinical on a revenue basis versus 30% in Q1 2026 and nearly 50% Clinical on a gross profit basis versus 35% in Q1.

As a reminder, our Clinical business is less capital intensive and has higher gross margins compared to Logistics, in the mid to high 20% range overall with Transplant Clinical in the 30% range.

In addition, these acquisitions have made us a stronger, more capable and more cost-effective partner to the hospitals, transplant centers and organ procurement organizations we serve. Our broader geographic footprint means our clinicians spend more time in operating rooms and less time on airplanes, reducing the bill for customers and maximizing the productivity of our surgeons and perfusionists.

Our captive Transplant Logistics services are highly differentiated versus competitors that are primarily brokers of non-exclusive aircraft. Our captive fleet of 35 aircraft includes 10 that are owned and 25 that are contractually 100% dedicated to Strata across approximately 20 air bases. We have a network of 55 ground vehicles across approximately 11 hubs and a 24/7 logistics operations center staffed with highly trained coordinators, leveraging our purpose-built technology platform.

What's more, our integrated offering is compatible with a growing list of machine perfusion devices that have been recently approved and that we work with every day, and even more that are expected to be approved over the coming years. Today, no one machine perfusion device represents more than a mid-single-digit percentage of our overall air trips, highlighting the importance of our equipment-agnostic strategy.

Altogether, we believe the actions we've taken this quarter — expanding our Clinical footprint, executing on our M&A strategy, and continuing to generate cash flow — put Strata in a much stronger position with a more diversified business, setting us up for even more success in the long term.

Will Heyburn (Co-CEO and CFO):

As Melissa highlighted, our strategic expansion into clinical services is running well ahead of schedule after our accelerated progress on both organic growth and M&A execution in Q2.

Year-to-date, we've completed three acquisitions that have significantly expanded our footprint and operational efficiency while adding more than $20 million of revenue and $6.3 million of projected annualized Adjusted EBITDA at our targeted mid-single-digit acquisition multiples.

We're well ahead of the capital deployment pace we targeted in our value creation plan, and, we have even more great opportunities in the pipeline, though we do expect the pace of acquisition activity to slow in the second half of the year.

We expect our cash balance to build into year-end driven by Free Cash Flow generation and the Joby performance earn-out of $17.5 million that we believe we are on track to receive in full by year-end.

On the industry front, we've seen a continued recovery in DCD donors versus the low point in Q3 2025, with a low-single-digit sequential increase in Q2 2026. While still down year-over-year due to a tough comp, we should start to see year-over-year industry donor growth in the second half of the year. Heart, liver and lung transplants continue to grow thanks in large part to rising penetration rates of NRP, which as a reminder, has been shown to result in approximately 50% more usable organs per DCD donor, on average. In fact, NRP penetration continued its march forward, rising to approximately 59% of DCD donors in Q2 2026 versus 57% in Q1 2026.

I'll now turn to the second quarter financial results, starting with Logistics where year-over-year revenue growth moderated to 6.9% as we lapped two new large customer wins that started in Q2 2025. Logistics revenue increased approximately 1% sequentially, which was somewhat below our expectations. The dynamic of shorter trips that we called out last quarter continued into Q2 2026 driven by strength in our Organ Procurement Organization customers along with some softness in Transplant Centers.

As Melissa highlighted earlier, we're expecting a roughly 3% Logistics revenue headwind driven by a non-exclusive customer that significantly reduced their flying with us for one organ type starting in June. We believe that the circumstances around this situation are unique and that the high customer retention rate we've experienced historically will persist moving forward.

Our pipeline of new Logistics customers remains strong and we expect contributions from new customers, as well as growth from existing customers, to largely bridge the gap by the end of the year.

On the profit front, Logistics gross margin fell to 18.4% in Q2 2026 versus 19.3% in Q1 2026 and our expectation of approximately 20%.

There were several factors driving the lower-than-expected Logistics gross margin including a higher fuel surcharge. As a reminder, our Logistics contracts typically contain a fuel surcharge provision where we pass through fuel costs above an agreed-upon threshold, usually in the low $4 per gallon range. The fuel surcharge increases our revenue, has no impact on gross profit dollars, but reduces our gross margin. Our gross margin excluding fuel surcharge revenue and cost was 19.0% in Q2 2026.

While we have fuel surcharge provisions in almost all of our Logistics contracts, we have a small number of contracts (two) where the pass-through mechanism either kicks in at a higher price, above current levels, or is capped. This lowered gross margin by approximately 30 basis points.

Customer mix shift remained unfavorable with a larger concentration of short, lower-margin trips this quarter.

Lastly, we also experienced lower profitability on our owned fleet, driven in part by higher-than-average unscheduled maintenance expenses and lower Ground margins compared to the year-ago period due to a mix shift to lower-margin third-party vehicles.

We now expect gross margin to be in the 18.5-20.0% range in the second half of the year but we are confident in our ability to restore Logistics gross margins solidly to our 20% target for 2027.

We will always see some volatility in logistics margin, particularly given the inherently unpredictable nature of unscheduled maintenance. However, we have several initiatives underway to structurally increase Logistics gross margins back to our target, largely driven by the elimination of less efficient, higher-cost operators and favorable changes to our supply contracts as we allocate more hours to better-performing providers.

Total revenue increased 60.7% to $72.5 million in Q2 2026 versus $45.1 million in the prior-year period driven by organic growth in Logistics, the addition of our Clinical business through the acquisition of Keystone in Q3 2025 and the contribution from Clinical acquisitions completed during Q2 2026.

Clinical revenue rose 22.6% sequentially to $24.3 million in Q2 2026 versus $19.8 million in Q1 2026. Excluding Clinical acquisitions completed during the quarter, Clinical revenue rose 15.1% sequentially in Q2 2026 versus Q1 2026 driven primarily by Transplant Clinical revenue, which rose 23.8%, and Other Clinical revenue that rose 6.5%.

Gross profit increased 68.9% to $15.2 million in Q2 2026 versus $9.0 million in the prior-year period driven by the addition of our Clinical business and the contribution from Clinical acquisitions completed during Q2 2026, partially offset by a modest decline in Logistics gross profit, as previously discussed.

Gross margin increased 100 basis points to 21.0% in Q2 2026 versus 20.0% in the prior-year period driven primarily by the positive mix impact from the addition of our Clinical business and the contribution from Clinical acquisitions completed during the quarter, partially offset by the decline in Logistics gross margin.

Clinical gross profit increased 27.8% sequentially to $6.3 million in Q2 2026 versus $5.0 million in Q1 2026. Clinical gross margin increased to 26.1% in Q2 2026 versus 25.0% in Q1 2026.

As we noted in recent quarters, given the noise associated with last year's transactions, year-over-year comparisons of SG&A and Adjusted EBITDA are not particularly meaningful so we'll discuss these results on a sequential basis.

Adjusted SG&A decreased approximately $100 thousand to $9.1 million in Q2 2026 versus $9.2 million in Q1 2026 primarily driven by the timing of expenses in each period.

Adjusted EBITDA was $7.9 million in Q2 2026 versus $6.4 million in Q1 2026. Adjusted EBITDA margin rose to 10.9% in Q2 2026 versus 9.5% in Q1 2026. The 140 basis points sequential increase in Adjusted EBITDA margin was driven by the increase in Clinical gross margin and the mix shift to Clinical partially offset by the reduction in Logistics gross margin.

Operating cash flow was $5.7 million in Q2 2026. The $2.2 million difference between Adjusted EBITDA and operating cash flow was driven primarily by a $1.7 million increase in working capital, and non-recurring transaction-related cash costs.

Capital expenditures of $2.8 million in Q2 2026 were driven primarily by aircraft capitalized maintenance, which was elevated this quarter given the completion of two sets of engine overhauls, the only scheduled engine overhauls for 2026.

Free Cash Flow was $2.9 million in Q2 2026 and there were no aircraft or engine acquisitions this quarter. As mentioned earlier, we're encouraged by the second consecutive quarter of cash generation, especially considering the timing of expenses and non-recurring transaction-related cash costs that burdened cash flow.

We are increasing our 2026 revenue guidance to a range of $285-295 million, up from $260-275 million previously. We are also increasing our 2026 Adjusted EBITDA guidance to a range of $33-35 million, up from $29-33 million previously.

At a high level, we're seeing the benefit of accelerated clinical growth and our acquisitions in the significantly increased revenue guide, while, given the timing of the short-term margin headwinds we're seeing in Logistics, the profit benefits of the same are partially offset in our EBITDA guide for 2026. As discussed, the Logistics margin is expected to improve in the second half of the year and return to our 20% target in 2027, restoring the full underlying earnings power of the business moving into next year.

Assuming the recent Clinical acquisitions closed on January 1, 2026, our 2026 revenue range would be $295-305 million, and our Adjusted EBITDA range would be $36-38 million.

We continue to expect Free Cash Flow, before aircraft acquisitions of $15-22 million in 2026 as the increase in Adjusted EBITDA is offset by higher non-recurring cash costs related to the accelerated pace of acquisition activity during the year as well as anticipated working capital build associated with the faster pace of growth in Transplant Clinical.

In Logistics, we expect revenue to decrease high-single-digits sequentially in Q3 driven by the 3% revenue headwind we discussed earlier as well as the expected summer seasonality that is typical in Q3. Over the last 3 years, Heart, Liver and Lung industry transplant volumes fell between 3 and 6% between Q2 and Q3, and as we've said before, our customer base could perform better or worse than the industry in any given quarter. From July to date, we have seen fewer organs being accepted for transplant at several of our centers. By Q4, we expect Logistics revenue to recover to near Q2 2026 levels.

As discussed, Logistics gross margin is expected to gradually improve to the 18.5% to 20% range over the balance of the year. As we mentioned earlier, we've already put in place several initiatives to structurally drive Logistics gross margins back to our 20% target for 2027.

Clinical revenue is expected to grow approximately 20% sequentially from Q2 to Q3 driven by continued growth in the base business along with a full quarter contribution from the recent Clinical acquisitions that closed during Q2 2026. In Q4 we expect mid-single-digit Clinical sequential revenue growth versus Q3. We expect Clinical gross margins to increase to the 27-28% range in the second half of the year, driven by mix shift to the higher-margin Transplant Clinical business.

Our Adjusted SG&A is expected to remain in the low $9 million range for the balance of the year.

In summary, we're excited about the growth potential of our integrated service offering in Transplant, the performance of our Clinical business and the increasing cash generation that started to come through in the first half of the year, despite some short-term headwinds in Logistics that we're proactively addressing. The best is yet to come and we look forward to seeing more and more of the financial benefits of our strategic plan shine through in future quarters.

We are participating in several investor conferences over the next few weeks including Needham's Healthcare Conference and the Lake Street Investor Conference — we hope to see many of you there.