

Acadia Healthcare

ACHC beats modestly, 2024 guidance in line

Reiterate Rating: BUY | PO: 105.00 USD | Price: 87.38 USD

ACHC SS revs/vols above peers

ACHC revs were 2% above consensus while Adj EBITDA was 2% above consensus as margins were roughly in line (-10bps). ACHC continues to see impressive SS (same store) growth that outperforms peers. SS volumes of +2.9% were above UHS' Psych biz +1.1%, and SS pricing of +7.1% was better than UHS' +6.1%. ACHC guided to 2024 revs and adj EBITDA that is essentially in-line with consensus when excluding a one time state payment. However, adj EPS guidance was 7% below consensus on higher int exp. We are raising our PO and EBITDA ests following the quarter and rolling out 2026 ests. Our \$105 PO (vs \$100 prior) represents 15.4x 2024E EBITDA vs 14.8x prior. Reiterate Buy on the strong fundamentals with deals providing upside.

2024 guidance mostly in line, EPS below consensus

Ex \$10m from a state payment, ACHC guided to revs growing 9% y/y in 2024 to \$3.2b at the midpoint, 0.3% above consensus. Adj EBITDA guidance ex the 1x payment was -0.4% below consensus at the midpoint and implies 10% growth y/y. Meanwhile, adj EPS ex 9c from the state payment is 7% below consensus at the midpoint partially due to higher interest expense (21% above consensus).

SS revs decelerated on vols, pricing accelerated

SS rev growth of +10.3% outperformed UHS' +7.2%. The growth was driven by the continued strong SS pricing of +7.1% with SS vols of +2.9%. SS pricing accelerated (+50bps q/q) and was +26.1% above 2019 levels (better than +24.1% vs 2019 in Q3). Meanwhile, SS vols decelerated and are +13.9% above 2019, below the +16.4% vs 2019 in Q3.

Adj EBITDA beat modestly on better revs

Revs were 2% above consensus as pricing was 2% above and volumes were 1% above. However, margins were 10bps below consensus. Salaries, wages, and benefits (SWB) was down 25bps y/y but 90bps above our est. Meanwhile, other operating exp was down 70bps y/y and was 40bps below our est.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.18	3.46	3.54	3.86	4.39
GAAP EPS	2.98	(0.24)	3.54	3.86	4.39
EPS Change (YoY)	23.7%	8.8%	2.3%	9.0%	13.7%
Consensus EPS (Bloomberg)	3.14	3.40	3.70	4.10	4.84
Valuation (Dec)					
P/E	27.5x	25.3x	24.7x	22.6x	19.9x
GAAP P/E	29.3x	NM	24.7x	22.6x	19.9x
EV / EBITDA*	20.1x	17.7x	16.0x	14.7x	13.3x
Free Cash Flow Yield*	1.1%	0.5%	1.2%	1.3%	1.8%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 28 February 2024 12:05AM EST

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	100.00	105.00
2024E Rev (m)	3,174.0	3,215.0
2025E Rev (m)	3,454.1	3,485.1
2026E Rev (m)	NA	3,798.7
2024E EPS	3.79	3.54
2025E EPS	4.18	3.86
2026E EPS	NA	4.39
2024E EBITDA (m)	701.1	707.9
2025E EBITDA (m)	772.8	768.9
2026E EBITDA (m)	NA	852.9

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Stock Data

Price	87.38 USD
Price Objective	105.00 USD
Date Established	27-Feb-2024
Investment Opinion	B-1-9
52-Week Range	66.49 USD - 87.77 USD
Mrkt Val (mn) / Shares Out (mn)	8,028 USD / 91.9
Free Float	97.2%
Average Daily Value (mn)	39.73 USD
BoFA Ticker / Exchange	ACHC / NAS
Bloomberg / Reuters	ACHC US / ACHC.OQ
ROE (2024E)	11.0%
Net Dbt to Eqty (Dec-2023A)	44.0%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BoFA ESGMeter Methodology".

ACHC = Acadia Healthcare

UHS = Universal Health Services

iQprofileSM Acadia Healthcare

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.4%	6.9%	8.4%	8.0%	8.4%
Return on Equity	10.9%	11.3%	11.0%	10.8%	11.0%
Operating Margin	17.1%	17.3%	17.3%	17.2%	17.6%
Free Cash Flow	84	38	93	107	144

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.5x	1.6x	1.6x	1.5x
Asset Replacement Ratio	2.4x	3.1x	2.8x	2.6x	2.5x
Tax Rate	25.2%	38.2%	25.0%	25.4%	25.4%
Net Debt-to-Equity Ratio	44.4%	44.0%	36.7%	30.1%	23.4%
Interest Cover	6.4x	6.2x	5.0x	5.4x	5.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,610	2,929	3,215	3,485	3,799
% Change	12.8%	12.2%	9.8%	8.4%	9.0%
Gross Profit	609	685	756	818	903
% Change	12.5%	12.5%	10.2%	8.3%	10.4%
EBITDA	564	639	708	769	853
% Change	12.1%	13.3%	10.8%	8.6%	10.9%
Net Interest & Other Income	(72)	(532)	(111)	(112)	(113)
Net Income (Adjusted)	291	317	325	354	403
% Change	24.8%	8.9%	2.5%	9.0%	13.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	273	(22)	325	354	403
Depreciation & Amortization	121	136	155	173	189
Change in Working Capital	(69)	7	4	(3)	(3)
Deferred Taxation Charge	17	(94)	0	0	0
Other Adjustments, Net	39	436	42	38	34
Capital Expenditure	(296)	(424)	(434)	(455)	(480)
Free Cash Flow	84	38	93	107	144
% Change	-34.9%	-54.7%	142.2%	15.5%	34.5%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(19)	(16)	(93)	(107)	(144)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	98	100	100	100	100
Trade Receivables	322	361	401	435	475
Other Current Assets	86	134	155	168	183
Property, Plant & Equipment	1,952	2,267	2,548	2,834	3,128
Other Non-Current Assets	2,530	2,496	2,496	2,496	2,496
Total Assets	4,988	5,359	5,700	6,033	6,383
Short-Term Debt	21	29	29	29	29
Other Current Liabilities	367	857	236	256	280
Long-Term Debt	1,365	1,343	1,250	1,143	999
Other Non-Current Liabilities	334	243	972	1,038	1,104
Total Liabilities	2,087	2,471	2,487	2,466	2,412
Total Equity	2,901	2,888	3,213	3,567	3,970
Total Equity & Liabilities	4,988	5,359	5,700	6,033	6,383

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Hospital Management

Company Description

Acadia Healthcare is a behavioral health company that operates inpatient psych hospitals, residential treatment centers and outpatient clinics as well as therapeutic school-based programs across the United States. The company operates a network of 250 behavioral healthcare facilities with approximately 11,100 beds in 39 states and Puerto Rico.

Investment Rationale

We believe mid/high single digit organic growth (driven by bed additions, government support for access) in the US, likely will see additional tailwinds from the stress and anxiety caused by COVID. Meanwhile, the sale of the company's UK assets has aided its deleveraging and allowed the company to consider more US M&A opportunities--another lever for growth.

Stock Data

Average Daily Volume 454,694

Quarterly Earnings Estimates

	2023	2024
Q1	0.75A	0.81E
Q2	0.92A	0.94E
Q3	0.91A	0.94E
Q4	0.87A	0.85E

Price objective basis & risk

Acadia Healthcare (ACHC)

Our \$105 PO is based on 15.4x 2024E EBITDA, a premium to the acute care hospitals average (8x). The rapid growth, high ROIC, and low Medicare exposure of the business warrant a premium valuation, in our view. Also, ACHC has recently made strides in deleveraging.

Risks to our PO are a longer COVID-19 overhang, government reimbursement pressures driven by state (Medicaid) or federal (Medicare) budgetary issues, as well as potential quality of care issues. We also note the labor sourcing issues impacting the industry could impact ACHC's ability to service demand in its markets.

Analyst Certification

I, Kevin Fischbeck, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Astrana Health Inc	ASTH	ASTH US	Adam Ron
	BrightSpring Health Services	BTSG	BTSG US	Joanna Gajuk
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
NEUTRAL				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Privia Health	PRVA	PRVA US	Adam Ron
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA



US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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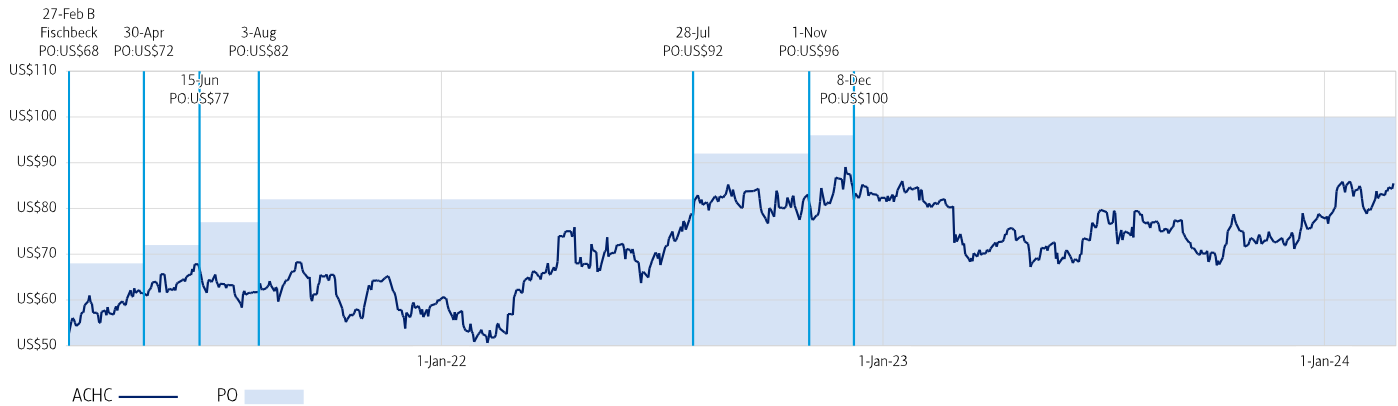
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Acadia Healthcare (ACHC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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