

Mednax Inc.(MD)

\$26.70 (As of 02/18/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

MEDNAX has underperformed its industry in a year's time. Over the past 30 days, the company has witnessed its 2020 estimate move south. Also, the company 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 of total expenses. More concerning is the fact that the rate of increase in expenses has surpassed revenue improvement in the past three years. A bleak guidance and increasing debt also bother. Nevertheless, it is well-poised for growth on the back of a consistent rise in revenues. A series of strategic buyouts poise it well for growth. Its MedData divestiture should help it deleverage and lower capital expenditure.

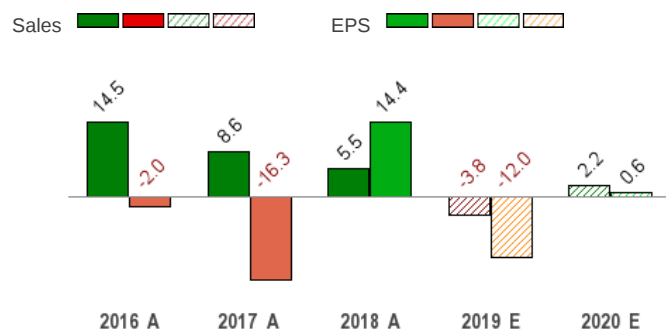
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$37.41 - \$19.93
20 Day Average Volume (sh)	947,871
Market Cap	\$2.3 B
YTD Price Change	-3.9%
Beta	0.84
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Hospital
Zacks Industry Rank	Top 30% (76 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	-2.9%
Expected Report Date	02/20/2020
Earnings ESP	0.2%
P/E TTM	7.9
P/E F1	7.9
PEG F1	1.0
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	875 E	890 E	899 E	916 E	3,586 E
2019	851 A	868 A	889 A	901 E	3,509 E
2018	902 A	916 A	897 A	933 A	3,647 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.66 E	\$0.92 E	\$0.92 E	\$0.93 E	\$3.38 E
2019	\$0.65 A	\$0.89 A	\$0.91 A	\$0.90 E	\$3.36 E
2018	\$0.89 A	\$1.07 A	\$0.94 A	\$0.92 A	\$3.82 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 02/18/2020. The reports text is as of 02/19/2020.

Overview

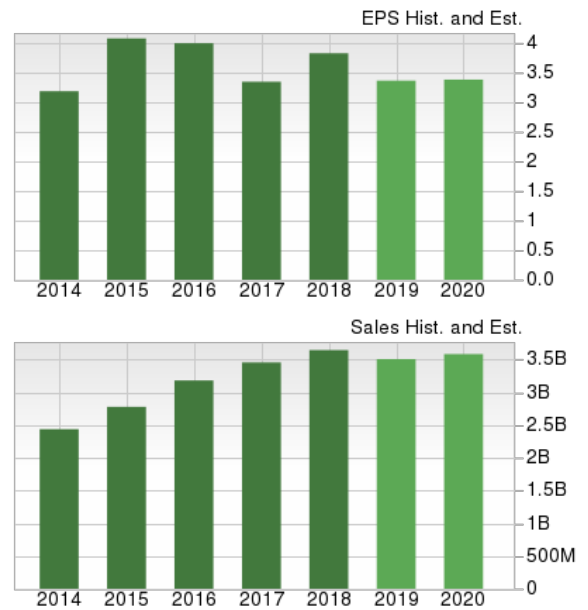
Incorporated in Florida in 2007, MEDNAX, Inc is the successor of Pediatrix Medical Group, Inc., which was founded in Florida in 1979. The company provides newborn, anesthesia, maternal-fetal, radiology, pediatric cardiology and other pediatric subspecialties physician services in the United States and 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; anesthesia and anesthesia subspecialty care plus acute and chronic pain management services.

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. MEDNAX has 1315 affiliated physicians, administering anesthesia care to patients. 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.



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 three years with expenditure growing 7.5% year over year in 2018. In the first nine months of 2019, the same soared 70% year over year due to practice salaries and benefits, general and administrative expenses, transformational and restructuring expenses and goodwill impairment. 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 Guidance:** Following third-quarter 2019 results, the company revised its 2019 outlook and also provided fourth-quarter guidance. It now expects adjusted EPS in the band of 87-95 cents, total same-unit revenue growth in the 1-3% range and adjusted EBITDA between \$125 million and \$135 million.
Based on third-quarter results, the company now expects adjusted EBITDA for the full year to be around \$500 million, comparing unfavorably with 2018's reported EBITDA of \$568.9 million.
- ▼ **High Leverage:** MEDNAX's debt level has been increasing over the past several years. Long-term debt piled up at a rate of 45% on average from 2014 to 2018. Moreover, interest expenses of the company have been increasing since 2015. Its current times interest earned stands at -9.2%, much lower than the industry's average of 2.9%. The company's high-debt level and decreased interest servicing capability raises its financial risk.
- ▼ **Weak ROE:** Further, its return on equity (ROE) stands at 11.4%, much lower than its industry average of 1770%, undermining its growth potential. The company's negative ROE reflects the company's inefficiency in using shareholders' funds, which is not attractive for investors.
- ▼ **Share Price Performance:** Shares of the company have underperformed its industry in a year's time. Over the past 30 days, the company has witnessed its 2020 estimate move south by 1.5%. Moreover, other factors such as its high leverage would continue to put a pressure on the stock going forward.

Escalating costs due to rising rebates and incentives remain headwinds for the company. A bleak 2019 guidance also remains a concern.

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. In the first nine months of 2019, the company closed its buyout of two neonatology physician practices, two maternal-fetal medicine physician practices and two other pediatric subspecialty practices for total consideration of \$31.5 million. It expects to close purchases in radiology in the upcoming quarters. We believe that all these acquisitions poise the company for growth.
 - **Divestiture:** Recently, 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.
 - **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 12.3% during the 2012-2018 period. In the first nine months of 2019, the same was up 1.6%. We expect revenue growth in the coming quarters on the back of strategic initiatives.
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Last Earnings Report

MEDNAX Q3 Earnings In Line With Estimates, Decline Y/Y

MEDNAX's third-quarter 2019 adjusted earnings of 91 cents per share came in line with the Zacks Consensus Estimate. Meanwhile, the bottom line declined 3.2% % year over year due to high expenses.

Quarterly Details

The company generated revenues of \$889 million, surpassing the Zacks Consensus Estimate by 1.8%. However, the top line dipped 0.9% from the year-ago period.

Same-unit revenues inched up 4.2% year over year, mainly driven by higher patient volume.

General and administrative expenses rose 6.9% to \$102.4 million due to higher legal, information technology and revenue cycle costs.

Interest expense of the company escalated 37.2% to \$29.9 million for the third quarter, primarily due to higher effective interest rate on borrowings between two periods.

In the quarter under review, Adjusted EBITDA totaled \$133 million, up 2.3% year over year.

Financial Update

As of Sep 30, 2019, the company had cash and cash equivalents of about \$28.9 million, down 36.5% from the level at 2018 end.

The company incurred total debt of \$1.9 billion, down 1.8% from the level at 2018 end and total assets of \$4.2 billion, down 27.7% from the level at 2018 end.

Cash flows from operating activities were \$155.9 million, up 15.3% year over year.

Fourth-Quarter Outlook

For the fourth quarter of 2019, the company expects adjusted EPS in the band of 87-95 cents.

This guidance assumes that total same-unit revenue growth for the three months ended Dec 31, 2019 will be in a 1-3% range from the prior-year period. It also assumes that the effective tax rate for the fourth quarter is 26.5%.

Shares outstanding are predicted to be around 83.4 million.

Adjusted EBITDA from continuing operations is expected between \$125 million and \$135 million.

2019 Guidance

Based on its third-quarter results, the company now expects adjusted EBITDA for the full year to be around \$500 million.

Quarter Ending **09/2019**

Report Date	Nov 01, 2019
Sales Surprise	1.75%
EPS Surprise	0.00%
Quarterly EPS	0.91
Annual EPS (TTM)	3.37

Recent News

MEDNAX Expands Further in Florida With Radiology Affiliation – Jan 6, 2020

MEDNAX has been affiliated to Boca Radiology Group, P.A., a private radiology physician group based in Boca Raton, FL. This new practice will combine with Radiology Associates of South Florida, LLC (RASf), a MEDNAX-affiliated physician practice in Miami catering to all of South Florida. This this all-cash transaction is expected to be immediately accretive to earnings. However, other terms of the deal were not disclosed.

MEDNAX Ties Up With Homestead to Expand in Florida — Nov 22, 2019

MEDNAX announced its affiliation to Arcenio Chacón, M.D., P.A. and Associated Pediatricians of Homestead, LLC. The all-cash deal will be immediately accretive to its earnings. However, other terms of the agreement have been kept under wraps.

MEDNAX Ties Up to Boost Presence in Florida — Oct 31, 2019

MEDNAX announces affiliation to Eric Stelnicki, M.D., P.A., a private pediatric plastic surgery practice to enhance its footprint in Florida.

MEDNAX to Divest MedData Business – Oct 10, 2019

MEDNAX entered into an agreement with Frazier Healthcare Partners to divest MedData business to the later for \$250 million cash at closing and economic consideration of up to \$50 million that is contingent on both short and long-term performance of MedData. MEDNAX estimates certain cash tax benefits from the transaction in the coming quarters. MEDNAX intends to deploy the net proceeds for debt repayment, share repurchases and strategic acquisitions.

The transaction will help MEDNAX focus on core physician services business and lower leverage and future capital expenditures.

Valuation

MEDNAX shares are down 26.6% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 5.7% and 2%, respectively.

The S&P 500 index is up 21% in the past year.

The stock is currently trading at 7.86X trailing 12-month price to earnings ratio, which compares to 13.14X for the Zacks sub-industry, 21.35X for the Zacks sector and 19.34X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.99X and as low as 6.44X, with a 5-year median of 15.12X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$23 price target reflects 6.78X price to earnings ratio.

The table below shows summary valuation data for MD

Valuation Multiples - MD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.86	13.14	21.35	19.34
	5-Year High	21.99	17.79	21.35	19.34
	5-Year Low	6.44	10.5	15.83	15.17
	5-Year Median	15.12	12.19	18.9	17.47
P/S F12M	Current	0.63	0.52	2.84	3.58
	5-Year High	2.76	0.84	3.83	3.58
	5-Year Low	0.49	0.43	2.45	2.54
	5-Year Median	1.4	0.53	2.97	3

As of 02/18/2020

Industry Analysis Zacks Industry Rank: Top 30% (76 out of 255)



Top Peers

Community Health Systems, Inc. (CYH)	Outperform
DaVita Inc. (DVA)	Outperform
Tenet Healthcare Corporation (THC)	Outperform
Acadia Healthcare Company, Inc. (ACHC)	Neutral
Encompass Health Corporation (EHC)	Neutral
HCA Healthcare, Inc. (HCA)	Neutral
Magellan Health, Inc. (MGLN)	Neutral
Universal Health Services, Inc. (UHS)	Neutral

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	MD Underperform	X Industry	S&P 500	ACHC Neutral	EHC Neutral	UHS Neutral
VGM Score	A	-	-	B	C	A
Market Cap	2.25 B	2.25 B	24.61 B	3.02 B	8.13 B	12.18 B
# of Analysts	6	7	13	7	9	5
Dividend Yield	0.00%	0.00%	1.78%	0.00%	1.36%	0.58%
Value Score	A	-	-	B	B	A
Cash/Price	0.05	0.03	0.04	0.03	0.02	0.00
EV/EBITDA	7.23	7.91	14.06	35.19	11.90	9.90
PEG Ratio	0.95	1.17	2.09	1.38	2.43	1.62
Price/Book (P/B)	1.52	1.89	3.29	1.25	4.80	2.25
Price/Cash Flow (P/CF)	5.46	5.46	13.65	8.25	13.26	9.43
P/E (F1)	7.90	12.69	19.21	14.61	22.51	13.06
Price/Sales (P/S)	0.64	0.81	2.70	0.98	1.77	1.08
Earnings Yield	12.66%	7.66%	5.19%	6.84%	4.44%	7.66%
Debt/Equity	1.35	0.06	0.71	1.49	1.93	0.76
Cash Flow (\$/share)	4.89	4.15	6.92	4.13	6.22	14.75
Growth Score	A	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	-2.29%	1.67%	10.85%	1.67%	16.11%	10.69%
Proj. EPS Growth (F1/F0)	0.52%	9.83%	7.17%	14.53%	-6.31%	8.57%
Curr. Cash Flow Growth	9.15%	8.67%	8.56%	3.28%	8.30%	14.84%
Hist. Cash Flow Growth (3-5 yrs)	6.42%	7.99%	8.36%	37.98%	13.00%	11.28%
Current Ratio	1.93	1.44	1.23	1.17	1.05	1.19
Debt/Capital	57.54%	50.35%	42.91%	60.09%	67.44%	43.16%
Net Margin	-40.86%	-3.91%	11.81%	-6.88%	7.79%	6.48%
Return on Equity	10.38%	8.85%	16.86%	7.31%	23.68%	15.80%
Sales/Assets	0.66	0.81	0.54	0.46	0.77	0.97
Proj. Sales Growth (F1/F0)	2.18%	2.73%	3.85%	4.53%	6.03%	3.96%
Momentum Score	D	-	-	B	F	A
Daily Price Chg	-0.37%	-0.21%	0.06%	1.55%	-0.16%	-0.60%
1 Week Price Chg	5.30%	1.98%	2.47%	1.57%	3.79%	1.30%
4 Week Price Chg	-1.62%	0.34%	0.59%	5.48%	3.46%	-4.07%
12 Week Price Chg	-0.45%	6.21%	6.98%	5.71%	15.94%	-0.48%
52 Week Price Chg	-26.39%	10.79%	16.62%	21.29%	24.33%	2.82%
20 Day Average Volume	947,871	528,371	2,020,569	576,161	506,460	480,581
(F1) EPS Est 1 week change	-1.26%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.90%	0.00%	-0.05%	0.00%	-0.14%	0.00%
(F1) EPS Est 12 week change	-4.01%	0.00%	-0.17%	0.00%	-2.18%	0.00%
(Q1) EPS Est Mthly Chg	-6.67%	0.00%	-0.24%	0.00%	-3.48%	0.00%

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	A
Momentum Score	D
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.

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