BofA SECURITIES

# DaVita Inc

# Conference quick takes

**Maintain Rating: UNDERPERFORM | PO: 96.00 USD | Price: 99.27 USD**

10 May 2023

Equity

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## Near-term headwinds improving

We hosted Joel Ackerman, Chief Financial Officer and Nic Eliason, Group Vice President, Investor Relations from DaVita (DVA) at the BofA Health Care Conference. Overall, the tone was positive as the company is starting to anniversary mortality headwinds and labor is improving. However, we maintain Underperform as we remain cautious on potential commercial rate pressure.

## Excess mortality starting to improve

Excess mortality went from 6,000 in 2021 to 4,000 in 2022, and has continued to moderate so far, with treatment growth from 4Q22 to 1Q23. Excess mortality was ~1,000 in Q1 and guidance assumes 2,500-3,000 for the year. Meanwhile, missed treatments were a 100bps headwind to volumes in 2022 and have remained at that level so far. DVA believes that 2% is the right long-term volume growth after near-term headwinds normalize. Q1 showed some improvement in new starts. Given the variability in net patient growth, DVA is cautious about how it forecasts volume growth in 2023 guidance. So far it is unclear what the impact of new weight loss/diabetes drugs is on volumes (could slow progression to kidney failure or could help patients live longer).

## Labor is showing signs of improvement

Labor pressure peaked in 3Q22 with contract labor at $100m in 2022, and the company believes contract labor will be $35m in 2023. Wage growth has slowed to 5-6% but is still above 2-3% (pre-pandemic level). Given high turnover, training costs remain above average and likely will remain elevated until the broader labor market improves more.

## Rate increases better but still below costs

Given higher inflation, the company expects to see rate updates of 2-2.5% this year vs 1% historically. This is still below cost inflation, but the company has a history of managing against a negative rate/cost spread. In 2023, DVA identified $125-175m of cost savings from 1) Mircera (biggest swing factor), 2) closing sites, and 3) G&A reduction.

## Watching Marietta, but no change yet

On Marietta, the company sees bipartisan support for a fix, but timing remains unclear. DVA is concerned that employers are trying to use the Marietta case as a way to deceptively restrict networks. So far, there hasn't been a noticeable uptake in employers dropping coverage (although a small amount of employers always look at it this way).

## Continued progress on VBC

DVA continues to grow VBC patients at a rapid pace: 2x in 2022 and another 50% in 2023. DVA targets keeping 3-5% of the savings it generates (splits savings with MCOs and nephrologists). As a result, DVA remains on track to go from losing money to breakeven to ultimately profitable.

### Stock Data

| | |
|---|---|
| Price | 99.27 USD |
| Price Objective | 96.00 USD |
| Date Established | 9-May-2023 |
| Investment Opinion | B-3-9 |
| 52-Week Range | 65.28 USD - 106.71 USD |
| Mrkt Val (mn) / Shares Out (mn) | 9,181 USD / 92.5 |
| Average Daily Value (mn) | 59.75 USD |
| BofA Ticker / Exchange | DVA / NYS |
| Bloomberg / Reuters | DVA US / DVA.N |
| ROE (2023E) | 56.7% |
| Net Dbt to Eqty (Dec-2022A) | 385.9% |
| ESGMeter™ | High |

**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".

G&A = General and administrative

VBC = Value based care

MCO = Managed care organization


**Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.** 12557657

Timestamp: 10 May 2023 06:29PM EDT

## Price objective basis & risk

**DaVita Inc (DVA)**

Our $96 PO is based on 7.9x our 2023E EBITDA estimate, which we view as more normalized valuation given the 1x headwinds in 2023. This is below the mid-point of the historical range of 6-10x EBITDA given the risks to commercial rates after the negative SCOTUS ruling. This is partially offset by the company's improving FCF, partially offset by slower organic growth.

Upside risks to our PO are as follows: 1) Volumes are better than expected. 2) Commercial mix is better than expected. 3) Reimbursement is better than expected. 4) The shift to Medicare Advantage (MA) is faster/rates are higher than expected. 5) Congress steps in faster than expected to remain status quo post the negative SCOTUS ruling.

Downside risks to our PO are 1) worse-than-expected cost pressures, 2) worse-than-expected commercial pricing pressure, 3) MA rate pressure, 4) Medicare rate pressure.

## Analyst Certification

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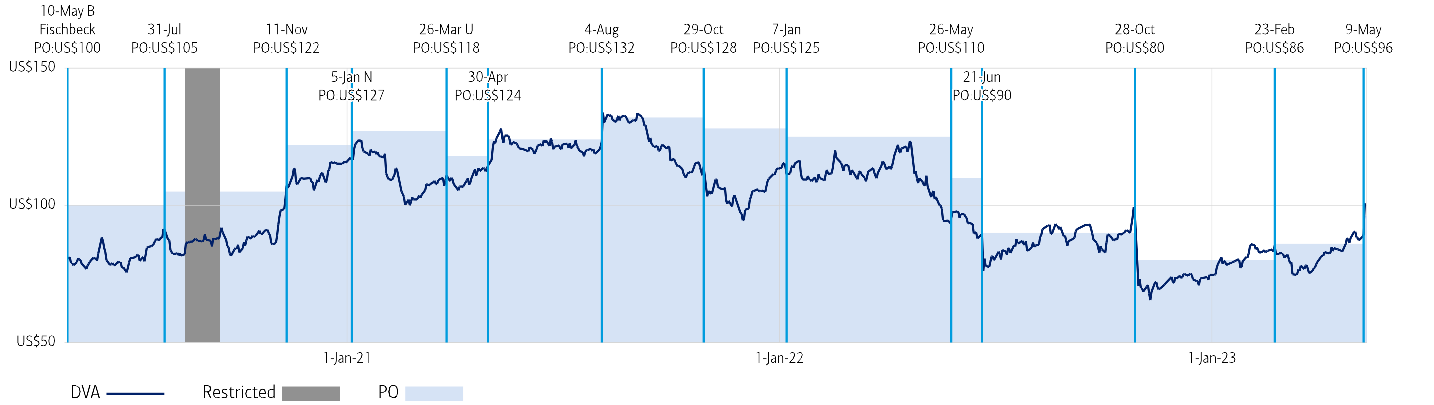
**DaVita Inc (DVA) Price Chart**




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.

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| Coverage Universe | Count | Percent | Inv. Banking Relationships R1 | Count | Percent |
|---|---|---|---|---|---|
| Buy | 232 | 56.86% | Buy | 104 | 44.83% |
| Hold | 86 | 21.08% | Hold | 44 | 51.16% |
| Sell | 90 | 22.06% | Sell | 23 | 25.56% |

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| Coverage Universe | Count | Percent | Inv. Banking Relationships R1 | Count | Percent |
|---|---|---|---|---|---|
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| Hold | 827 | 23.45% | Hold | 476 | 57.56% |
| Sell | 830 | 23.54% | Sell | 389 | 46.87% |

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|---|---|---|
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| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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