

Acadia Healthcare(ACHC)

\$25.12 (As of 06/30/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/07/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: D

Momentum: A

Summary

Acadia Healthcare's top line showed an increasing trend over the years, driven by organic and inorganic growth. The company is well-poised to fund new bed developments, given its impressive balance sheet. Acadia Healthcare has been focused on acquisitions, which are expected to add scale to business, positioning it for long-term growth in the healthcare sector. Its shares have underperformed its industry in a year. Nevertheless, it has been generating positive cash from operations over the years, which provides the company financial flexibility to pursue acquisitions and growth-related activities. However, rising expenses and high labor costs weigh on margins. Its U.K. business remains challenged with weak census and pressures related to nurse staffing. The withdrawal of 2020 earnings guidance due to uncertainty related to COVID-19 bothers<

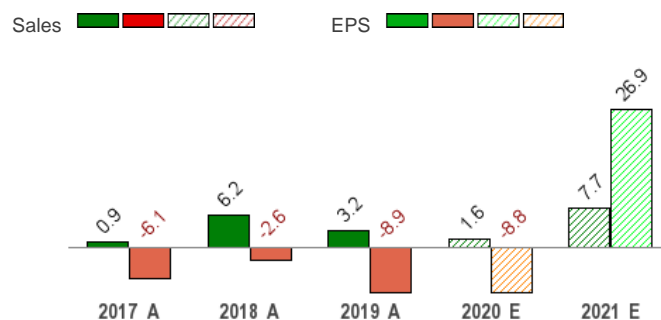
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.30 - \$11.09
20 Day Average Volume (sh)	757,833
Market Cap	\$2.2 B
YTD Price Change	-24.4%
Beta	1.38
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Hospital
Zacks Industry Rank	Bottom 13% (220 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.5%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	1.2%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	12.2
P/E F1	13.5
PEG F1	1.6
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	835 E	845 E	852 E	854 E	3,399 E
2020	783 A	754 E	803 E	817 E	3,157 E
2019	761 A	789 A	777 A	780 A	3,107 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.48 E	\$0.63 E	\$0.60 E	\$0.62 E	\$2.36 E
2020	\$0.42 A	\$0.38 E	\$0.51 E	\$0.56 E	\$1.86 E
2019	\$0.39 A	\$0.61 A	\$0.52 A	\$0.51 A	\$2.04 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/30/2020. The reports text is as of 07/01/2020.

Overview

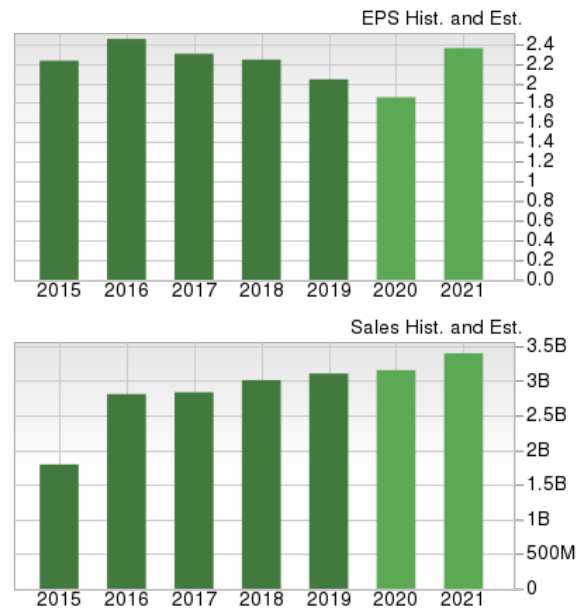
Headquartered in Franklin, TN, Acadia Healthcare Company, Inc. (ACHC) provides behavioral health care services in the United States and the United Kingdom.

The U.S. segment, which contributed 65% of total 2019 revenues, includes acute inpatient psychiatric facilities; specialty treatment facilities; residential treatment centers; and outpatient community-based services.

At Dec 31, 2019, the company's U.S. Facilities included 224 behavioral healthcare facilities with approximately 9,500 beds in 40 states and Puerto Rico. Out of its U.S. Facilities, excluding comprehensive treatment centers, approximately 43% are acute inpatient psychiatric facilities, approximately 41% are specialty treatment facilities, approximately 13% are residential treatment centers and approximately 3% are outpatient community-based facilities at Dec 31, 2019.

Its U.K. business contributed 35% of 2019 revenues. It consists of Acadia Healthcare's facilities, which are classified into: Healthcare facilities, Education and Child Services, Adult Care facilities and Elderly Care facilities. At Dec 31, 2019, the company operated 585 facilities in 40 states, the U.K. and Puerto Rico.

For the services rendered in its facilities, the company receives payments from (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by CMS; (iv) public funded sources in the U.K. (including the NHS, CCGs and local authorities in England, Scotland and Wales); and (v) individual patients and clients.



Reasons To Buy:

▲ **Top-Line Growth:** The company's operating performance has been favorable over the years. Its revenues witnessed a CAGR of 40% from 2012 to 2018 on the back of strong organic and inorganic growth. During the year ended Dec 31, 2019, the company added 585 beds (exclusive of acquisitions). The company added 78 beds to its U.S. operations during the first quarter. It is working to open three de novos facilities later in 2020 including two facilities with joint venture partners. Though there remains an element of uncertainty regarding revenue growth in the face of the ongoing pandemic, we, however, believe that demand for the company's services for mental health and substance use treatment is not discretionary or elective, which should not hurt the company's revenue growth significantly.

▲ **Acquisitions Fueling Inorganic Growth:** Acadia Healthcare has been emphasizing acquisitions for expedited growth. Buyouts have added facilities, beds and hospitals to the company's network and contributed to its top line. The company remains actively engaged with its acquisition pipeline and expects buyout and joint venture activity to be heavily skewed toward acute facilities in the United States. It is well positioned to fund its new bed development and acquisition activity given its strong capital position. The company's acquisitions are expected to add scale to its business, positioning it better to weather the regulatory uncertainties in the healthcare sector. The company is also making opportunistic acquisitions to expand in the behavioral healthcare industry in the United States. To this end, in 2019, it completed the acquisitions of Bradford Recovery Center, a specialty treatment facility and Whittier Pavilion, an inpatient psychiatric facility.

▲ **Strong Balance Sheet:** Acadia Healthcare has been generating positive cash from operations over the years. Consistent cash generation provides the company ample scope to pursue acquisitions and financial flexibility to pursue growth related activities. Low maintenance capex requirements should yield strong free cash flow.

▲ **Share Price Performance:** Shares of the company have underperformed its industry in a year. Nevertheless, its strong fundamentals are likely to drive shares going forward.

Accretive acquisitions, strong top and bottomline growth, solid balance sheet should drive long term growth.

Reasons To Sell:

▼ **Rising Expenses:** The company has been witnessing rising expenses since 2009, inducing margin contraction. In the first quarter of 2020, expenses were up 2.6%. The company's expenses would remain elevated as it continues to invest in inorganic growth strategies, which might drag margins. The company has, however, focused on implementing initiatives to improve operational efficiencies. It expects to achieve approximately \$20 million in annualized cost savings by the end of 2020.

▼ **High Debt:** The company's leverage, as measured by debt-to-equity ratio, has been rising consistently over the years. Its debt-to-equity ratio is 147.9, which implies that debt level is more than equity. Its high leverage raises financial risk along with weighing on margins. Also, its interest coverage ratio of 1.77 looks weak compared with the industry average of 2.74.

▼ **Suspension of Sale of U.K Business:** The company has suspended activities related to the sale of its U.K. operations because of the current economic environment, which might not fetch a fair price for the transaction now. The separation of its underperforming U.K. operations was one of the strategic steps undertaken by the company to improve its profitability, and achieve growth by focusing on more profitable business. This business has been underperforming over the years and negatively impacting the company's growth. Also, the funds generated from this sale was to be put to use to improve its debt position.

Acadia Healthcare's exposure to U.K. market, rising expenses and a highly leveraged balance sheet are key concerns.

Last Earnings Report

Acadia Healthcare Q1 Earnings Beat Estimates

Acadia Healthcare came out with quarterly earnings of 42 cents per share, beating the Zacks Consensus Estimate of 37 cents per share. This further compares favorably with earnings of 39 cents per share a year ago.

The company's revenues of \$782.81 million for the quarter ended March 2020 missed the Zacks Consensus Estimate by 1.06%. This compares favorably with the year-ago revenues of \$760.62 million.

Total same facility revenues grew 3.4% to \$750.5 million with 1.2% increase in patient days and a 2.2% rise in revenues per patient day.

Consolidated EBITDA margin on same facility basis was 21.1%, contracting 100 basis points year over year.

Total expenses inched up 2.6% year over year to \$742.9 million on the back of higher salaries and wages, professional fees, supplies and other operating expenses.

The company added 78 beds to its U.S. operations during the first quarter.

Segment Details

U.S. same facility revenues were up 4.1% year over year to \$501.2 million.

The segment also recorded a 2.9% year-over-year increase in patient days and 1.2% growth in revenue per patient day.

U.K. same facility revenues rose 1.9% year over year to \$249.3 million. The number of patient days slid 1% from the year-earlier period whereas revenues per patient per day were up 3%.

Acadia Healthcare's consolidated adjusted EBITDA was \$132.8 million, down 2.4% year over year.

Financial Update (as of Mar 31, 2020)

Cash and cash equivalents were \$81 million, down 34.8% from the level on Dec 31, 2019.

Long-term debt was \$2.94 billion, down 5.2% from the figure as of Dec 31, 2019.

Net cash provided by operating activities for the year was \$45.5 million, down 4.2% year over year.

The company exited the quarter with total assets worth \$6.7 billion, down 2.3% from the level as of Dec 31, 2019.

2020 Guidance Withdrawn

As a result of the widespread uncertainty, stemming from the COVID-19 pandemic, Acadia scrapped its 2020 financial guidance, previously issued in its earnings release dated Feb 27, 2020.

Quarter Ending 03/2020

Report Date	May 04, 2020
Sales Surprise	-1.06%
EPS Surprise	13.51%
Quarterly EPS	0.42
Annual EPS (TTM)	2.06

Recent News

Acadia Healthcare Offers 5.500% \$450 Million Senior Notes – Jun 10, 2020

Acadia Healthcare announced the pricing of \$450 million aggregate principal amount of senior notes. The notes carry an interest rate of 5.500% and are scheduled to mature in 2028. The company aims to deploy the net proceeds from the sale of the Notes for redemption of its outstanding 6.125% Senior Notes and 5.125% Senior Notes set to mature in 2021 and 2022, respectively.

Acadia Healthcare Ties Up for Improved Behavioral Services – Jun 2, 2020

Acadia Healthcare collaborated with Covenant Health, which offers a diverse range of healthcare services in Tennessee. The tie-up intends to solve mental health issues, which remain quite unaddressed due to the dearth of resources in East Tennessee. The partnership involves building a new behavioral health hospital, whose construction is likely to start in late 2020. Apart from in-patient treatment, the hospital will also provide a range of out-patient services, which even includes intensive outpatient and partial hospitalization programs. So, the new hospital basically intends to provide a comprehensive and high-quality range of healthcare services for people residing in Knoxville and surrounding counties.

Acadia Healthcare Halts the Sale of its U.K. Business – Mar 22, 2020

The company has suspended activities related to the sale of its U.K. operations because of the current economic environment, which might not fetch a fair price for the transaction now. In the U.K., the company operates 361 behavioral healthcare facilities with nearly 8,700 beds across England, Wales, Scotland, and Northern Ireland. Recently, the company launched a formal process regarding the sale of the U.K. business. In this vein, it also solicited and received initial, non-bidding offers from multiple bidders and was in the second phase of the sales process. The transaction was to be completed in the second quarter or early in the third quarter of 2020.

Valuation

Acadia Healthcare shares are down 24.3% and 26.5% in the year-to-date period, and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry are down 31.7% and the Zacks Medical sector is down 1.6%. Over the past year, the Zacks sub-industry is down 25.7% but the sector is up 2%.

The S&P 500 index is down 5.2% in the year-to-date period and up 3.3% in the past year.

The stock is currently trading at 11.92x forward 12-month earnings, which compares to 13.48x for the Zacks sub-industry, 22.25x for the Zacks sector and 21.87x for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.98x and as low as 5.1x, with a 5-year median of 14.93x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$26 price target reflects 12.32x forward earnings.

The table below shows summary valuation data for ACHC

Valuation Multiples - ACHC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.92	13.48	22.25	21.87
	5-Year High	33.98	17.79	23.15	22.14
	5-Year Low	5.1	7.08	15.93	15.25
	5-Year Median	14.93	11.86	18.94	17.52
P/S F12M	Current	0.68	0.4	2.73	3.42
	5-Year High	3.11	0.84	3.74	3.44
	5-Year Low	0.31	0.33	2.21	2.53
	5-Year Median	1.12	0.53	2.9	3.02

As of 06/30/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Community Health Systems, Inc. (CYH)	Neutral	3
The Ensign Group, Inc. (ENSG)	Neutral	3
HCA Healthcare, Inc. (HCA)	Neutral	3
Select Medical Holdings Corporation (SEM)	Neutral	3
Teladoc Health, Inc. (TDOC)	Neutral	2
Tenet Healthcare Corporation (THC)	Neutral	3
MEDNAX, Inc. (MD)	Underperform	5
Universal Health Services, Inc. (UHS)	Underperform	4

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	ACHC	X Industry	S&P 500	ENSG	HCA	UHS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	B	-	-	A	A	A
Market Cap	2.23 B	1.46 B	21.75 B	2.25 B	32.77 B	7.89 B
# of Analysts	8	6.5	14	3	8	6
Dividend Yield	0.00%	0.00%	1.93%	0.48%	1.77%	0.86%
Value Score	B	-	-	B	A	A
Cash/Price	0.04	0.15	0.07	0.04	0.02	0.01
EV/EBITDA	11.17	7.22	12.71	18.93	6.88	6.89
PEG Ratio	1.60	2.15	2.86	1.10	2.15	2.20
Price/Book (P/B)	0.90	1.23	2.97	3.32	NA	1.47
Price/Cash Flow (P/CF)	6.26	3.43	11.71	13.23	5.24	5.83
P/E (F1)	13.61	14.70	21.23	16.50	19.87	14.70
Price/Sales (P/S)	0.71	0.53	2.30	0.97	0.63	0.69
Earnings Yield	7.40%	5.04%	4.48%	6.07%	5.04%	6.80%
Debt/Equity	1.39	0.05	0.76	1.94	-49.36	0.73
Cash Flow (\$/share)	4.01	4.31	7.01	3.16	18.52	15.94
Growth Score	D	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	-1.53%	7.97%	10.93%	16.04%	17.02%	9.76%
Proj. EPS Growth (F1/F0)	-8.95%	-49.14%	-9.77%	13.25%	-53.48%	-36.75%
Curr. Cash Flow Growth	-2.61%	8.67%	5.51%	18.22%	8.67%	2.58%
Hist. Cash Flow Growth (3-5 yrs)	24.05%	16.58%	8.62%	16.88%	9.56%	23.60%
Current Ratio	0.87	1.55	1.30	1.31	1.57	1.09
Debt/Capital	58.36%	50.34%	44.41%	66.02%	NA	42.32%
Net Margin	3.61%	-2.42%	10.62%	5.33%	5.90%	6.34%
Return on Equity	7.40%	10.06%	15.75%	18.88%	-304.76%	14.89%
Sales/Assets	0.46	0.80	0.55	0.99	1.15	0.98
Proj. Sales Growth (F1/F0)	1.60%	-5.38%	-2.43%	4.44%	-7.70%	-5.58%
Momentum Score	A	-	-	B	D	D
Daily Price Chg	0.80%	0.74%	1.41%	3.38%	0.89%	0.67%
1 Week Price Chg	-6.99%	-7.30%	-3.90%	-6.78%	-5.18%	-7.61%
4 Week Price Chg	-12.60%	-8.80%	-1.62%	-3.64%	-10.97%	-10.71%
12 Week Price Chg	34.76%	25.73%	15.67%	20.71%	-1.57%	-5.59%
52 Week Price Chg	-26.53%	-27.41%	-8.07%	-27.26%	-28.28%	-28.55%
20 Day Average Volume	757,833	833,226	2,699,706	282,097	2,902,034	908,620
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.23%	0.00%	0.00%	-0.42%	0.00%	-10.53%
(F1) EPS Est 12 week change	-17.65%	-44.62%	-10.28%	-0.42%	-57.26%	-40.22%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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