

Mednax Inc.(MD)

\$17.60 (As of 06/15/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

Summary

MEDNAX's shares have underperformed its industry in a year's time. The company has witnessed its 2020 and 2021 move south over the past 30 days. It has been witnessing elevated expense level for the past few years. Though it has undertaken cost-curbing initiatives, high labor costs should keep exerting an upward pressure on salaries and the benefit component. It withdrew its initial guidance for the first quarter of 2020 and the full year due to the COVID-19 effect on global economy. Nevertheless, its American Anesthesiology divestiture should help it reduce its risk profile and streamline its operations as well. A slew of strategic buyouts poises it well for growth. Its radiology segment impresses. Its recently taken initiatives should streamline its operations.

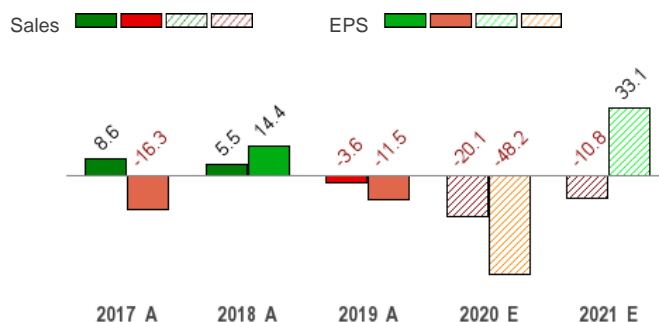
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$28.66 - \$7.37
20 Day Average Volume (sh)	1,050,882
Market Cap	\$1.5 B
YTD Price Change	-36.7%
Beta	1.42
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Hospital
Zacks Industry Rank	Bottom 7% (235 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-23.8%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	-24.0%
Expected Report Date	08/06/2020
Earnings ESP	-71.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	680 E	699 E	714 E	734 E	2,506 E
2020	846 A	639 E	627 E	652 E	2,808 E
2019	851 A	868 A	889 A	905 A	3,514 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.55 E	\$0.67 E	\$0.71 E	\$0.77 E	\$2.33 E
2020	\$0.32 A	\$0.28 E	\$0.56 E	\$0.65 E	\$1.75 E
2019	\$0.65 A	\$0.89 A	\$0.91 A	\$0.91 A	\$3.38 A

*Quarterly figures may not add up to annual.

P/E TTM	5.8
P/E F1	10.1
PEG F1	1.0
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/15/2020. The reports text is as of 06/16/2020.

Overview

Incorporated in Florida in 2007, MEDNAX, Inc is the successor of Pediatrix Medical Group, Inc., which was founded in Florida in 1979. The company provides newborn, maternal-fetal, radiology, pediatric cardiology and other pediatric subspecialties physician services in the United States and Puerto Rico. It also offers neonatal care services such as, clinical care to babies born prematurely or with complications within specific units at hospitals through neonatal physician subspecialists, neonatal nurse practitioners and other pediatric clinicians, etc.

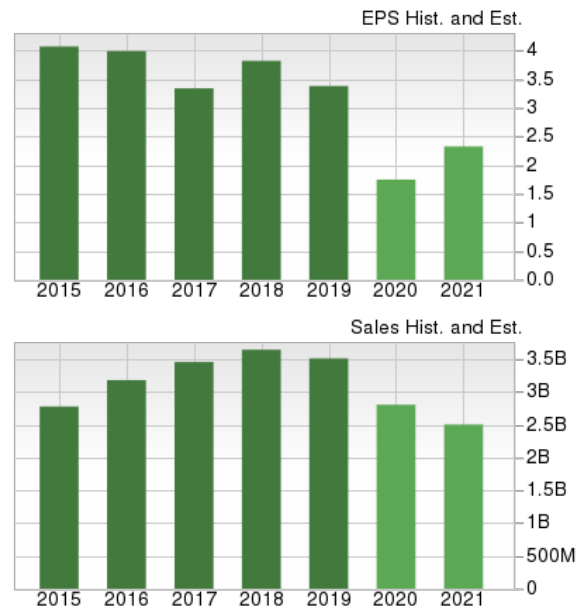
The company exited 2018 with 4,210 affiliated physicians including 1,270 physicians, who deliver neonatal clinical care, primarily within hospital-based neonatal intensive care units to babies born prematurely or with medical complications. The company also caters to radiology services through 355 affiliated physicians and teleradiology services via 430 affiliated physicians.

Additionally, the company renders services to healthcare facilities and physicians with the aid of complementary businesses.

Its perioperative consulting company also has a team of anesthesiologists, operating room nurse executives and perioperative business strategists, who develop and provide solutions to boost the performance, resources and capacity within hospital operating rooms and across the care continuum. The range of services include strategic assessments and transformations, central sterile redesign, physician engagement and governance plus workforce support.

It also conducts clinical research, monitor clinical outcomes and implement clinical quality initiatives in order to enhance patient outcomes, shorten the length of hospital stays as well as decrease health related costs.

Subject to certain conditions, MEDNAX looks to get back its original company name, Pediatrix Medical Group, Inc. Notably, it will continue trading under its current ticker symbol, MD.



Reasons To Sell:

- ▼ **Rising Expenses:** The company is grappling with steep expenses for the past many years. More concerning is the fact that the rate of increase in expenses has surpassed revenue improvement in the past four years.. In the first quarter of 2020, general and administrative expenses inched up 3.3% to \$105.2 million. Though the company has undertaken cost-curbing initiatives, high labor costs should keep exerting an upward pressure on salaries and the benefit component of total expenses. An increase in expenses might weigh on the company's margins.
- ▼ **Weak Capital Position:** MEDNAX's debt level including long-term loans has been increasing over the past several years. Its times interest earned now stands at -10.24x, comparing unfavorably with its industry's average of 2.74x. As of Mar 31, 2020, the company had cash and cash equivalents of about \$312 million, significantly lower than its long-term debt of \$2.1 billion. Although the company announced an amendment to its credit facility and a concurrent drawdown of \$300 million, its lack of financial flexibility continues to bother us.
- ▼ **Weak ROE:** Further, its return on equity (ROE) of 14% is much lower than its industry average of 454%, undermining its growth potential. The company's weak ROE reflects its inefficiency in using its shareholders' funds, which is unattractive for investors.
- ▼ **Withdrawal of Guidance:** It withdrew its initial guidance for the first quarter of 2020 and the full year due to the coronavirus effect on global economy. In March, the company's clinical operations have been affected by lower patient volumes due to the evolving COVID-19 outbreak. On closure of operating suites and facilities per federal advisories to cancel non-urgent procedures and prohibition of the same by certain states, the company's American Anesthesiology medical group also took a hit. Decline in elective surgeries wherein MEDNAX-affiliated clinicians provide anesthesia services reduced. Within its Radiology Solutions, orders for radiological studies also witnessed a downfall. Further, its office-based practises, such as maternal-fetal medicine, pediatric cardiology and numerous pediatric subspecialties saw appointment cancellations from historical normal levels.
- ▼ **Price Performance:** The company has underperformed its industry in a year's time. Moreover, it has witnessed its 2020 and 2021 earnings estimates move south 29.4% and 17.1%, respectively over the past 30 days. Headwinds facing the company would likely keep the stock under pressure going forward.

Escalating costs due to rising rebates and incentives remain headwinds for the company. A weak capital position also bothers.

Risks

- **Strategic Acquisitions:** The company has an active inorganic growth profile. One of the company's notable acquisitions was that of vRad in 2015 that helped the company expand its services in telemedicine. The company continues to expand its services in telemedicine. In 2019, the company closed its buyouts of nine physician group practice acquisitions including two neonatology physician practices, two maternal-fetal physician practices, one radiology practice and four other pediatric subspecialty practices. The company paid a total of \$111.9 million for its 2019 acquisitions. It expects to close purchases in radiology in the upcoming quarters. We believe that all these acquisitions poise the company for growth.
 - **Radiology Segment:** The company's radiology segment is well-poised for growth on the back of its several strategic initiatives. In 2017, 2018 and 2019, the segment contributed 9%, 13% and 14%, respectively, to the company's overall revenues. After the buyout of Boca Radiology Group, MEDNAX has more than 800 radiologists, who interpret above 12 million studies annually.
 - **Cost-Curbing Measures:** In response to the current environment, the company took several initiatives to control costs, such as temporary salary reductions, furloughing employees, etc. After the sale of its American Anesthesiology on May 6, 2020, it also took measures to minimize around \$10 million in annualized expenses.
 - **Divestitures:** Last year, the company divested its MedData business to Frazier Healthcare Partners, which will help it focus on its core business. This divestment is expected to position MEDNAX in a better way, both financially and strategically. MEDNAX's mounting debt level has been increasing over the past several years, which is expected to improve with the proceeds received from this transaction, which will be used to pay down the debt. Following its MedData transaction, the company is now an organization dedicated to physician services and patient care. Moreover, the company sold American Anesthesiology, which is expected to mitigate cash losses induced by the coronavirus outbreak as well as lower its risk profile. MEDNAX also declared its intension to divest MEDNAX Radiology Solutions. The company has plans to use the proceeds for reducing its debt burden. However, it didn't issue further information on the same.
 - **Increasing Revenues:** The company has been experiencing consistent revenue growth over the past several years on the back of operational excellence, inorganic growth via strategic acquisitions and strong segmental performances. This is evident from its CAGR of 6% during the 2015-2019 period. Although in the first quarter of 2020 the same slid 0.6% year over year due to the COVID-19 effect, we expect the same to bounce back on the back of strategic initiatives.
-

Last Earnings Report

MEDNAX's Earnings Miss Estimates in Q1, Tumble Y/Y

MEDNAX reported first-quarter 2020 adjusted earnings of 32 cents per share, missing the Zacks Consensus Estimate by 23.8%. Moreover, the bottom line plunged 50.8% year over year.

The company's results were negatively impacted by the COVID-19 pandemic. In fact, the coronavirus outbreak dented patient volumes as well as revenue.

Quarterly Details

The company generated revenues of \$846 million, which missed the Zacks Consensus Estimate by 0.6%. Also, the top line slid 0.6% from the year-ago period.

Same unit revenues dipped 1% year over year.

General and administrative expenses inched 3.3% to \$105.2 million.

Interest expense of the company declined 10.1% to \$27.6 million on the back of lower borrowings.

In the quarter under review, EBITDA totaled \$63.4 million, down 39.6% year over year.

The company invested \$13.7 million in capital expenditures.

Withdrawal of Preliminary Outlook

Given the current pandemic-led uncertainty, the company scrapped its previously-announced quarterly and 2020 outlook.

Financial Update

As of Mar 31, 2020, the company had cash and cash equivalents of \$312 million, up 177% from the level at 2019 end.

The company's total debt of \$2.1 billion was up 21.5% from the level at 2019 end while total assets worth \$4.3 billion rose 4.2% from the level at 2019 end.

Cash flow used in operating activities was \$146.4 million in the quarter under review, jumping 142.4% year over year.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	1.29%
EPS Surprise	-23.81%
Quarterly EPS	0.32
Annual EPS (TTM)	3.03

Recent News

MEDNAX's Strategic Initiatives to Streamline Operations – Jun 5, 2020

MEDNAX announced certain initiatives to transform its business, which bode well for the long haul.

The company has been conducting a comprehensive review since 2018 and taking several measures, such as improving operational efficiencies, divesting MedData and American Anesthesiology medical group, etc.

Management believes that implementing these measures and reorienting the business to a streamlined pediatrics and obstetrics operation will be advantageous to its shareholders. Subject to certain conditions, MEDNAX looks to get back its original company name, Pediatrix Medical Group, Inc. Notably, it will continue trading under its current ticker symbol, MD.

MEDNAX also declared its intension to divest MEDNAX Radiology Solutions. The company has plans to use the proceeds for reducing its debt burden. However, it didn't issue further information on the same.

After the sale of its American Anesthesiology on May 6, 2020, it also took measures to minimize around \$10 million in annualized expenses.

Moreover last month, the company paid back its borrowings on revolving credit facility.

MEDNAX Ties Up With CDI to Provide Improved Patient Care – May 13, 2020

MEDNAX's affiliate, Jefferson Radiology, has announced its tie up with Center for Diagnostic Imaging ("CDI"). Notably, MEDNAX had declared affiliation with Jefferson Radiology in 2017. The collaboration with CDI is aimed at providing enhanced patient care services in the Springfield city, MA. Best known for their strong network of outpatient imaging centers and sub-specialized radiologists, the collaboration is likely to provide a competitive edge to both the companies.

MEDNAX Divests American Anesthesiology to Avoid Cash Losses – May 6, 2020

MEDNAX completed the sale of its American Anesthesiology to North American Partners in Anesthesia (NAPA). Following this deal, NAPA will now have 6,000 clinicians and staff at more than 500 facilities across 20 states alongside in the District of Columbia, serving above three million patients annually.

MEDNAX has been facing challenges in this business line due to the coronavirus outbreak. Cancellation of elective surgeries to accommodate coronavirus-infected patients is hurting the company's revenues.

Valuation

MEDNAX's shares are down 37% and 31.7% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 33% and 4.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 23.3% and 1.1%, respectively.

The S&P 500 index is down 4.7% in the year-to-date period and up 7.3% in the past year.

The stock is currently trading at 8.75x forward 12-month earnings, which compares to 14.52x for the Zacks sub-industry, 22.01x for the Zacks sector and 21.91x for the S&P 500 index.

Over the past five years, the stock has traded as high as 22x and as low as 2.78x, with a 5-year median of 13.52x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$15 price target reflects 7.46x forward earnings.

The table below shows summary valuation data for MD

Valuation Multiples - MD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.75	14.52	22.01	21.91
	5-Year High	22	17.8	23.16	22.11
	5-Year Low	2.78	7.08	15.94	15.23
	5-Year Median	13.52	11.9	19.04	17.49
P/S F12M	Current	0.56	0.42	2.68	3.41
	5-Year High	2.76	0.84	3.75	3.44
	5-Year Low	0.19	0.33	2.21	2.53
	5-Year Median	1.3	0.53	2.92	3.02

As of 06/15/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (235 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Brookdale Senior Living Inc. (BKD)	Outperform	1
Avita Medical Ltd. (RCEL)	Outperform	2
Acadia Healthcare Company, Inc. (ACHC)	Neutral	3
Community Health Systems, Inc. (CYH)	Neutral	3
The Ensign Group, Inc. (ENSG)	Neutral	3
Tenet Healthcare Corporation (THC)	Neutral	3
HCA Healthcare, Inc. (HCA)	Underperform	5
Universal Health Services, Inc. (UHS)	Underperform	5

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	MD	X Industry	S&P 500	ACHC	EHC	UHS
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	3	3	5
VGM Score	C	-	-	B	B	A
Market Cap	1.50 B	1.50 B	21.70 B	2.43 B	6.61 B	8.54 B
# of Analysts	4	6.5	14	8	9	6
Dividend Yield	0.00%	0.00%	1.95%	0.00%	1.68%	0.80%
Value Score	C	-	-	B	B	A
Cash/Price	0.28	0.13	0.06	0.03	0.02	0.01
EV/EBITDA	7.95	7.50	12.55	11.56	10.59	7.27
PEG Ratio	1.01	2.30	2.96	2.05	7.40	2.39
Price/Book (P/B)	1.01	1.30	2.99	0.98	3.64	1.59
Price/Cash Flow (P/CF)	0.83	3.76	11.61	6.81	10.70	6.31
P/E (F1)	10.06	15.91	21.21	14.70	20.95	15.91
Price/Sales (P/S)	0.43	0.56	2.26	0.78	1.42	0.75
Earnings Yield	9.94%	4.72%	4.43%	6.81%	4.78%	6.29%
Debt/Equity	1.46	0.05	0.76	1.39	1.98	0.73
Cash Flow (\$/share)	21.32	4.31	7.01	4.01	6.22	15.94
Growth Score	C	-	-	D	D	B
Hist. EPS Growth (3-5 yrs)	-5.13%	7.97%	10.87%	-1.53%	15.57%	9.76%
Proj. EPS Growth (F1/F0)	-48.30%	-51.35%	-10.58%	-8.95%	-18.78%	-36.75%
Curr. Cash Flow Growth	338.26%	8.67%	5.46%	-2.61%	8.30%	2.58%
Hist. Cash Flow Growth (3-5 yrs)	37.59%	16.58%	8.55%	24.05%	13.00%	23.60%
Current Ratio	2.72	1.55	1.29	0.87	1.34	1.09
Debt/Capital	59.27%	50.34%	45.06%	58.36%	66.65%	42.32%
Net Margin	-36.30%	-2.42%	10.54%	3.61%	7.36%	6.34%
Return on Equity	12.72%	10.06%	16.08%	7.40%	22.00%	14.89%
Sales/Assets	0.76	0.80	0.55	0.46	0.76	0.98
Proj. Sales Growth (F1/F0)	-20.09%	-5.58%	-2.59%	1.60%	1.87%	-5.58%
Momentum Score	D	-	-	A	A	B
Daily Price Chg	6.22%	4.81%	0.98%	4.44%	0.80%	5.18%
1 Week Price Chg	-13.65%	-12.21%	-7.25%	-13.18%	-9.89%	-12.44%
4 Week Price Chg	18.28%	3.80%	5.45%	5.44%	-4.98%	0.40%
12 Week Price Chg	82.38%	38.60%	39.81%	131.83%	32.87%	39.94%
52 Week Price Chg	-31.73%	-18.55%	-4.47%	-19.68%	9.57%	-18.55%
20 Day Average Volume	1,050,882	682,736	2,587,370	655,922	694,482	709,549
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.92%	0.00%
(F1) EPS Est 4 week change	-24.02%	0.00%	0.00%	1.23%	0.92%	-10.53%
(F1) EPS Est 12 week change	-44.62%	-44.62%	-15.39%	-17.81%	-12.55%	-40.76%
(Q1) EPS Est Mthly Chg	-58.29%	0.00%	0.00%	0.00%	7.60%	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	C
Growth Score	C
Momentum Score	D
VGM Score	C

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.