

# Pediatric Medical Group, Inc.

## Miss on lower revs, 2024 adj EBITDA guide above consensus

Maintain Rating: UNDERPERFORM | PO: 10.00 USD | Price: 9.29 USD

### Adj EBITDA missed by 4% on worse revs

Adj EBITDA was \$2m or -3.6% below consensus on much worse revs (-5.1% below) as margins were roughly in line. SS revs declined -1.5% y/y on declines in both volumes and pricing. The company guided to Adj EBITDA of \$200-220m, -0.9% below our est but 2.4% above consensus at the midpoint. We maintain our Underperform rating given the potential downside to pricing from surprise billing legislation and rate growth below inflation.

### SS volumes accelerated, but still negative

Same store (SS) revs decelerated to -1.5% vs +4.1% in Q3. SS volumes declined -1.0% y/y, better than -1.2% in Q3. This implies volumes are trending 2.3% above 2019, better than the +1.0% above 2019 as of 3Q23.

### NICU vols decelerated to -2%

Hospital based volumes declined -3.0% y/y, decelerating from -1.8% y/y in Q3. NICU patient days declined -2.0% y/y in 4Q23, worse than the -0.7% y/y decline in Q3 (no comment on births). However, on a 4-year stack, NICU vols improved to in line with the 2019 levels vs -0.6% below as of 3Q23. Office-based volumes increased +3.9% y/y, much better than 0% y/y in 3Q23, and the variance against 2019 was +8.7%, better than the +5.6% we estimated in Q3.

### Pricing decelerated, payor mix improved y/y

Payor mix shift was a 40bps increase in commercial/non-government payors, lower than the 150bps increase in 3Q23. 4Q23 SS pricing worsened to -0.5% y/y from +5.3% in 3Q23. The 4-yr stack was +3.8% above 2019 vs +1.5% in 3Q23.

20 February 2024

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#### Stock Data

|                                |                      |
|--------------------------------|----------------------|
| Price                          | 9.29 USD             |
| Price Objective                | 10.00 USD            |
| Date Established               | 15-Dec-2023          |
| Investment Opinion             | C-3-9                |
| 52-Week Range                  | 8.18 USD - 17.02 USD |
| Mkt Val (mn) / Shares Out (mn) | 765 USD / 82.3       |
| Free Float                     | 97.8%                |
| Average Daily Value (mn)       | 5.89 USD             |
| BofA Ticker / Exchange         | MD / NYS             |
| Bloomberg / Reuters            | MD US / MD.N         |
| ROE (2023E)                    | 9.9%                 |
| Net Dbt to Eqty (Dec-2022A)    | 74.4%                |
| ESGMeter™                      | Medium               |

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LT = Long-term

MD = Pediatric Medical Group

NICU = Neonatal intensive care unit

CARES = Coronavirus Aid, Relief, and Economic Security Act

SS = Same store

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Timestamp: 20 February 2024 08:24AM EST

## Price objective basis & risk

### **Pediatric Medical Group, Inc. (MD)**

Our \$10 price objective is based on a valuation of 6.9x 2024E EBITDA estimate, below MD's historical valuation range of 8-12x EBITDA given the downside risk from legislation on surprise billing and price transparency, which could pressure pricing over time. The multiple is above the low end of the range given the improved balance sheet post asset sales.

Upside risks to our PO are that ss revenue growth reaches mgmt's 3% threshold for margin expansion, the company's revenue cycle management issues normalize faster than expected, or payor mix stabilizes. Risks to the downside are that managed care companies continue to seek rate cuts, volumes decline from current levels, or labor costs rise higher than expected.

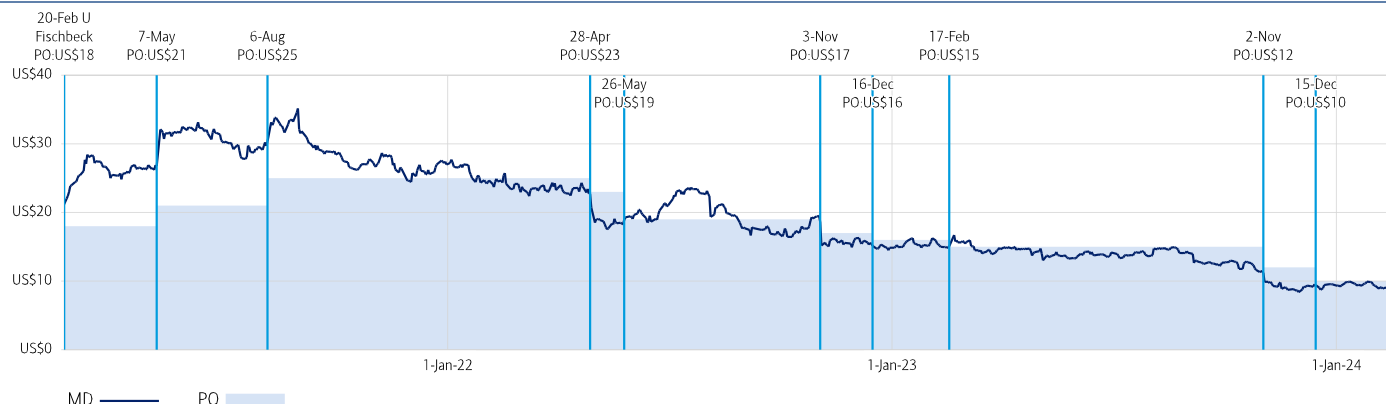
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### Pediatrix Medical (MD) Price Chart



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| 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%  |
| Underperform      | N/A   | ≥ 20%  |

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