

Mednax Inc.(MD)

\$19.06 (As of 08/18/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: C

Summary

MEDNAX's American Anesthesiology divestiture should help it reduce its risk profile and streamline its operations as well. Its revenues have been benefiting from operational excellence, inorganic growth via strategic acquisitions and strong segmental performances. The company continues to expand its telemedicine services. It has undertaken several initiatives to control costs, such as temporary salary reductions and furloughing employees in response to the current environment. Its shares have underperformed its industry year to date. Nevertheless, its second-quarter earnings beat estimates. However, it has been witnessing elevated expense level for the past few years. It withdrew its initial guidance for the first quarter of 2020 and the full year due to the COVID-19 effect on global economy. The company's lack of solvency is a concern.

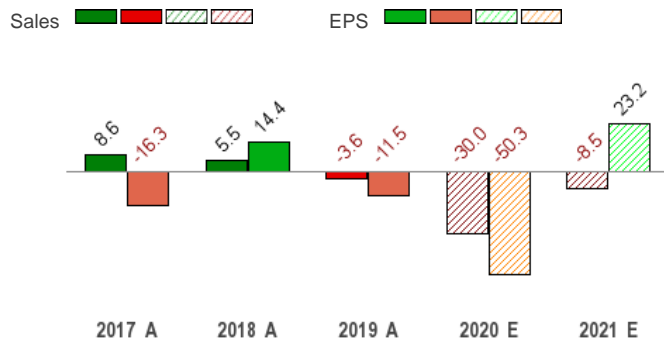
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$28.66 - \$7.37
20 Day Average Volume (sh)	620,476
Market Cap	\$1.6 B
YTD Price Change	-31.4%
Beta	1.49
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Hospital
Zacks Industry Rank	Top 39% (98 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	113.3%
Last Sales Surprise	-13.8%
EPS F1 Est- 4 week change	22.9%
Expected Report Date	11/06/2020
Earnings ESP	0.0%
P/E TTM	7.8
P/E F1	11.4
PEG F1	1.1
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	572 E	565 E	592 E	631 E	2,250 E
2020	846 A	509 A	564 E	597 E	2,460 E
2019	851 A	868 A	889 A	905 A	3,514 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.49 E	\$0.51 E	\$0.58 E	\$0.68 E	\$2.07 E
2020	\$0.32 A	\$0.32 A	\$0.44 E	\$0.54 E	\$1.68 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/18/2020. The reports text is as of 08/19/2020.

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, 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.

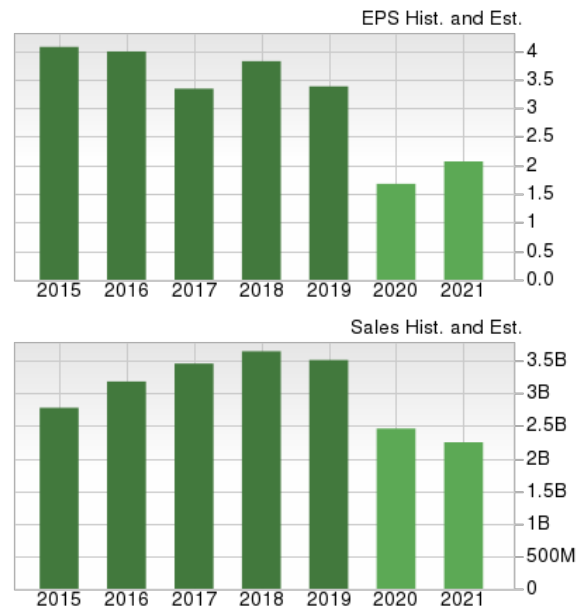
The company exited 2018 with 4,210 affiliated physicians including 1,270 physicians, who deliver neonatal clinical care, primarily within hospital-based neonatal intensive care units to babies born prematurely or with medical complications. The company also caters to radiology services through 355 affiliated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

▲ **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.

MEDNAX's strategic acquisitions and increasing top-line on the back of operational efficiency along with solid segments augur well for long-term growth.

▲ **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. 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 intention to divest MEDNAX Radiology Solutions in June 2020 and focus on its core pediatrics and obstetrics business lines. The company has plans to use the proceeds for reducing its debt burden.

▲ **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 six months of 2020, the metric slid 3% year over year due to the COVID-19 effect, we expect the same to bounce back on the back of strategic initiatives.

▲ **Price Performance:** The company has underperformed its industry year to date. However, its solid fundamentals would likely help the stock bounce back going forward.

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 six months of 2020, general and administrative expenses inched up 2.8% to \$102 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. As of Jun 30, 2020, the company had cash and cash equivalents of \$132.2 million, significantly lower than its long-term debt of \$1.7 billion. Although management confirmed that the company has no borrowings under its \$1.2 billion revolver, its lack of financial flexibility continues to bother us.
- ▼ **Weak ROE:** Further, its return on equity (ROE) of 15.4% is much lower than its industry average of 273%, 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 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.

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

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.

Last Earnings Report

MEDNAX's Q2 Earnings Surpass Estimates, Decline Y/Y

MEDNAX reported second-quarter 2020 adjusted earnings of 32 cents per share, beating the Zacks Consensus Estimate by 113.3%. However, the bottom line plunged 64% year over year due to muted revenues.

The company's results were negatively impacted by the COVID-19 pandemic. In fact, the coronavirus outbreak dented patient volumes as well as revenues. The impact on net revenues was maximum during April.

Quarterly Details

The company generated revenues of \$509 million, which missed the Zacks Consensus Estimate by 13.9%. Also, the top line declined 41.4% from the year-ago period. This was due to major reductions in patient volumes as a result of the prevalent COVID-19 pandemic.

Same unit revenues dropped 11.7% year over year.

General and administrative expenses fell 7.7% to \$77.7 million on the back of lower general and administrative expenses.

Interest expense of the company declined 9% to \$28.3 million on the back of lower borrowings.

In the quarter under review, EBITDA totaled \$65.2 million, down 30.8% year over year.

Financial Update

As of Jun 30, 2020, the company had cash and cash equivalents of \$132.2 million, up 22.5% from the level as of Dec 31, 2019.

The company's total debt of \$1.7 billion was up 0.5% from the level at 2019 end while total assets worth \$3.4 billion were down 18.3% from the level at last-year end.

Cash flow generated from operating activities was \$193.4 million in the quarter under review, jumping 172% year over year.

Business Update

MEDNAX completed the sale of its anesthesiology medical group American Anesthesiology to North American Partners in Anesthesia (NAPA).

The company intends to divest MEDNAX Radiology Solutions and return to its original name, Pediatrix Medical Group, Inc. It aims to channelize its resources as a pediatrics and obstetrics organization.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	-13.83%
EPS Surprise	113.33%
Quarterly EPS	0.32
Annual EPS (TTM)	2.46

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.

Valuation

MEDNAX's shares are down 31.4% and 13.9% 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 13.9% and up 1.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 0.2% and up 8.6%, respectively.

The S&P 500 index is up 5.2% in the year-to-date period and 16.1% in the past year.

The stock is currently trading at 9.9x forward 12-month earnings, which compares to 12.68x for the Zacks sub-industry, 22.33x for the Zacks sector and 22.91x for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.67x and as low as 2.78x, with a 5-year median of 13.09x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$20 price target reflects 10.36x 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	9.9	12.68	22.33	22.91
	5-Year High	21.67	16.67	23.17	22.91
	5-Year Low	2.78	7.79	15.89	15.25
	5-Year Median	13.09	12.52	18.97	17.58
P/S F12M	Current	0.7	0.54	2.83	3.72
	5-Year High	2.68	0.79	3.41	3.72
	5-Year Low	0.19	0.36	2.22	2.53
	5-Year Median	1.17	0.55	2.89	3.05

As of 08/18/2020

Industry Analysis Zacks Industry Rank: Top 39% (98 out of 252)



Top Peers

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

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	MD	X Industry	S&P 500	ACHC	EHC	UHS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	A	-	-	A	B	A
Market Cap	1.63 B	1.63 B	23.71 B	2.67 B	6.25 B	9.52 B
# of Analysts	3	6	14	7	8	6
Dividend Yield	0.00%	0.00%	1.63%	0.00%	1.78%	0.00%
Value Score	A	-	-	A	B	A
Cash/Price	0.13	0.13	0.07	0.08	0.08	0.06
EV/EBITDA	7.78	7.38	13.45	12.04	10.11	7.39
PEG Ratio	1.16	1.24	3.01	1.24	5.02	1.58
Price/Book (P/B)	1.97	1.97	3.18	1.07	3.41	1.65
Price/Cash Flow (P/CF)	0.89	4.77	12.70	7.48	10.10	7.03
P/E (F1)	11.56	12.03	21.98	14.65	20.99	12.66
Price/Sales (P/S)	0.52	0.68	2.46	0.86	1.36	0.84
Earnings Yield	8.81%	7.89%	4.33%	6.83%	4.76%	7.89%
Debt/Equity	2.17	0.65	0.76	1.42	2.06	0.65
Cash Flow (\$/share)	21.32	4.31	6.94	4.01	6.22	15.94
Growth Score	A	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	-7.49%	9.30%	10.44%	-3.10%	13.25%	9.30%
Proj. EPS Growth (F1/F0)	-50.39%	-0.13%	-5.97%	0.42%	-23.47%	-11.39%
Curr. Cash Flow Growth	338.26%	8.67%	5.22%	-2.61%	8.30%	2.58%
Hist. Cash Flow Growth (3-5 yrs)	37.59%	16.58%	8.52%	24.05%	13.00%	23.60%
Current Ratio	1.79	1.29	1.33	1.16	1.66	1.02
Debt/Capital	68.46%	58.89%	44.50%	58.89%	67.57%	39.32%
Net Margin	-61.53%	-1.39%	10.13%	3.42%	6.21%	6.53%
Return on Equity	13.86%	10.49%	14.59%	7.11%	16.89%	14.75%
Sales/Assets	0.78	0.77	0.51	0.46	0.73	0.96
Proj. Sales Growth (F1/F0)	-29.97%	-2.20%	-1.54%	1.78%	1.91%	-1.42%
Momentum Score	C	-	-	A	B	B
Daily Price Chg	-2.06%	-1.89%	-0.41%	-1.78%	0.30%	-1.99%
1 Week Price Chg	-2.54%	-0.44%	1.09%	-0.74%	-6.55%	4.31%
4 Week Price Chg	-0.94%	10.01%	3.41%	7.95%	-4.06%	11.89%
12 Week Price Chg	20.02%	19.46%	9.80%	4.86%	-16.22%	5.39%
52 Week Price Chg	-12.73%	-2.01%	3.43%	10.29%	1.42%	-23.02%
20 Day Average Volume	620,476	562,426	1,894,669	504,375	610,145	681,892
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.15%	0.00%	0.00%
(F1) EPS Est 4 week change	22.95%	40.82%	1.86%	12.11%	-1.34%	40.82%
(F1) EPS Est 12 week change	-16.14%	25.35%	2.86%	13.49%	-4.10%	25.35%
(Q1) EPS Est Mthly Chg	-8.57%	52.54%	0.80%	8.76%	7.65%	52.54%

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	A
Momentum Score	C
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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