

Select Medical Corp.

Quick takes from the call

Maintain Rating: BUY | PO: 36.00 USD | Price: 29.02 USD

Strong start to the year as labor stabilizes

SEM (Select Medical Corp) had a solid Q1 and provided EBITDA guidance for the first time since 2021 as labor is improving. CIRH saw the greatest improvement y/y as contract labor rates were down 42% and utilization was down 53% y/y. SWB as a % of revs was 56.3% in Q1, in line with SEM's 55-57% target and the company anticipates that SWB will remain in this range for the year. Contract labor improved q/q and SEM noted it expects the \$23.8m in Q1 to be the run rate for the year. Maintain Buy.

Temp labor improves further on lower bill rates

In the CIRH segment, SEM saw a 10% decrease in bill rate on temp staffing to \$83/hr in Q1 from \$92/hr in Q4. The company saw improvement on bill rates throughout the quarter (decreased to \$79/hr in March from \$89/hr in January). Agency as a percentage of nursing hours was stable q/q at 18%. Overall, agency spending was down 12% q/q. Mgmt expects the \$23.8m Q1 number to be the run rate for the year, which is in line with the \$80-100m expense it's seen historically.

SWB to be 55-57% for the year

SWB as a % of revs declined sequentially to 56.3% in Q1 from 59.8% in Q4, in line with the 55-57% mgmt. expected. SEM assumes SWB will be in that 55-57% range for the year (still above 52% historically). On employed staff labor costs, orientation hours were down 17% sequentially in the quarter and sign on/incentive bonuses were down 11% q/q.

CIRH occupancy up y/y, CMI up sequentially

Occupancy in the CIRHs was up 100bps y/y. Case mix index (CMI) was down y/y due to patient mix but was up q/q. Based on the Long-Term Acute Care Hospital (LTCH) proposal, SEM expects a 3.3% increase in the federal base rate and an increase in the high cost outlier threshold.

05 May 2023

Equity

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Stock Data

Price	29.02 USD
Price Objective	36.00 USD
Date Established	5-May-2023
Investment Opinion	B-1-7
52-Week Range	18.86 USD - 30.91 USD
Mkt Val (mn) / Shares Out (mn)	3,555 USD / 122.5
Average Daily Value (mn)	13.64 USD
BofA Ticker / Exchange	SEM / NYS
Bloomberg / Reuters	SEM US / SEM.N
ROE (2023E)	16.2%
Net Dbt to Eqty (Dec-2022A)	274.2%
ESGMeter™	Medium

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SWB = Salaries, wages, and benefits

CIRH = Critical Illness Recovery Hospital

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Price objective basis & risk

Select Medical Corp. (SEM)

Our \$36 PO is based on 11.0x our 2023E Adjusted EBITDA estimate, above the high end of its historical 7.5-10x range, which we think is justified given the strong performance in outpatient businesses offsetting weaker inpatient margins.

Upside risks to our PO are outperformance in LTCH and IRF segments, better-than-expected Medicare rates, a smaller hit to volumes from COVID-19, or larger-than-expected cost offsets (especially in labor).

Downside risks to our PO are: continued labor disruption, COVID disruption, Medicare rate pressure, lower-than-expected cost saves from labor during a recession, a recession impacting growth, high leverage and execution risk on deals.

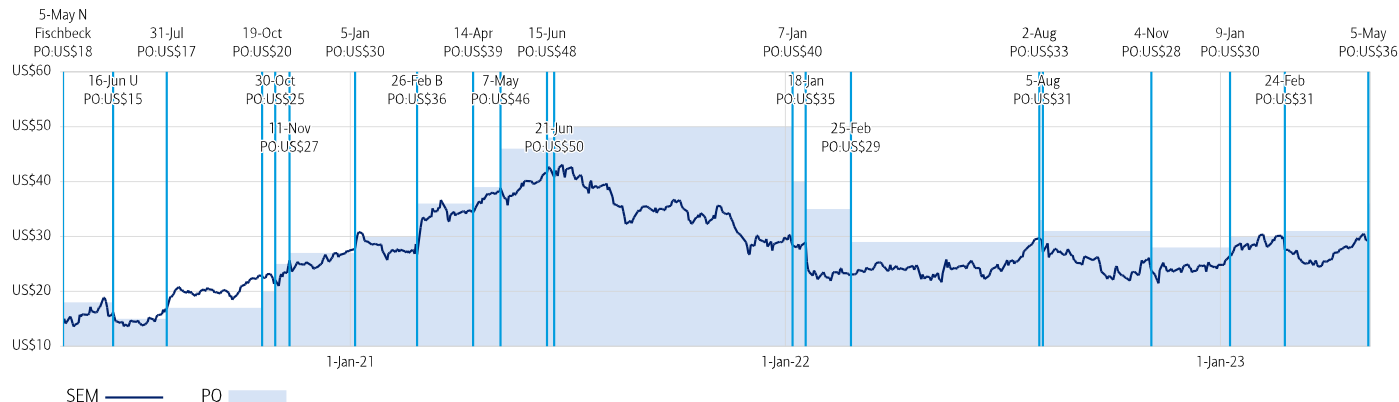
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Select Medical (SEM) Price Chart



SEM — PO

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 Mar 2023)

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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Sell	830	23.54%	Sell	389	46.87%

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