

Acadia Healthcare

Quick takes from the call

Reiterate Rating: BUY | PO: 105.00 USD | Price: 87.38 USD

Additional color on guidance, balanced revenue growth

Guidance assumes mid-single digit growth in rev/day and patient days. Expects corporate costs to remain relatively consistent through the year in terms of dollars, and show progress as a percentage of revenue as revenue grows. Guidance assumes \$20-\$23m of start-up losses similar to 2023 (but slightly below the \$6.5m/quarter it indicated last quarter). Reiterate Buy on strong fundamentals and clear visibility into long-term growth outlook (10%+ EBITDA CAGR), with potential upside from M&A.

Labor improved through 2023, stabilized for 2024

Consistent improvement in labor trends throughout 2023 from 8% wage growth in Q4 2022, to below 5% in Q4. Beyond the broader improvement in the labor market, ACHC attributed the improvement to initiatives to drive employee engagement, more clinical training of staff, investing in technology tools and giving employees a path for career progression. Wage inflation in 2024 is expected to remain in the high 4% range.

Accelerating capacity expansion in 2024

ACHC provided an update on its 5 growth initiatives: 1) Facility expansion – added 98 beds (302 for the year). 2) Developing wholly owned facilities – opened 101 bed facility, completed construction of an 80 bed hospital which will open later this year. Opened 2 CTC locations (6 for the year). 3) JV development – 21 JV partnerships, covering 22 hospitals with 11 in operation and 11 scheduled to open in the next few years. Will open a second facility with Ascension (this in Austin; first was in Nashville). 4) Acquisitions – closed on a 76 bed facility last week, adding a 4th business line in the Salt Lake market. 5) Expanding the care continuum – adding partial hospitalization and outpatient step down services. Added 13 programs in 2023 (39 total). In 2024 will add 1,200 beds – 400 bed additions, 800 from new facilities (deals would be upside) and add 14 new CTC facilities. These capacity expansions are driving the mid-single digit patient day growth in 2024 (similar to 2023 but above the 2-3% historical range).

Payer mix stable, redeterminations not a headwind

The company isn't seeing any impact from redeterminations (70% through the process) as ACHC has had success in getting anyone disenrolled, reenrolled within 30 days. Medicaid went from 54.3% to 54.8% due to volume growth from capacity expansion. Medicare and commercial was down a little due to seasonal factors. Pricing remains strong across payers and service lines with high visibility in 1H pricing, and an expectation that rates continue to be strong as they renew in 2H.

28 February 2024

Equity

Kevin Fischbeck, CFA

Research Analyst
BofAS
+1 646 855 5948
kevin.fischbeck@bofa.com

Joanna Gajuk

Research Analyst
BofAS
+1 646 855 3961
joanna.gajuk@bofa.com

Nabil Gutierrez

Research Analyst
BofAS
+1 646 556 2974
nabil.gutierrez@bofa.com

Mia Munoz

Research Analyst
BofAS
+1 646 855 0735
mia.munoz2@bofa.com

Stock Data

Price	87.38 USD
Price Objective	105.00 USD
Date Established	28-Feb-2024
Investment Opinion	B-1-9
52-Week Range	66.49 USD - 87.77 USD
Mkt Val (mn) / Shares Out (mn)	8,028 USD / 91.9
Free Float	97.2%
Average Daily Value (mn)	39.73 USD
BofA Ticker / Exchange	ACHC / NAS
Bloomberg / Reuters	ACHC US / ACHC.OQ
ROE (2024E)	11.0%
Net Dbt to Eqty (Dec-2023A)	44.0%
ESGMeter™	Medium

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ACHC = Acadia Healthcare

SWB = Salaries, wages, and benefits

SS = Same store

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Timestamp: 28 February 2024 08:57AM EST

Price objective basis & risk

Acadia Healthcare (ACHC)

Our \$105 PO is based on 15.4x 2024E EBITDA, a premium to the acute care hospitals average (8x). The rapid growth, high ROIC, and low Medicare exposure of the business warrant a premium valuation, in our view. Also, ACHC has recently made strides in deleveraging.

Risks to our PO are a longer COVID-19 overhang, government reimbursement pressures driven by state (Medicaid) or federal (Medicare) budgetary issues, as well as potential quality of care issues. We also note the labor sourcing issues impacting the industry could impact ACHC's ability to service demand in its markets.

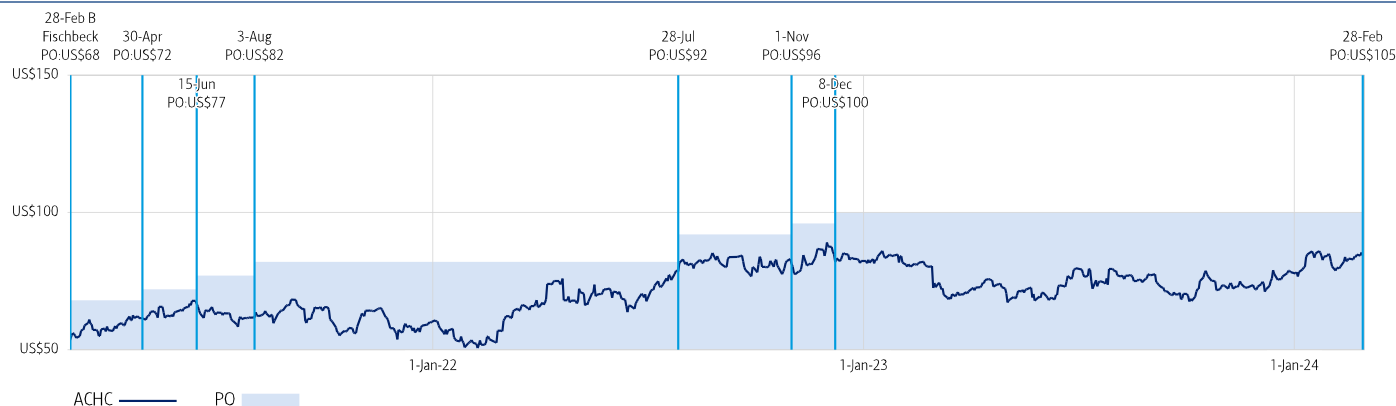
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Acadia Healthcare (ACHC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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%

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Underperform	N/A	≥ 20%

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