

Mednax Inc.(MD)

\$19.99 (As of 02/21/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

Summary

MEDNAX's fourth-quarter 2019 adjusted earnings of 91 cents per share beat the Zacks Consensus Estimate by 1.1%. However, the bottom line declined nearly 1.1% year over year. Its shares have underperformed its industry in a year's time. Also, the company has been witnessing elevated expense level for the past few years. Though it has undertaken cost-curbng initiatives, high labor costs should keep exerting an upward pressure on salaries and the benefit component. 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. Its radiology segment impresses.

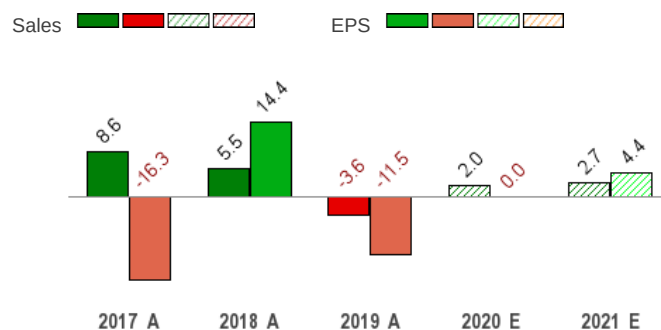
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.17 - \$18.66
20 Day Average Volume (sh)	1,157,647
Market Cap	\$1.7 B
YTD Price Change	-28.1%
Beta	0.84
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Hospital
Zacks Industry Rank	Top 32% (82 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.1%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-3.3%
Expected Report Date	NA
Earnings ESP	-3.7%
P/E TTM	6.0
P/E F1	5.9
PEG F1	0.7
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	900 E	919 E	937 E	947 E	3,682 E
2020	875 E	890 E	899 E	916 E	3,586 E
2019	851 A	868 A	889 A	905 A	3,514 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.64 E	\$0.96 E	\$0.89 E	\$0.86 E	\$3.53 E
2020	\$0.63 E	\$0.92 E	\$0.92 E	\$0.93 E	\$3.38 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 02/21/2020. The reports text is as of 02/24/2020.

Overview

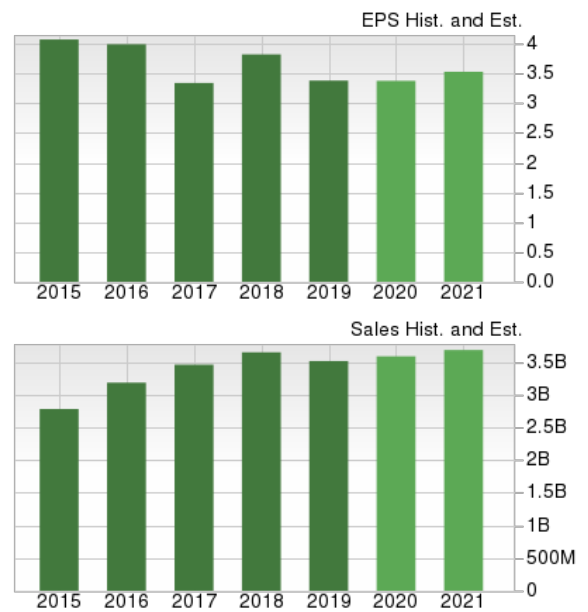
Incorporated in Florida in 2007, MEDNAX, Inc is the successor of Pediatrix Medical Group, Inc., which was founded in Florida in 1979. The company provides newborn, anesthesia, maternal-fetal, radiology, pediatric cardiology and other pediatric subspecialties physician services in the United States and 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 four years. In 2019, the same soared 54% year over year due to 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.

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

▼ **Weak Guidance:** Following 2019 results, the company provided first-quarter 2020 and full-year outlooks. For the current quarter, it expects adjusted EBITDA in the range of \$90-\$100 million, the midpoint indicating a 31% downfall from 2019's reported first-quarter figure. Same unit revenue growth is anticipated to be 2-4%.

On a preliminary basis, the company estimates adjusted EBITDA for the full year in the band of \$450-\$490 million, the midpoint suggesting a decline of 6.2% from the 2019 reported figure. Management contemplates revenues in the range of \$3.5-\$3.6 billion.

▼ **High Leverage:** MEDNAX's debt level has been increasing over the past several years. Long-term debt of the company has been piling up from the past many years. Moreover, interest expenses of the company have been escalating since 2015. In 2018 and 2019, the metric rose 19.1% and 35% year over year, respectively. Its current times interest earned stands at -9.2% against the industry 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) of 11.4% is much below its industry average of 1770%, undermining its growth potential. The company's weak ROE reflects its inefficiency in using shareholders' funds, which is unattractive for investors.

▼ **Share Price Performance:** Shares of the company have underperformed its industry in a year's time. Moreover, other factors, such as its high leverage would persistently put a pressure on the stock going forward.

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.
 - **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. Following its MedData transaction, the company is now an organization dedicated to physician services and patient care.
 - **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. We expect revenue growth in the coming quarters on the back of strategic initiatives.
-

Last Earnings Report

MEDNAX Q4 Earnings and Revenues Surpass Estimates

MEDNAX delivered fourth-quarter 2019 adjusted earnings of 91 cents per share, which beat the Zacks Consensus Estimate by 1.1%. However, the bottom line declined nearly 1.1% year over year.

The company recorded growth in same unit revenues and lower expenses.

Full-Year Highlights

Operating income per share of \$3.38 outpaced the Zacks Consensus Estimate of \$3.36 by 0.6%. However, the bottom line decreased 4.8% from 2018.

Revenues of \$3.5 billion were in line with the Zacks Consensus Estimate but increased 1.7% from 2018.

Quarterly Details

The company generated revenues of \$905 million, which beat the Zacks Consensus Estimate by 0.4%. However, the top line was down 3% from the year-ago period. Same unit revenues increased 2.3% year over year, mainly driven by recent buyouts. However, this upside was offset by the non-renewal of a few contracts.

General and administrative expenses declined 8.2% to \$96.9 million.

Interest expense of the company escalated 9.1% to \$27.7 million, primarily due to higher effective interest rate on borrowings between two periods.

In the quarter under review, EBITDA totaled \$132.2 million, up nearly 1.5%.

The company paid a total of \$82.6 million in the reported quarter to fund acquisitions and to make contingent purchase price payments for previously completed acquisitions and \$6.9 for capital expenditures.

Financial Update

As of Dec 31, 2019, the company had cash and cash equivalents of about \$112.8 million, up 147.9% from year-end 2018.

The company incurred total debt of \$1.75 billion, down 12.5% from 2018-end level and total assets of \$4.1 billion, down 30.2% from the level at 2018 end.

Cash flow from operating activities was \$127.6 million, up 3.1% year over year.

First-Quarter Guidance

For the first quarter of 2020, the company expects adjusted EPS to be in the band of 55-63 cents. MEDNAX projects adjusted EBITDA in the range of \$90-\$100 million.

This guidance assumes total same-unit revenue growth for the three months ended Mar 31, 2020 to be in the range of 2% to 4%.

Shares outstanding are predicted to be around 84.5 million.

Preliminary 2020 Guidance

On a preliminary basis, the company estimates adjusted EBITDA to be in the band of \$450-\$490 million.

The company estimates an effective tax rate of 27%. Average diluted shares for the full-year are expected to be approximately 85 million.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	0.50%
EPS Surprise	1.11%
Quarterly EPS	0.91
Annual EPS (TTM)	3.36

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's shares are down 44% and 28.1% 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 0.5% and up 2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 4.5% and 2%, respectively.

The S&P 500 index is up 4% in the year-to-date period and 18.6% in the past year.

The stock is currently trading at 5.8x trailing 12-month price to earnings, which compares to 13.1x for the Zacks sub-industry, 21.2x for the Zacks sector and 19.3x for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.9x and as low as 5.9x, with a 5-year median of 15.1x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$17 price target reflects 5.01x earnings.

The table below shows summary valuation data for MD

Valuation Multiples - MD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	5.88	13.12	21.24	19.34
	5-Year High	21.99	17.79	21.24	19.34
	5-Year Low	5.88	10.5	15.83	15.17
	5-Year Median	15.07	12.19	18.87	17.47
P/S F12M	Current	0.47	0.52	2.84	3.51
	5-Year High	2.76	0.84	3.83	3.51
	5-Year Low	0.47	0.43	2.45	2.54
	5-Year Median	1.4	0.53	2.97	3

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Top 32% (82 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	B	A
Market Cap	1.69 B	1.69 B	24.03 B	3.10 B	8.05 B	12.50 B
# of Analysts	7	6	13	6	9	3
Dividend Yield	0.00%	0.00%	1.76%	0.00%	1.37%	0.56%
Value Score	A	-	-	B	B	A
Cash/Price	0.05	0.03	0.04	0.03	0.02	0.00
EV/EBITDA	5.93	7.92	14.08	35.64	11.81	10.10
PEG Ratio	0.66	1.17	2.08	1.42	2.38	1.66
Price/Book (P/B)	1.12	1.80	3.29	1.28	4.75	2.31
Price/Cash Flow (P/CF)	0.94	4.14	13.42	8.47	13.12	9.68
P/E (F1)	5.49	12.65	19.00	15.01	22.29	13.40
Price/Sales (P/S)	0.48	0.73	2.64	1.01	1.75	1.11
Earnings Yield	16.91%	7.46%	5.26%	6.66%	4.48%	7.46%
Debt/Equity	1.21	0.06	0.70	1.49	1.93	0.76
Cash Flow (\$/share)	21.25	4.31	7.03	4.13	6.22	14.75
Growth Score	A	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	-2.29%	1.67%	10.84%	1.67%	16.11%	10.69%
Proj. EPS Growth (F1/F0)	-0.13%	9.90%	7.09%	16.09%	-6.31%	8.57%
Curr. Cash Flow Growth	309.47%	8.67%	6.72%	3.28%	8.30%	14.84%
Hist. Cash Flow Growth (3-5 yrs)	6.42%	7.99%	8.25%	37.98%	13.00%	11.28%
Current Ratio	1.43	1.43	1.22	1.17	1.05	1.19
Debt/Capital	54.85%	49.00%	42.37%	60.09%	67.44%	43.16%
Net Margin	-42.63%	-4.11%	11.56%	-6.88%	7.79%	6.48%
Return on Equity	12.22%	9.77%	16.80%	7.31%	23.68%	15.80%
Sales/Assets	0.71	0.81	0.55	0.46	0.77	0.97
Proj. Sales Growth (F1/F0)	2.05%	2.66%	3.90%	4.53%	6.03%	3.96%
Momentum Score	A	-	-	C	B	D
Daily Price Chg	-4.63%	-0.04%	-0.83%	-0.11%	-1.11%	1.92%
1 Week Price Chg	5.30%	1.98%	1.65%	1.57%	3.79%	1.30%
4 Week Price Chg	-26.83%	2.17%	-0.37%	6.87%	3.37%	-3.42%
12 Week Price Chg	-24.48%	5.87%	3.74%	7.36%	14.39%	1.73%
52 Week Price Chg	-44.46%	16.17%	14.14%	26.26%	24.85%	6.07%
20 Day Average Volume	1,157,647	521,511	1,992,841	563,974	509,792	479,048
(F1) EPS Est 1 week change	-1.64%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.27%	0.00%	-0.02%	0.00%	-0.14%	0.00%
(F1) EPS Est 12 week change	-4.98%	0.00%	-0.17%	0.00%	-2.18%	0.00%
(Q1) EPS Est Mthly Chg	-6.67%	0.00%	-0.48%	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	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.