

## Surgery Partners, Inc

# Story on track on an in-line EBITDA and reaffirmed guide

Reiterate Rating: BUY | PO: 44.00 USD | Price: 33.04 USD

## Modest beat on EBITDA, 2024 EBITDA guide reaffirmed

Adj EBITDA was 1% above consensus on 30bps better margins as revs were roughly in line. Same store (SS) revenue growth was solid, up +8.1% y/y, driven by strong pricing of +7% and SS vols of +1%. SGRY reaffirmed its 2024 adj EBITDA guide of at least \$495m and guided to revs of at least \$3bn, in line with consensus. We reiterate Buy given the strong fundamentals (LT EBITDA growth in mid-teens).

## Guided to revs growing at least 9%, EBITDA 13%+

SGRY guided to 2024 revenues growing 9%+ y/y to “at least \$3b” with this lower end in line with consensus and our est. This growth follows an +8% increase in 2023 (+11% SS). SGRY reaffirmed its Adj EBITDA guide issued in early Jan, which implies a 13% growth y/y, after growing 15% in 2023. The guide implies margins of about 16.0%, up 50bps y/y, in line with consensus and 30bp above our est.

## SS revs +8% on strong pricing

SS revs increased +8.1% y/y, decelerating from +14.2% in Q3. Vols decelerated sequentially to +1.4% y/y (vs +2.9% in 3Q23) and were below the +3.9% y/y growth Tenet’s (THC) surgery centers delivered (although THC also decelerated from Q3). Vols were 7% above 2019 levels, worse than 8% above 2019 as of Q3. SS pricing was +6.7%, worse than +11.0% y/y in 3Q23 but still quite strong as it implies it was 30% above 2019 levels (vs 33% above 2019 as of Q3).

## Margins up nicely on strong pricing, 30bp above consensus

Q4 revs were 1% below consensus / our est as worse vols were partially offset by better pricing. Adj EBITDA was 1% above consensus on better margins which grew 130bps y/y (to 19.4%) and were 30bps above consensus and 20bps above our est.

26 February 2024

### Equity

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### Stock Data

Price	33.04 USD
Price Objective	44.00 USD
Date Established	7-Nov-2023
Investment Opinion	C-1-9
52-Week Range	22.05 USD - 45.79 USD
Mkt Val (mn) / Shares Out (mn)	4,209 USD / 127.4
Free Float	52.7%
Average Daily Value (mn)	26.71 USD
BofA Ticker / Exchange	SGRY / NAS
Bloomberg / Reuters	SGRY US / SGRY.QQ
ROE (2023E)	4.1%
Net Dbt to Eqty (Dec-2022A)	71.2%
ESGMeter™	Medium

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LT = Long-term

SGRY = Surgery Partners

THC = Tenet Healthcare

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 26 February 2024 08:39AM EST

## Price objective basis & risk

### **Surgery Partners, Inc (SGRY)**

Our \$44 PO is based on a multiple of 17.2x our 2024E EBITDA-NCI estimate, a premium to the company's historical avg multiple of 13.1x since 2015 and above the 3-year average of 17x. We think the premium to the historical average is justified by the acceleration in the shift to the outpatient settings driving above-average long-term organic growth. In addition to the strong organic growth, we expect a robust M&A. The multiple is adjusted for the dilution of convertible preferred equity shares.

Downside risks are 1) worse-than-expected organic growth, 2) failure of physician recruitment investments to come online on time, 3) potential rate pressure from Medicare or commercial payors, and 4) deal integration risks. SGRY also has above-average leverage, although improving.

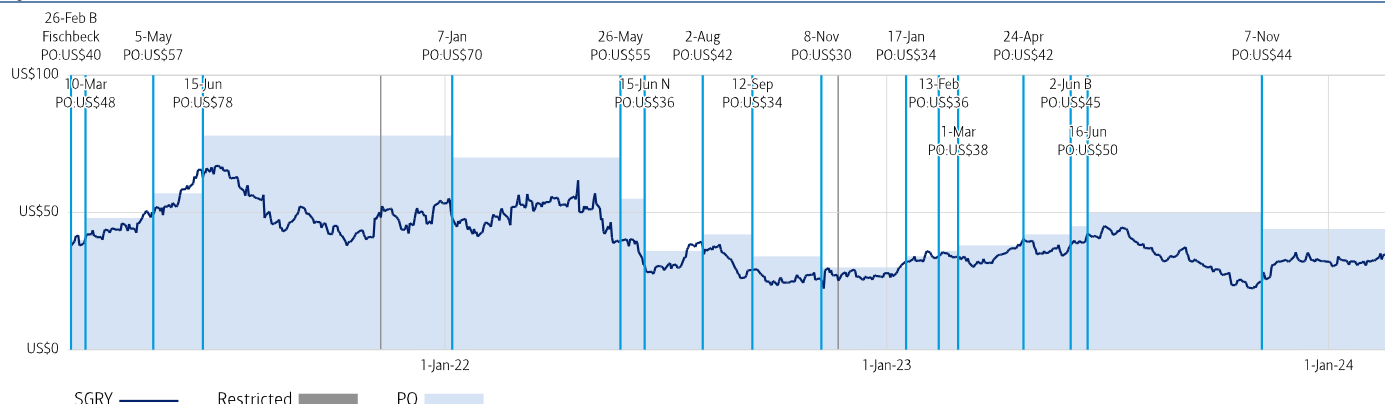
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### Surgery Partners (SGRY) Price Chart



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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
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