

Pediatric Medical Group, Inc.

Takes from the call

Reiterate Rating: UNDERPERFORM | PO: 9.00 USD | Price: 9.29 USD

Additional color on 2024 guidance

MD expects \$2-\$2.1B revenue, assuming flat volumes and flat pricing. EBITDA guidance of \$200-\$220 implies a margin of 10-10.5% (versus 10.0% in 2023). General & administrative (G&A) as a percentage of revenue should be comparable y/y, as additional spending on internal revenue cycle management (RCM) employees should be offset by cost saves that are expected to ramp as the year goes on. Q1 should be 17-19% EBITDA, due to normal seasonality. MD expects pricing to remain stable, with some opportunity for rate improvement as the year goes on. Given updated 2024 guidance, we lower our 2024/25 adj EBITDA estimates, roll out our 2026 estimates, and lower our price objective (PO) from \$10 to \$9 (now based on 6.4x 2024E EBITDA versus 6.9x previously, given downside risk from legislation on surprise billing and price transparency). We reiterate our Underperform rating given the pressures on volume growth and pricing below inflation.

Same-store pricing weak on 1x items, flat going forward

Same-store pricing was -0.5%. Excluding R1 payment for aged receivables in Q4 2022 (2% headwind y/y) and the lack of CARES money (40bps headwind), pricing would have been up 1.9%, due in part to favorable payer mix and growth in contract administrative fees. In 2024, the company is expecting flat pricing and stable payer mix.

RCM transition going well

MD is implementing a hybrid RCM model – it expects to be fully staffed soon and working with a new external vendor. It has not encountered any disruption to RCM in Q4, with days sales outstanding (DSOs) flat versus Q3. It does require additional internal staffing but plans to find cost offsets to keep G&A flat as a % of revenue in 2024. At this point, the company is not expecting any pickup in collections from this transition and expects to maintain flat pricing in 2024.

Arbitration going well, moving more in-network

It is typically above 95% in-network, now even higher given that 2 payer relationships in 3 states went back in-network. MD noted that its win rate in arbitrations is approaching 90% (versus a 78% win rate for providers broadly) and attributed that success to helping move these contracts back in-network. MD indicated that when it goes in-network, doing so is usually favorable to pricing and can also help boost non-hospital service volumes, where volume can be more easily redirected away.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.83	(0.66)	1.23	1.31	1.40
GAAP EPS	0.79	(0.73)	1.18	1.27	1.35
EPS Change (YoY)	-40.7%	NM	NM	6.5%	6.9%
Consensus EPS (Bloomberg)	1.69	1.27	1.29	1.26	1.11
Valuation (Dec)					
P/E	11.2x	NM	7.6x	7.1x	6.6x
GAAP P/E	11.8x	NM	7.9x	7.3x	6.9x
EV / EBITDA*	7.5x	9.0x	8.7x	8.5x	8.3x
Free Cash Flow Yield*	20.0%	14.7%	17.5%	17.2%	17.5%

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

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Timestamp: 20 February 2024 11:24AM EST

20 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	10.00	9.00
2024E Rev (m)	2,104.0	2,070.9
2025E Rev (m)	2,187.7	2,153.6
2026E Rev (m)	NA	2,239.5
2024E EPS	1.21	1.23
2025E EPS	1.28	1.31
2026E EPS	NA	1.40
2024E EBITDA (m)	210.1	203.0
2025E EBITDA (m)	215.5	208.2
2026E EBITDA (m)	NA	213.5

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Stock Data

Price	9.29 USD
Price Objective	9.00 USD
Date Established	20-Feb-2024
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 (2024E)	10.7%
Net Dbt to Eqty (Dec-2023A)	68.4%
ESGMeter™	Medium

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iQprofileSM Pediatrix Medical Group, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.4%	7.7%	6.2%	5.8%	5.5%
Return on Equity	7.8%	-6.3%	10.7%	9.8%	9.2%
Operating Margin	10.1%	7.9%	7.9%	7.8%	7.7%
Free Cash Flow	153	113	134	131	134

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.6x	NM	1.7x	1.7x	1.7x
Asset Replacement Ratio	0.8x	0.9x	0.9x	0.9x	1.0x
Tax Rate	22.6%	NM	27.9%	27.8%	27.8%
Net Debt-to-Equity Ratio	74.4%	68.4%	56.6%	47.7%	40.7%
Interest Cover	5.1x	3.8x	4.1x	4.2x	4.3x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,972	1,995	2,071	2,154	2,240
% Change	3.2%	1.1%	3.8%	4.0%	4.0%
Gross Profit	589	546	573	593	614
% Change	-4.1%	-7.2%	4.9%	3.5%	3.5%
EBITDA	237	196	203	208	214
% Change	-5.7%	-17.4%	3.5%	2.6%	2.5%
Net Interest & Other Income	(119)	(206)	(35)	(34)	(34)
Net Income (Adjusted)	70	(55)	97	99	103
% Change	-42.1%	NM	NM	2.1%	4.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	63	(60)	93	96	100
Depreciation & Amortization	36	36	37	38	39
Change in Working Capital	32	(12)	25	20	20
Deferred Taxation Charge	(23)	3	0	0	0
Other Adjustments, Net	75	179	12	13	13
Capital Expenditure	(30)	(33)	(33)	(36)	(38)
Free Cash Flow	153	113	134	131	134
% Change	87.2%	-26.1%	18.9%	-2.1%	1.8%
Share / Issue Repurchase	(89)	(1)	(80)	(80)	(80)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(5)	(18)	(8)	3	9

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	10	73	107	142	181
Trade Receivables	297	272	305	318	331
Other Current Assets	121	138	138	138	138
Property, Plant & Equipment	67	76	77	82	91
Other Non-Current Assets	1,853	1,661	1,832	2,008	2,186
Total Assets	2,348	2,220	2,458	2,688	2,927
Short-Term Debt	36	36	36	36	36
Other Current Liabilities	390	353	391	421	451
Long-Term Debt	636	618	610	613	623
Other Non-Current Liabilities	393	363	467	555	642
Total Liabilities	1,456	1,371	1,504	1,625	1,751
Total Equity	892	849	954	1,063	1,176
Total Equity & Liabilities	2,348	2,220	2,458	2,688	2,927

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

Company Sector

Physician Practice Management

Company Description

Pediatrix Medical Group is a national physician group practice consisting of 3,000 doctors and advanced practitioners focusing on NICU, maternal-fetal and related pediatric subspecialties. Its NICU segment includes almost 1,300 Neonatologists who provide clinical care within hospital-based neonatal intensive care units, to babies born prematurely or with medical complications.

Investment Rationale

Although the company's refocus on pediatrics is a positive, MD's organic growth remains weak and cost cuts appear insufficient to drive growth. Meanwhile, surprise billing legislation could be a negative for pricing, in our view.

Stock Data

Average Daily Volume

633,685

Quarterly Earnings Estimates

	2023	2024
Q1	0.19A	0.16E
Q2	0.36A	0.37E
Q3	0.28A	0.33E
Q4	-1.49A	0.37E

Price objective basis & risk

Pediatric Medical Group, Inc. (MD)

Our \$9 price objective is based on a valuation of 6.4x 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 same-store revenue growth reaches management's 3% threshold for margin expansion, the company's revenue cycle management issues normalize faster than expected, or payor mix stabilizes.

Downside risks are that managed care companies continue to seek rate cuts, volumes decline from current levels, or labor costs rise higher than expected.

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
	BrightSpring Health Services	BTSG	BTSG US	Joanna Gajuk
	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

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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

Basic EBIT + Depreciation + Amortization

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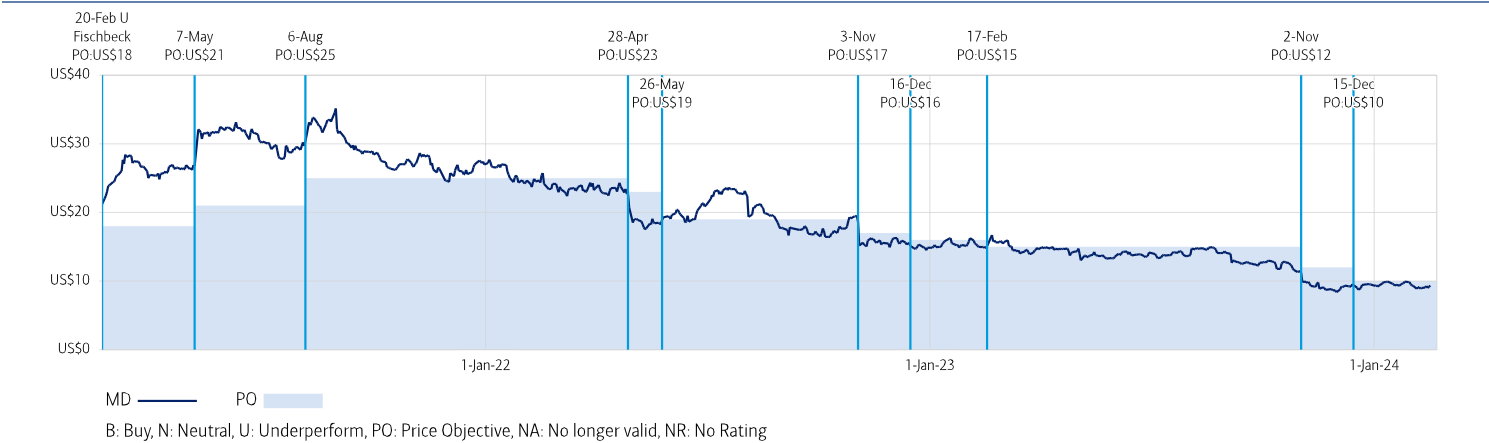
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Pediatrix Medical (MD) Price Chart



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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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