

Acadia Healthcare(ACHC)

\$32.30 (As of 01/27/20)

Price Target (6-12 Months): **\$34.00**

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: A

Growth: C

Momentum: B

Summary

Acadia Healthcare's 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, which has been generating increasing cash from operations over the years. It is in the process of adding 650 new beds to existing and new facilities in 2019, which in turn will drive admissions and aid the top line. However, rising expenses and high labor cost weigh on margins. A soft earnings guidance, which points to a year-over-year decline, is also a concern. Its U.K. business remains challenged with weak census and pressures related to nurse staffing.

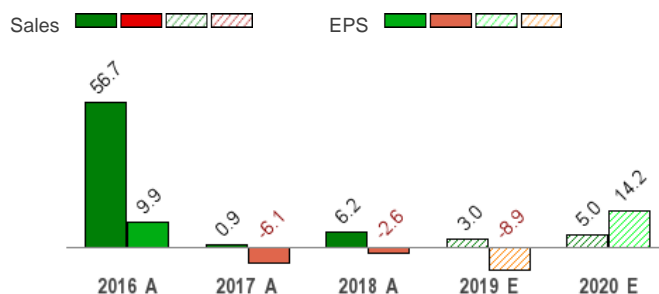
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.40 - \$25.53
20 Day Average Volume (sh)	421,815
Market Cap	\$2.9 B
YTD Price Change	-2.8%
Beta	0.69
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Hospital
Zacks Industry Rank	Top 31% (78 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.9%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/27/2020
Earnings ESP	0.0%
P/E TTM	16.2
P/E F1	13.9
PEG F1	1.6
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	794 E	823 E	818 E	819 E	3,256 E
2019	761 A	789 A	777 A	777 E	3,101 E
2018	742 A	766 A	761 A	744 A	3,012 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.46 E	\$0.65 E	\$0.61 E	\$0.64 E	\$2.33 E
2019	\$0.39 A	\$0.61 A	\$0.52 A	\$0.51 E	\$2.04 E
2018	\$0.52 A	\$0.70 A	\$0.55 A	\$0.47 A	\$2.24 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 01/27/2020. The reports text is as of 01/28/2020.

Overview

Headquartered in Franklin, TN, Acadia Healthcare Company, Inc. (ACHC) provides behavioral health care services in the United States and the United Kingdom. As of Dec 31, 2017, the company operated 582 behavioral healthcare facilities with over 17,800 beds across 39 U.S. states, the UK and Puerto Rico.

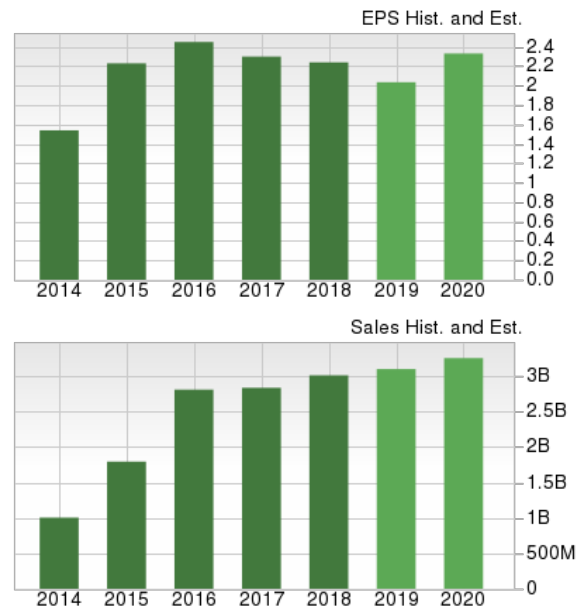
The U.S. segment, which contributed 65% of total 2018 revenues, includes acute inpatient psychiatric facilities; specialty treatment facilities; residential treatment centers; and outpatient community-based services.

As of Dec 31, 2018, the company's U.S. facilities included 21 behavioral facilities with nearly 9,300 beds in 40 states and Puerto Rico.

Its U.K. business contributed 35% of 2018 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. The U.K. business operates 370 inpatient behavioral health facilities with nearly 8,800 beds as of Dec 31, 2018. These facilities are located in England, Wales, Scotland, and Northern Ireland.

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.

As of Dec 31, 2018, the company operated 583 behavioral healthcare facilities with 18,100 beds. During the year, ended Dec 31, 2018, the company added 651 beds, including 499 added to existing facilities and 152 added through the opening of two de novo facilities. For the year ending Dec 31, 2019, the company expects to add approximately 700 total beds exclusive of acquisitions.



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. In the first nine months of 2019, revenues were up 3% year over year. For 2019, the company anticipates revenues in the range of \$3.1-\$3.13, down from the previous guidance range of \$3.15-3.18 billion. It is in the process of adding 650 new beds to existing facilities and new facilities in 2019, which in turn will aid the top line.
- ▲ **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.
- ▲ **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.
- ▲ **Share Price Performance:** Shares of the company have outperformed its industry year to date. 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:

- ▼ **Weak Guidance:** For 2019, the company expects adjusted earnings per share between \$2 and \$2.05, down from the previous guidance of \$2.15 and \$2.23. Also, revenue estimate of \$3.1-\$3.13 has come down from the previous guidance of \$3.15-3.18 billion.
- ▼ **Rising Expenses:** The company has been witnessing rising expenses since 2009, inducing margin contraction. During the first nine months of 2019, the same was up 4%. It remains a concern, given that this increase in expenses outpaced revenue growth of 2.7%. The company's expenses would remain elevated as it continues to invest in inorganic growth strategies, which might drag margins.
- ▼ **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 152%, which implies that debt level is more than equity. This has also led to a rise in interest expenses, which was up 4% year over year in the first nine months of 2019. Its high leverage raises financial risk along with weighing on margins. Also, its interest coverage ratio of -0.02 looks very weak compared with the industry average of 2.87.
- ▼ **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 the first nine months of 2019, admissions declined 2.4% year over year. Though a number of initiatives have been undertaken to address the labor issue and increase census, we would choose to remain on sidelines till results reflect the actions.

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

Last Earnings Report

Acadia Healthcare Q3 Earnings Miss

Acadia Healthcare reported third-quarter 2019 adjusted earnings of 52 cents per share, missing the Zacks Consensus Estimate by 1.89% and declining 5.5% year over year.

Quarterly Details

Revenues of Acadia Healthcare rose 2% year over year to \$777.2 million, but missed the Zacks Consensus Estimate by 1.1% year over year.

Total same facility revenues grew 4.6% with 1.1% increase in patient days and 3.5% rise in revenues per patient day.

U.S. same facility revenues were up 4.9% year over year to \$498.1 million. The segment also recorded 2.8% year-over-year increase in patient days and 2% growth in revenues per patient day.

U.K. same facility revenues rose 4% year over year to \$243.9 million. The number of patient days declined 1.1% from the year-earlier period whereas revenues per patient per day were up 5.1%.

Consolidated EBITDA margin was 22.9%, down 100 basis points year over year.

Total expenses increased 3.1% year over year to \$727.8 million due to higher salaries, professional fees, supplies, interest expenses, depreciation and amortization as well as rents and leases.

In the reported quarter, the company added 82 beds in total.

Financial Update

Cash and cash equivalents as of Sep 30, 2019 were \$92.9 million, up 84% from the 2018 end level.

Long-term debt was \$3.13 billion as of Sep 30, 2019, down 0.8% from year-end 2018 level.

Net cash provided by operating activities for the nine months ended Sept 30, 2019 was \$213.5 million, down 26% year over year.
2019 Guidance

For 2019, the company expects adjusted earnings per share between \$2 and \$2.05 on revenues of \$3.10-\$3.125 billion. Adjusted EBITDA is anticipated between \$584 million and \$589 million.

The company expects to add 650 beds to existing and new facilities.

Quarter Ending 09/2019

Report Date	Nov 05, 2019
Sales Surprise	-1.13%
EPS Surprise	-1.89%
Quarterly EPS	0.52
Annual EPS (TTM)	1.99

Valuation

Acadia Healthcare shares are up 19.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are up 4.9% and 4.2%, respectively.

The S&P 500 index is up 22.1% in the past year.

The stock is currently trading at 13.78X forward 12-month price to earnings, which compares to 12.83X for the Zacks sub-industry, 21.12X for the Zacks sector and 18.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.98X and as low as 10.18X, with a 5-year median of 15.74X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$34 price target reflects 14.47X price to earnings.

The table below shows summary valuation data for ACHC

Valuation Multiples - ACHC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	13.78	12.83	21.12	18.62
	5-Year High	33.98	17.79	21.22	19.34
	5-Year Low	10.18	10.5	15.85	15.18
	5-Year Median	15.74	12.19	18.92	17.45
P/S F12M	Current	0.88	0.51	2.8	3.46
	5-Year High	3.11	0.84	3.82	3.46
	5-Year Low	0.68	0.43	2.43	2.54
	5-Year Median	1.19	0.55	2.95	3

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 255)



Top Peers

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

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	ACHC Neutral	X Industry	S&P 500	ENSG Neutral	HCA Neutral	UHS Neutral
VGM Score	B	-	-	A	A	A
Market Cap	2.86 B	2.19 B	23.86 B	2.39 B	48.03 B	12.70 B
# of Analysts	7	7.5	13	4	7	5
Dividend Yield	0.00%	0.00%	1.81%	0.45%	1.13%	0.55%
Value Score	A	-	-	B	A	A
Cash/Price	0.03	0.03	0.04	0.02	0.01	0.00
EV/EBITDA	34.35	7.96	13.94	20.03	8.68	10.22
PEG Ratio	1.66	1.08	2.00	1.32	1.08	1.69
Price/Book (P/B)	1.18	1.92	3.25	3.41	NA	2.35
Price/Cash Flow (P/CF)	7.82	5.38	13.46	16.14	8.43	9.83
P/E (F1)	14.09	12.18	18.67	19.74	12.18	13.61
Price/Sales (P/S)	0.93	0.78	2.62	1.06	0.96	1.13
Earnings Yield	7.21%	7.35%	5.35%	5.07%	8.21%	7.35%
Debt/Equity	1.49	0.06	0.72	1.77	-23.56	0.76
Cash Flow (\$/share)	4.13	4.15	6.92	2.78	16.79	14.75
Growth Score	C	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	1.67%	1.67%	10.68%	13.13%	17.64%	10.69%
Proj. EPS Growth (F1/F0)	14.53%	9.51%	7.51%	3.65%	10.44%	8.57%
Curr. Cash Flow Growth	3.28%	9.15%	13.40%	34.15%	25.22%	14.84%
Hist. Cash Flow Growth (3-5 yrs)	37.98%	8.85%	8.78%	10.03%	11.31%	11.28%
Current Ratio	1.17	1.44	1.22	1.11	1.51	1.19
Debt/Capital	60.09%	50.35%	42.92%	63.86%	NA	43.16%
Net Margin	-6.88%	-3.51%	11.39%	4.84%	6.98%	6.48%
Return on Equity	7.31%	8.85%	17.19%	17.27%	-173.49%	15.80%
Sales/Assets	0.46	0.81	0.54	1.12	1.17	0.97
Proj. Sales Growth (F1/F0)	4.53%	2.71%	4.09%	0.36%	5.02%	3.96%
Momentum Score	B	-	-	C	A	C
Daily Price Chg	-0.46%	-1.42%	-1.40%	-0.13%	-1.29%	-1.55%
1 Week Price Chg	-3.08%	-1.54%	-1.09%	-5.60%	-3.34%	1.54%
4 Week Price Chg	-2.27%	-2.49%	-0.25%	0.67%	-4.03%	1.63%
12 Week Price Chg	3.00%	3.50%	3.64%	5.18%	3.95%	3.91%
52 Week Price Chg	17.50%	22.22%	18.08%	5.91%	7.49%	11.15%
20 Day Average Volume	421,815	443,874	1,615,215	201,053	1,061,886	465,933
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-4.45%	-1.49%	-0.17%	-11.16%	1.64%	-1.49%
(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	A
Growth Score	C
Momentum Score	B
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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