

DaVita Inc

Guide well above consensus, volumes to improve

Reiterate Rating: UNDERPERFORM | PO: 126.00 USD | Price: 113.60 USD

Raising estimates, reiterate Underperform on LT risks

Adj Operating income (OI) was \$32m or 8% above consensus on better revs and better margins. 2024 adj OI guide (7% above consensus) implies +10% y/y or +8% (ex \$30m shared savings related to 2022 from the 2023 base) on annualizing 2023 cost savings/revenue capture. The most important part of the guide raise may be assumption of 1-2% vol growth, as consistent 2% vol growth will be key to LT growth/putting GLP1 concerns behind us. That said, we reiterate Underperform as we wait to see more proof points on volume improvement. We are raising ests, roll out 2026 est. Raise PO to \$126 (from \$115) on the higher est (same 7.7x 2024 EBITDA multiple).

OI guide much better: vol growth help offset costs

The OI guide midpoint implies +8% y/y growth (ex \$30m of prior year IKC accruals), above the LT target of +3-7% due to the annualization of 2023 cost savings: rev cycle management, shift to Mircera, and center closures. IKC OI loss to be -\$50m vs -\$64m in 2023 (ex \$30m shared savings related to 2022 plan year); IKC on track to breakeven or better in 2026. International OI +\$20m y/y.

Volumes to grow 1-2% after flat in 2023

DaVita (DVA) expects adm growth in line with pre-COVID, partially offset by mortality slightly higher than pre-COVID. The extra day offset by headwind from center closures (net -30 in 2024 vs -50 in 2023). Small benefit from continued reduction in missed treatments.

+5% wage growth partially offset by cost savings

Rev/treatment to grow 2.5-3% y/y in 2024: 2/3 from rate increases (commercial mix was 10.9%, flat in 2024), and 1/3 from annualization of the rev cycle improvements. Patient care cost/treatment to increase 2.5-3%: 1) wages +5% and CA min wage requirement (\$25-30m headwind) offset by fixed cost leverage on volume growth, and 2) annualization of cost savings from Mircera and center closures.

Q4 margins beat on better pricing

Same store vols were +0.7% y/y, better than +0.5% y/y in 3Q23. Total vols were in line while pricing came in much better driving better margins. OI margin was 13.2%, up 230bps y/y, and 50bps above consensus.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.78	7.39	9.25	9.91	11.23
GAAP EPS	5.85	7.40	9.24	9.89	11.21
EPS Change (YoY)	-34.9%	27.9%	25.2%	7.1%	13.3%
Consensus EPS (Bloomberg)	6.26	7.96	8.82	10.56	13.87
Valuation (Dec)					
P/E	19.7x	15.4x	12.3x	11.5x	10.1x
GAAP P/E	19.4x	15.4x	12.3x	11.5x	10.1x
Dividend Yield	0%	0%	0%	4.4%	4.4%
EV / EBITDA*	10.7x	9.1x	8.6x	8.4x	8.2x
Free Cash Flow Yield*	6.7%	11.6%	10.9%	10.6%	10.5%

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

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12659325

Timestamp: 14 February 2024 12:05AM EST

14 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	115.00	126.00
2024E Rev (m)	12,412.9	12,732.6
2025E Rev (m)	12,892.4	13,226.0
2026E Rev (m)	NA	13,742.7
2024E EPS	8.47	9.25
2026E EPS	NA	11.23
2024E EBITDA (m)	2,447.9	2,579.4
2025E EBITDA (m)	2,539.0	2,650.8
2026E EBITDA (m)	NA	2,715.2

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Stock Data

Price	113.60 USD
Price Objective	126.00 USD
Date Established	14-Feb-2024
Investment Opinion	B-3-9
52-Week Range	71.51 USD - 116.97 USD
Mrkt Val (mn) / Shares Out (mn)	10,540 USD / 92.8
Free Float	56.9%
Average Daily Value (mn)	92.08 USD
BofA Ticker / Exchange	DVA / NYS
Bloomberg / Reuters	DVA US / DVAN
ROE (2024E)	68.2%
Net Dbt to Eqty (Dec-2023A)	289.0%
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".

iQprofileSM DaVita Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.7%	9.1%	9.9%	10.2%	10.3%
Return on Equity	75.5%	77.9%	68.2%	54.1%	46.0%
Operating Margin	11.5%	14.3%	14.9%	15.0%	15.0%
Free Cash Flow	708	1,223	1,146	1,114	1,112

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.4x	2.6x	2.1x	2.1x	1.9x
Asset Replacement Ratio	0.8x	0.8x	0.9x	0.9x	0.9x
Tax Rate	26.6%	24.2%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	385.9%	289.0%	244.1%	202.7%	166.7%
Interest Cover	3.8x	4.4x	4.0x	3.7x	3.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	11,610	12,140	12,733	13,226	13,743
% Change	-0.1%	4.6%	4.9%	3.9%	3.9%
Gross Profit	3,400	3,848	4,068	4,201	4,349
% Change	-6.7%	13.2%	5.7%	3.3%	3.5%
EBITDA	2,072	2,428	2,579	2,651	2,715
% Change	-16.4%	17.2%	6.2%	2.8%	2.4%
Net Interest & Other Income	(357)	(399)	(473)	(532)	(524)
Net Income (Adjusted)	554	688	822	830	888
% Change	-43.2%	24.2%	19.4%	1.0%	6.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	547	690	822	829	886
Depreciation & Amortization	733	745	679	664	649
Change in Working Capital	0	195	80	60	20
Deferred Taxation Charge	(76)	(39)	0	0	0
Other Adjustments, Net	107	201	144	152	159
Capital Expenditure	(603)	(568)	(579)	(591)	(603)
Free Cash Flow	708	1,223	1,146	1,114	1,112
% Change	-34.3%	72.7%	-6.3%	-2.8%	-0.2%
Share / Issue Repurchase	802	272	650	600	600
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(11)	(553)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	339	465	961	1,475	1,987
Trade Receivables	2,132	1,987	2,386	2,404	2,439
Other Current Assets	684	686	238	189	142
Property, Plant & Equipment	3,256	3,074	2,973	2,900	2,853
Other Non-Current Assets	10,517	10,682	10,682	10,682	10,682
Total Assets	16,928	16,894	17,241	17,650	18,104
Short-Term Debt	231	123	123	123	123
Other Current Liabilities	2,388	2,519	2,559	2,589	2,599
Long-Term Debt	8,693	8,268	8,268	8,268	8,268
Other Non-Current Liabilities	3,391	3,240	3,246	3,258	3,271
Total Liabilities	14,703	14,150	14,196	14,239	14,262
Total Equity	2,225	2,743	3,044	3,411	3,842
Total Equity & Liabilities	16,928	16,894	17,241	17,650	18,104

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

Company Sector

Medical Specialty

Company Description

DaVita Inc. is a leading dialysis provider in the United States. The company operates over 2,700 outpatient clinics in the US and serves over 200,000 patients. DaVita also operates in countries outside of the US.

Investment Rationale

We view DVA as a solid low-single-digit growth company, but it is not as levered to an expected improvement in volume growth as other names in our coverage. In addition, we see risks to commercial pricing given the negative court ruling, and it will likely take time for Congress to enact a fix to maintain status quo. While strong FCF provides some downside protection to EPS, we see more upside potential elsewhere.

Stock Data

Average Daily Volume

810,586

Quarterly Earnings Estimates

	2023	2024
Q1	1.25A	2.07E
Q2	1.91A	2.37E
Q3	2.61A	2.71E
Q4	1.61A	2.10E

Price objective basis & risk

DaVita Inc (DVA)

Our \$126 PO is based on 7.7x our 2024E EBITDA estimate, 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

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
	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
	Privia Health	PRVA	PRVA 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
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA



US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	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
	Pediatric Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

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

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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DaVita Inc (DVA) Price Chart



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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