

Acadia Healthcare(ACHC)

\$23.40 (As of 03/11/20)

Price Target (6-12 Months): **\$25.00**

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:A

Value: A

Growth: C

Momentum: A

Summary

Acadia Healthcare's earnings of 51 cents per share, beat the Zacks Consensus Estimate by 4.1% and also improved 8.5% year over year. The company's impressive results reflect higher revenues, driven by segmental contributions, lower expenses and rise in patient days. Its shares have outperformed its industry in a year's time. Its top line has shown 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. It is in the process of adding 600 new beds to existing and new facilities in 2020, which in turn will drive admissions and aid the top line. However, rising expenses and high labor cost weigh on margins. Its U.K. business remains challenged with weak census and pressures related to nurse staffing.

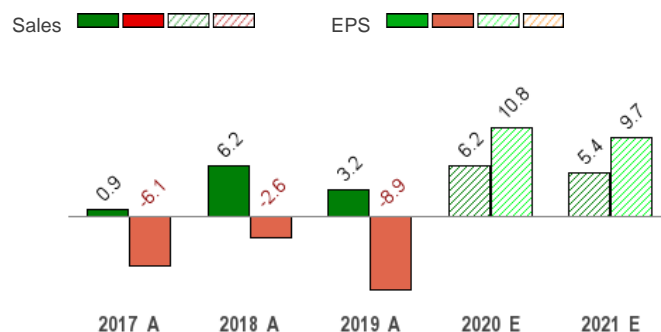
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.40 - \$19.83
20 Day Average Volume (sh)	826,657
Market Cap	\$2.1 B
YTD Price Change	-29.6%
Beta	0.65
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Hospital
Zacks Industry Rank	Top 45% (114 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.1%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-3.0%
Expected Report Date	05/05/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	846 E	886 E	887 E	879 E	3,479 E
2020	799 E	834 E	837 E	830 E	3,301 E
2019	761 A	789 A	777 A	780 A	3,107 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.46 E	\$0.67 E	\$0.69 E	\$0.65 E	\$2.48 E
2020	\$0.40 E	\$0.64 E	\$0.61 E	\$0.61 E	\$2.26 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 03/11/2020. The reports text is as of 03/12/2020.

Overview

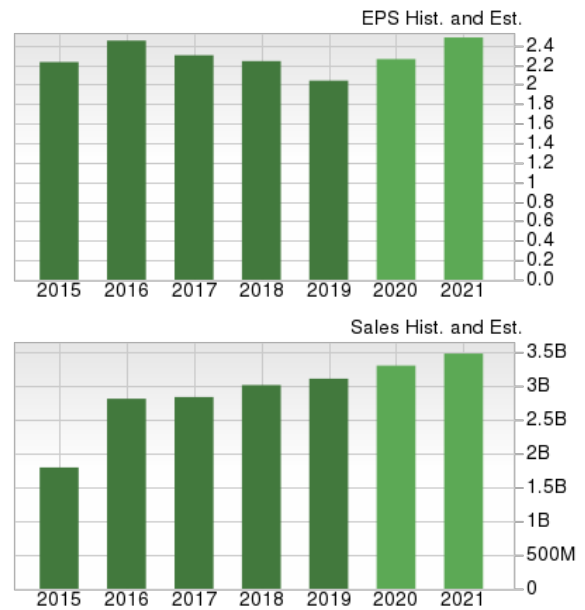
Headquartered in Franklin, TN, Acadia Healthcare Company, Inc. (ACHC) provides behavioral health care services in the United States and the United Kingdom.

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:

- ▲ **Strong Guidance:** The company's recently provided 2020 guidance also look encouraging. It calls for revenues between \$3.28 billion and \$3.34 billion (indicating an increase of 6.2% year over year), adjusted earnings per share in the range of \$2.2 to \$2.4 (suggesting an increase of 69.4% year over year)
- ▲ **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). In 2020, the company expects to add approximately 600 total beds exclusive of acquisitions. It is also working on partnership strategy. It has a strong track record of partnering with health systems and hospitals across the country. It has five joint ventures operating and three currently in development. As a result of these factors, the company expects to achieve revenue growth in the 5% to 7% range throughout 2020 for its U.S. operations. Additionally, in the second half of the year, it expects to achieve its goal of revenue growth at the high end of that range and EBITDA margin improvement for its U.S. operations.
- ▲ **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. Net cash provided by continuing operations is expected to increase more than 13% to \$375-\$410 million in 2020. Low maintenance capex requirements (~2.7% of net revenues) should yield strong free cash flow of \$285 million to \$320 million for 2020.
- ▲ **Share Price Performance:** Shares of the company have underperformed its industry year to date. Nevertheless, its strong fundamentals will continue to boost the stock's rally.

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 2019, expenses were up 4%. It remains a concern, given that this increase in expenses outpaced revenue growth of 3%. 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%, 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 1.73 looks weak compared with the industry average of 3.

▼ **U.K. Business Under Pressure:** The company's U.K. business remains challenged with weak census and pressures related to nurse staffing. Revenues from the segment have been volatile over past many quarters. In 2019, admissions declined 1.9% year over year. The company commenced a review of strategic alternatives including those related to its U.K. operations (accounted for 35% of its 2019 revenues) and its potential sale. It is now in the second phase of the sale process, which is expected to complete in the second quarter or early in the third quarter of 2020.

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

Last Earnings Report

Acadia Healthcare Q4 Earnings Top Mark, Improve Y/Y

Acadia Healthcare Company, Inc.'s fourth-quarter 2019 adjusted earnings of 51 cents per share, beating the Zacks Consensus Estimate by 4.1% and also improving 8.5% year over year.

The company's impressive results reflect higher revenues, driven by segmental contributions, lower expenses and rise in patient days.

Quarterly Details

Revenues of Acadia Healthcare rose 4.9% year over year to \$780.2 million but missed the Zacks Consensus Estimate by 0.6% year over year.

Total same facility revenues grew 4.5% with 0.4% increase in patient days and 4.1% rise in revenues per patient day.

U.S. same facility revenues were up 5.5% year over year to \$488.1 million.

The segment also recorded 2.4% year-over-year increase in patient days and 3% growth in revenue per patient day.

U.K. same facility revenues rose 2.7% year over year to \$254.3 million. The number of patient days declined 2% from the year-earlier period whereas revenues per patient per day were up 4.7%.

Acadia Healthcare's consolidated adjusted EBITDA for the fourth quarter of 2019 was \$144.4 million compared with \$133.9 million for the fourth quarter of 2018.

Consolidated EBITDA margin on same facility basis was 22%, expanding 20 basis points year over year.

Total expenses decreased 27.1% year over year to \$790.5 million on the back of null legal settlements expenses, lower loss on impairment, lower transaction-related expenses.

In the reported quarter, the company added 171 beds in total to its operations, of which 150 beds are in the U.S. operations while 21 belong to the U.K. operations.

Financial Update

Cash and cash equivalents as of Dec 31, 2019 were \$124.2 million, soaring 145.9% from the level at 2018 end.

Long-term debt was \$3.1 billion as of Dec 31, 2019, down 1.7% from the figure as of Dec 31, 2018.

Net cash provided by operating activities for the year was \$332.9 million, down 20.1% year over year.

The company exited 2019 with total assets worth \$6.8 billion, up 11.4% year over year.

2020 Guidance

For 2020, the company expects adjusted earnings per share between \$2.20 and \$2.40 on revenues of \$3.28-\$3.34 billion.

Adjusted EBITDA is anticipated between \$610 million and \$630 million.

The company expects to add around 600 beds in the United States in 2020.

Depreciation and amortization expense is anticipated in the range of \$175-\$180 million while interest expense is expected within \$172-\$177 million. Total capital expenditure for the year is expected between \$330 million and \$350 million.

Q1 Guidance

Acadia Healthcare also provided guidance for the first quarter of 2020 wherein it expects revenues between \$795 million and \$805 million. Adjusted EBITDA for the quarter is anticipated between \$133 million and \$137 million. Meanwhile, adjusted earnings per share are projected in the band of 37-42 cents.

Full-Year Highlights

For the full year, the company posted adjusted earnings of \$2.04 per share, down 8.9% year over year. In 2019, the company added a total of 585 hospitals to its current and new facilities.

For 2019, total revenues of \$3.1 billion were up 3.2% year over year.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	0.51%
EPS Surprise	4.08%
Quarterly EPS	0.51
Annual EPS (TTM)	2.03

Valuation

Acadia Healthcare shares are down 33.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are down 19.4% and 11.5%, respectively.

The S&P 500 index is down 3.5% in the past year.

The stock is currently trading at 10.2X forward 12-month price to earnings, which compares to 10.5X for the Zacks sub-industry, 19.3X for the Zacks sector and 16.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.9X and as low as 10.2X, with a 5-year median of 15.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$25 price target reflects 10.9X earnings.

The table below shows summary valuation data for ACHC

Valuation Multiples - ACHC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.16	10.45	19.32	16.58
	5-Year High	33.98	17.79	21.08	19.34
	5-Year Low	10.16	9.79	15.82	15.18
	5-Year Median	15.52	11.9	18.86	17.42
P/S F12M	Current	0.62	0.41	2.61	3.05
	5-Year High	3.11	0.84	3.84	3.44
	5-Year Low	0.62	0.41	2.46	2.54
	5-Year Median	1.17	0.53	2.96	3.01

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 253)



Top Peers

Community Health Systems, Inc. (CYH)	Outperform
The Ensign Group, Inc. (ENSG)	Outperform
HCA Healthcare, Inc. (HCA)	Neutral
Select Medical Holdings Corporation (SEM)	Neutral
Teladoc Health, Inc. (TDOC)	Neutral
Tenet Healthcare Corporation (THC)	Neutral
Universal Health Services, Inc. (UHS)	Neutral
MEDNAX, Inc. (MD)	Underperform

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	ACHC Neutral	X Industry	S&P 500	ENSG Outperform	HCA Neutral	UHS Neutral
VGM Score	A	-	-	A	A	A
Market Cap	2.07 B	1.18 B	19.20 B	1.90 B	38.11 B	9.55 B
# of Analysts	7	7.5	13	4	11	7
Dividend Yield	0.00%	0.00%	2.31%	0.56%	1.53%	0.73%
Value Score	A	-	-	C	A	B
Cash/Price	0.05	0.10	0.05	0.03	0.01	0.01
EV/EBITDA	11.13	7.45	11.76	16.99	7.33	7.94
PEG Ratio	1.02	0.85	1.73	0.93	0.85	1.43
Price/Book (P/B)	0.83	1.27	2.64	2.89	NA	1.71
Price/Cash Flow (P/CF)	5.84	4.55	10.55	11.24	6.08	6.91
P/E (F1)	8.67	9.62	15.66	13.97	9.62	10.26
Price/Sales (P/S)	0.67	0.51	2.06	0.83	0.74	0.84
Earnings Yield	9.66%	9.74%	6.38%	7.17%	10.39%	9.74%
Debt/Equity	1.44	0.06	0.70	1.98	-59.43	0.75
Cash Flow (\$/share)	4.01	4.31	7.01	3.16	18.52	15.94
Growth Score	C	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	-0.20%	1.97%	10.85%	14.58%	17.45%	10.40%
Proj. EPS Growth (F1/F0)	10.78%	10.32%	6.02%	13.62%	11.41%	7.44%
Curr. Cash Flow Growth	-2.61%	8.67%	6.09%	18.22%	8.67%	2.58%
Hist. Cash Flow Growth (3-5 yrs)	24.05%	16.58%	8.52%	16.88%	9.56%	23.60%
Current Ratio	1.17	1.35	1.24	1.20	1.44	1.23
Debt/Capital	59.24%	48.65%	42.57%	66.44%	NA	42.78%
Net Margin	3.51%	-2.19%	11.69%	4.84%	6.83%	7.16%
Return on Equity	7.35%	9.79%	16.74%	17.32%	-242.05%	16.17%
Sales/Assets	0.46	0.81	0.54	0.99	1.15	0.97
Proj. Sales Growth (F1/F0)	6.23%	2.58%	3.55%	5.29%	5.42%	5.28%
Momentum Score	A	-	-	B	B	B
Daily Price Chg	-10.89%	-7.15%	-5.37%	-5.05%	-6.85%	-7.88%
1 Week Price Chg	-0.41%	0.07%	-0.67%	2.40%	0.15%	1.80%
4 Week Price Chg	-30.27%	-25.45%	-20.57%	-32.51%	-25.22%	-21.50%
12 Week Price Chg	-29.79%	-22.05%	-17.57%	-20.13%	-21.86%	-22.25%
52 Week Price Chg	-22.16%	-22.94%	-8.21%	-29.70%	-13.94%	-17.00%
20 Day Average Volume	826,657	829,392	2,882,511	377,796	2,454,053	832,126
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.00%	0.00%	-0.23%	3.14%	0.00%	0.11%
(F1) EPS Est 12 week change	-3.06%	0.63%	-0.60%	13.03%	0.63%	0.76%
(Q1) EPS Est Mthly Chg	-13.98%	-0.40%	-0.52%	0.00%	0.00%	-0.79%

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	A
Growth Score	C
Momentum Score	A
VGM Score	A

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.