

## Acadia Healthcare(ACHC)

**\$30.31** (As of 08/04/20)

Price Target (6-12 Months): **\$32.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/05/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: C

### Summary

Acadia Healthcare's earnings of 54 cents per share beat the Zacks Consensus Estimate by 42.11% but declined 11.5% year over year. Shares have outperformed the industry in a year. Its top line showed an improving trend over the years, driven by both organic and inorganic growth. The company is well-poised to fund new bed developments, given an impressive balance sheet. Acadia Healthcare has been focusing on acquisitions, which are expected to add scale to its business. The company has been generating sufficient cash from operations over the years, which provides it with financial flexibility to pursue acquisitions and growth-driving projects. Its U.K. business remains challenged with weak census and pressures related to nurse staffing. The company scrapped its 2020 earnings guidance due to COVID-19-induced uncertainty.

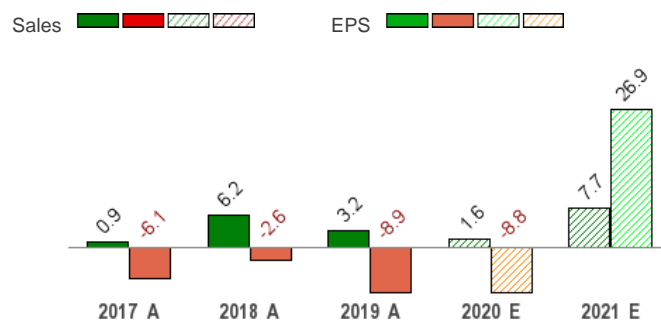
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$35.30 - \$11.09</b>
20 Day Average Volume (sh)	<b>509,173</b>
Market Cap	<b>\$2.7 B</b>
YTD Price Change	<b>-8.8%</b>
Beta	<b>1.43</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<b><a href="#">Medical - Hospital</a></b>
Zacks Industry Rank	<b>Top 36% (92 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>42.1%</b>
Last Sales Surprise	<b>-0.5%</b>
EPS F1 Est- 4 week change	<b>0.0%</b>
Expected Report Date	<b>11/03/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>15.2</b>
P/E F1	<b>16.3</b>
PEG F1	<b>1.9</b>
P/S TTM	<b>0.9</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	835 E	845 E	852 E	854 E	3,399 E
2020	783 A	750 A	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	\$0.54 A	\$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 08/04/2020. The reports text is as of 08/05/2020.

## Overview

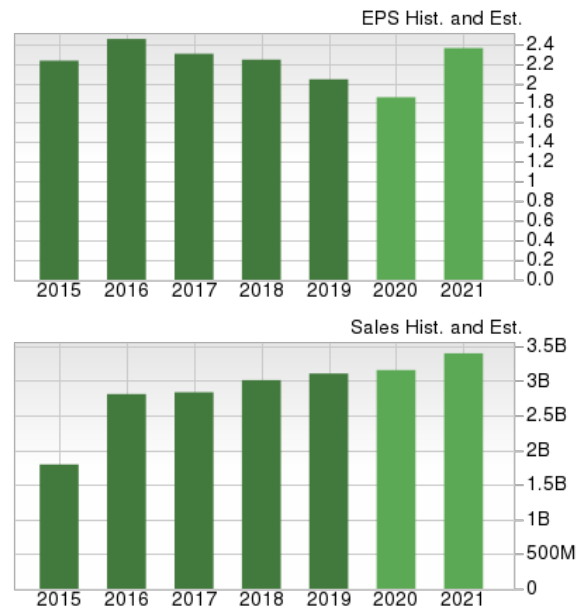
Headquartered in Franklin, TN, Acadia Healthcare Company, Inc. (ACHC) provides behavioral health care services in the United States and the United Kingdom.

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.



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## Reasons To Buy:

▲ **Top-Line Growth:** The company's operating performance has been favorable over the years. Its revenues witnessed a CAGR of 14.7% from 2015 to 2019 on the back of strong organic and inorganic growth. During the year ended Dec 31, 2019, the company added 585 beds (exclusive of acquisitions). During the first half of 2020, the company added 106 beds to its U.S. operations. In mid-July, the company announced the opening of its new 144-bed behavioral health facility. Though in the first six months of 2020 revenues declined 1.1%, 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.

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

▲ **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. In July, the company announced the opening of a behavioral health facility Tower Behavioral Health, which will further extend the company's reach in the mental health disorder and behavioral healthcare market.

▲ **Favorable Cash Flow Generation:** Acadia Healthcare has been generating positive cash from operations over the years. Cash flow from operations surged 106% in the first six months of 2020. Consistent cash generation provides the company with ample scope to pursue acquisitions and financial flexibility to chase growth-related activities. Low maintenance capex requirements should yield a strong free cash flow going forward.

▲ **Share Price Performance:** Shares of the company have outperformed its industry in a year. Moreover, its strong fundamentals should continue the rally going forward.

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## Reasons To Sell:

▼ **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 as on Jun 30, 2020 was 123, which implies that debt level is more than equity. It was up marginally from 119 as of Mar 30, 2020. Its high leverage raises financial risk. Also, the company's long term debt of \$3.1 billion is way higher than cash and cash equivalents of \$211.9 million.

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

▼ **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

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## Last Earnings Report

### Acadia Healthcare Q2 Earnings Top Estimates, Fall Y/Y

Acadia Healthcare's second-quarter 2020 earnings of 54 cents per share beat the Zacks Consensus Estimate by 42.11%. However, the bottom line was down 11.5% year over year.

Further, the company's revenues of \$750.3 million missed the Zacks Consensus Estimate by 0.54% and also dipped 5% year over year.

Total same facility revenues slipped 3.5% to \$727 million due to 2.3% decrease in patient days and a 1.2% decline in revenue per patient day.

Consolidated adjusted EBITDA was \$144.4 million, down 9.1% year over year.

Consolidated EBITDA margin on same facility basis was 23.3%, contracting 60 basis points year over year.

Total expenses slid 4% year over year to \$700.4 million on the back of lower salaries and wages, professional fees plus supplies and other operating expenses.

During the first half of 2020, the company added 106 beds to its U.S. operations. In mid-July, it announced the opening of its 144-bed behavioral health facility.

### Segmental Details

U.S. same facility revenues were down 3.4% year over year to \$501.2 million.

The segment also recorded a 0.7% year-over-year decrease in patient days and a 2.7% decline in revenue per patient day.

U.K. same facility revenues were down 3.8% year over year to \$249.3 million. The number of patient days slid 4.5% from the year-earlier period whereas revenue per patient per day inched up 0.7%.

### Financial Update (as of Jun 30, 2020)

Cash and cash equivalents were \$212 million, down 34.8% from the level on Dec 31, 2019.

Long-term debt was \$3.08 billion, down 0.9% from the figure as of Dec 31, 2019.

Net cash provided by operating activities for the six months ended Jun 30, 2020 was \$264.9 million, up 106% year over year.

The company exited the quarter with total assets worth \$6.8 billion, down 0.7% from the level as of Dec 31, 2019.

Quarter Ending 06/2020

Report Date	Aug 04, 2020
Sales Surprise	-0.54%
EPS Surprise	42.11%
Quarterly EPS	0.54
Annual EPS (TTM)	1.99

## 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 7.6% and 4.9% in the year-to-date period, and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry are down 17.1% but the Zacks Medical sector is up 1%. Over the past year, the Zacks sub-industry is down 3.6% but the sector is up 9.6%.

The S&P 500 index is up 2.6% in the year-to-date period and up 15.1% in the past year.

The stock is currently trading at 14.07x forward 12-month earnings, which compares to 12.65x for the Zacks sub-industry, 22.62x for the Zacks sector and 22.6x for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.91x and as low as 5.1x, with a 5-year median of 14.77x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$32 price target reflects 14.78x 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	14.07	12.65	22.62	22.6
	5-Year High	33.91	16.67	23.16	22.6
	5-Year Low	5.1	7.79	15.89	15.25
	5-Year Median	14.77	12.49	18.9	17.55
P/S F12M	Current	0.82	0.52	2.82	3.61
	5-Year High	3.11	0.79	3.41	3.61
	5-Year Low	0.31	0.36	2.22	2.53
	5-Year Median	1.12	0.55	2.9	3.04

As of 08/04/2020

## Industry Analysis Zacks Industry Rank: Top 36% (92 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
Select Medical Holdings Corporation (SEM)	Outperform	1
Community Health Systems, Inc. (CYH)	Neutral	3
The Ensign Group, Inc. (ENSG)	Neutral	3
HCA Healthcare, Inc. (HCA)	Neutral	3
Teladoc Health, Inc. (TDOC)	Neutral	4
Tenet Healthcare Corporation (THC)	Neutral	3
Universal Health Services, Inc. (UHS)	Neutral	2
MEDNAX, Inc. (MD)	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	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	C	-	-	B	A	A
Market Cap	2.70 B	1.71 B	22.75 B	2.48 B	43.40 B	9.06 B
# of Analysts	8	6	14	3	7	6
Dividend Yield	0.00%	0.00%	1.76%	0.43%	0.96%	0.56%
Value Score	B	-	-	B	A	A
Cash/Price	0.03	0.13	0.07	0.03	0.11	0.06
EV/EBITDA	12.09	7.57	13.09	20.21	7.17	7.13
PEG Ratio	1.95	1.73	2.95	1.21	1.11	1.73
Price/Book (P/B)	1.09	2.07	3.16	3.66	76.41	1.57
Price/Cash Flow (P/CF)	7.56	4.53	12.32	14.61	6.93	6.69
P/E (F1)	16.54	13.88	21.81	18.22	12.22	13.88
Price/Sales (P/S)	0.87	0.67	2.46	1.07	0.87	0.80
Earnings Yield	6.14%	6.14%	4.40%	5.50%	8.18%	7.21%
Debt/Equity	1.39	0.65	0.76	1.94	54.19	0.65
Cash Flow (\$/share)	4.01	4.31	6.94	3.16	18.52	15.94
Growth Score	D	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	-1.53%	7.97%	10.46%	16.04%	15.66%	9.30%
Proj. EPS Growth (F1/F0)	-8.95%	-7.59%	-7.16%	13.25%	0.03%	-23.04%
Curr. Cash Flow Growth	-2.61%	8.67%	5.47%	18.22%	8.67%	2.58%
Hist. Cash Flow Growth (3-5 yrs)	24.05%	16.58%	8.55%	16.88%	9.56%	23.60%
Current Ratio	0.87	1.29	1.32	1.31	1.09	1.02
Debt/Capital	58.36%	58.36%	44.36%	66.02%	98.19%	39.32%
Net Margin	3.42%	-1.39%	10.25%	5.33%	6.67%	6.53%
Return on Equity	7.14%	10.50%	14.67%	18.88%	-589.47%	14.75%
Sales/Assets	0.46	0.77	0.51	0.99	1.10	0.96
Proj. Sales Growth (F1/F0)	1.60%	-2.93%	-1.71%	4.44%	-2.97%	-2.88%
Momentum Score	C	-	-	B	A	A
Daily Price Chg	0.30%	0.42%	0.42%	-2.47%	2.00%	-0.97%
1 Week Price Chg	3.13%	1.86%	0.14%	1.79%	0.90%	1.68%
4 Week Price Chg	20.33%	15.54%	4.97%	11.83%	33.41%	17.05%
12 Week Price Chg	15.95%	22.46%	15.30%	20.52%	28.97%	14.10%
52 Week Price Chg	3.69%	3.48%	2.34%	-8.96%	3.27%	-27.11%
20 Day Average Volume	509,173	615,108	2,082,836	232,831	2,435,254	721,043
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	8.64%
(F1) EPS Est 4 week change	0.00%	21.68%	0.93%	0.00%	115.00%	21.68%
(F1) EPS Est 12 week change	-0.13%	-0.13%	0.78%	-0.42%	115.00%	8.87%
(Q1) EPS Est Mthly Chg	0.00%	21.61%	0.17%	0.00%	185.31%	43.21%

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## 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.

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### 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>B</b>
Growth Score	<b>D</b>
Momentum Score	<b>C</b>
VGM Score	<b>C</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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