

US Physical Therapy

Guide slightly below but implies solid growth despite rate cut

Reiterate Rating: BUY | PO: 105.00 USD | Price: 99.87 USD

Q4 beat, but guide below on rate cut

Adj EBITDA came in above the reset Q4 with revs and margins beating consensus ests. Vols and pricing came in better, a relief after concerns around pricing with the Q3 print. 2024 EBITDA guide midpoint is 3% below consensus but still implies +6% growth y/y despite a 7% headwind from Medicare rate cuts as USPH is seeing benefits of commercial rate increases, vol growth and also assumes deals in tis outlook. We tick down our adj EBITDA ests and roll out 2026 ests. We reiterate Buy given the improving underlying trends which combined with capital deployment provide offsets to rate cuts. PO remains unchanged at \$105.

EBITDA to grow 3-9% despite Medicare rate cut

USPH guided to EBITDA of \$80-85m with the midpoint 3% below consensus, 2% below our est. Despite a \$5.3m (7%) cut to EBITDA from the -3.5% Medicare rate cut, EBITDA to grow +3-9% y/y due to offsets: 1) commercial price increases in 2023 and 2024 (non-Medicare pricing +2.1% y/y in Q4), 2) ss vols (Q4 accelerated), 3) cost cutting, 4) 2023 deals, and 5) deals expected to close in 1H24 or early 3Q24.

Q4 EBITDA 3% above on better revs, better margins

Total revs were 3% above consensus/ 5% above our est with margins at 12.3%, 40bps above consensus/ 30bps above our est resulting in EBITDA 6% above consensus and 5% above our est (2% above the higher end of the implied Q4 guide).

Revenues beat; SS vols and pricing accelerated

Physical therapy revenues were 3% above our est on 3% better vols and 1% better pricing. Average visits per clinic per day was 29.9, up 3% y/y and 3% above our est. Same store (SS) revs were +1.5% y/y, accelerating from +0.3% in 3Q23: SS visits grew +2.2% y/y, accelerating from +1.3% y/y in 3Q23. Pricing declined -0.6% y/y, better than -1.6% in 3Q23 and 1% above our est as non-Medicare pricing was +2.1%.

Injury Prevention revs 13% above our est

Industrial Injury Prevention revs increased +10% y/y and +4% Q/Q. Segment gross margin improved 330bps y/y to 21.2% (full year was 21.0%, up 30bps y/y).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.68	2.56	2.75	2.97	3.19
GAAP EPS	2.26	1.28	2.75	2.97	3.19
EPS Change (YoY)	-13.3%	-4.5%	7.4%	8.0%	7.4%
Consensus EPS (Bloomberg)			2.90	3.34	NA
DPS	1.64	1.72	1.76	1.80	1.83
Valuation (Dec)					
P/E	37.3x	39.0x	36.3x	33.6x	31.3x
GAAP P/E	44.2x	78.0x	36.3x	33.6x	31.3x
Dividend Yield	1.6%	1.7%	1.8%	1.8%	1.8%
EV / EBITDA*	22.2x	21.1x	19.9x	18.6x	17.5x
Free Cash Flow Yield*	3.4%	4.9%	4.9%	5.3%	5.6%

* For full definitions of *IQmethod*SM measures, see page 5.

29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	630.4	645.1
2025E Rev (m)	669.0	684.7
2026E Rev (m)	NA	720.9
2024E EPS	2.97	2.75
2025E EPS	3.17	2.97
2026E EPS	NA	3.19
2024E DPS	1.75	1.76

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Stock Data

Price	99.87 USD
Price Objective	105.00 USD
Date Established	15-Dec-2023
Investment Opinion	C-1-7
52-Week Range	78.08 USD - 124.11 USD
Mrkt Val (mn) / Shares Out (mn)	1,497 USD / 15.0
Free Float	98.4%
Average Daily Value (mn)	6.67 USD
BofA Ticker / Exchange	USPH / NYS
Bloomberg / Reuters	USPH US / USPH.N
ROE (2024E)	6.3%
Net Dbt to Eqty (Dec-2023A)	-2.3%

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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iQprofileSM US Physical Therapy

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.4%	8.0%	7.8%	8.1%	8.5%
Return on Equity	7.4%	6.4%	6.3%	6.8%	7.2%
Operating Margin	11.9%	11.5%	11.4%	11.7%	12.0%
Free Cash Flow	50	73	74	79	84

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	2.3x	2.0x	2.0x	1.9x
Asset Replacement Ratio	0.6x	0.6x	0.6x	0.6x	0.6x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	29.4%	-2.3%	1.0%	-1.5%	-3.9%
Interest Cover	11.4x	7.5x	9.2x	10.1x	10.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	553	605	645	685	721
% Change	11.7%	9.3%	6.7%	6.1%	5.3%
Gross Profit	112	122	129	138	147
% Change	-4.4%	8.5%	6.3%	7.2%	6.0%
EBITDA	74	78	82	88	94
% Change	0.4%	5.0%	6.1%	7.1%	6.0%
Net Interest & Other Income	(10)	(20)	(2)	(3)	(3)
Net Income (Adjusted)	35	36	41	45	48
% Change	-12.6%	3.9%	14.1%	8.5%	8.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	68	62	88	94	101
Depreciation & Amortization	15	16	16	16	16
Change in Working Capital	(21)	(5)	(3)	(3)	(3)
Deferred Taxation Charge	4	4	0	0	0
Other Adjustments, Net	(7)	5	(18)	(20)	(22)
Capital Expenditure	(8)	(9)	(9)	(9)	(9)
Free Cash Flow	50	73	74	79	84
% Change	-26.3%	44.5%	1.9%	6.7%	6.3%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(21)	(24)	(26)	(27)	(28)
Change in Debt	64	(39)	(14)	(16)	(17)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	32	153	117	117	117
Trade Receivables	69	70	76	81	86
Other Current Assets	11	11	11	11	11
Property, Plant & Equipment	25	26	19	12	4
Other Non-Current Assets	722	738	800	836	836
Total Assets	858	997	1,023	1,057	1,054
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	85	102	103	104	104
Long-Term Debt	174	138	123	107	90
Other Non-Current Liabilities	114	105	137	179	185
Total Liabilities	374	345	364	390	380
Total Equity	485	652	660	667	675
Total Equity & Liabilities	858	997	1,023	1,057	1,054

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Medical Specialty

Company Description

US Physical Therapy (USPH) is one the largest providers of physical therapy in the US, specializing in outpatient rehabilitation and related services. The company operates 647 outpatient clinics in 40 states with over 6k employees. The company has two segments: (1) physical therapy operations at outpatient rehabilitation clinics, and (2) industrial injury prevention which provides services to employers.

Investment Rationale

We rate USPH Buy as we like its solid organic growth and see a significant upside (12-15% to EBITDA) from acquisitions as the company deploys net proceeds from the recent equity offering. Post the equity raise, the net leverage is below average, at 2.8x. Finally, USPH is paying a dividend, a differentiating factor in our coverage universe.

Stock Data

Average Daily Volume 67,659

Quarterly Earnings Estimates

	2023	2024
Q1	0.59A	0.61E
Q2	0.76A	0.81E
Q3	0.62A	0.65E
Q4	0.59A	0.68E

PT labor costs continue to improve, margins declined y/y

Physical therapy (PT) cost per patient visit was flat y/y with labor cost/visit down 0.5% y/y (-0.05% Q/Q). Segment gross margin 50bps y/y to 19.5%.

Price objective basis & risk

US Physical Therapy (USPH)

Our PO of \$105 is based on 14.7x 2024E Adj EV/EBITDAR, a premium to USPH's historical average multiple of 11x given the much lower leverage and the significant deal upside potential. It is a discount to the 5-year avg of 15x. Pro forma the potential upside to EBITDA from deploying \$120m of proceeds on acquisitions, our PO represents about 13x.

Downside risks to our PO are: volumes growing slower than expected, labor disruption, Medicare rate pressure, a recession impacting growth, and execution risk on deals.

Analyst Certification

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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
	Astrana Health Inc	ASTH	ASTH 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
	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
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Privia Health	PRVA	PRVA US	Adam Ron
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	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
	Pediatrix 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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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US Physical Therapy (USPH) 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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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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