

Acadia Healthcare

Conference quick takes

Maintain Rating: BUY | PO: 100.00 USD | Price: 68.64 USD

Positive tone from management

We sat down with the leadership team from Acadia Healthcare (ACHC) at our Healthcare Conference, including Chris Hunter, CEO and David Duckworth, CFO. Overall, the tone of the presentation was positive as the company sees strong demand for its services as well as a growing M&A pipeline. Reiterate Buy.

Volumes strong across all 4 service lines

ACHC continues to see strong volume growth across Acute, Comprehensive Treatment Center (CTC), Residential Treatment Center (RTC) and Substance abuse. Acute and CTC volume in particular have been the strongest. Overall, the company sees a lack of capacity in markets with the opioid epidemic only exacerbating demand. ACHC expects to continue expanding service lines within markets including moving down the acuity scale and providing outpatient services.

De novos and JVs a continued driver

ACHC noted that new site construction is a great way to add capacity. ACHC has 18 JV partners (covering 19 facilities, up from 0 in 2014) where it works with a health system and, in general, would prefer to have a partner. However, the company also builds de novos without a partner where there is no obvious JV to partner with. ACHC sees a strong pipeline for new development, noting it is seeing a number of inbound from potential JV partners.

Well positioned for M&A

ACHC sees the M&A pipeline as much stronger than one year ago as interest rates have gone up, putting financing pressures on sellers and helping make valuations more reasonable.

Labor is a pressure but managing

ACHC has had a long-term focus on recruiting labor, which has served it well during the pandemic. The company saw a spike in labor in Q4 but since then has seen improvement in labor.

Pricing in mid-single digits for near term

ACHC has seen strong growth in rates through the pandemic given the lack of supply, giving them an ability to negotiate rates that better match cost growth. ACHC assumes rates trend down to 3% by year end as Medicaid normalizes but now sees that as a more conservative view with potential upside. ACHC is working closely with states on redeterminations but doesn't expect significant disruption as their patients are less likely than the average Medicaid patient to lose coverage and there are usually local resources they may be able to access.

09 May 2023

Equity

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Stock Data

Price	68.64 USD
Price Objective	100.00 USD
Date Established	8-Dec-2022
Investment Opinion	B-1-9
52-Week Range	63.20 USD - 89.85 USD
Mrkt Val (mn) / Shares Out (mn)	6,273 USD / 91.4
Average Daily Value (mn)	40.04 USD
BofA Ticker / Exchange	ACHC / NAS
Bloomberg / Reuters	ACHC US / ACHC.OQ
ROE (2023E)	10.3%
Net Dbt to Eqty (Dec-2022A)	44.4%
ESGMeter™	Medium

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Timestamp: 09 May 2023 02:40PM EDT

Price objective basis & risk

Acadia Healthcare (ACHC)

Our \$100 PO is based on 16.7x 2023E 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.

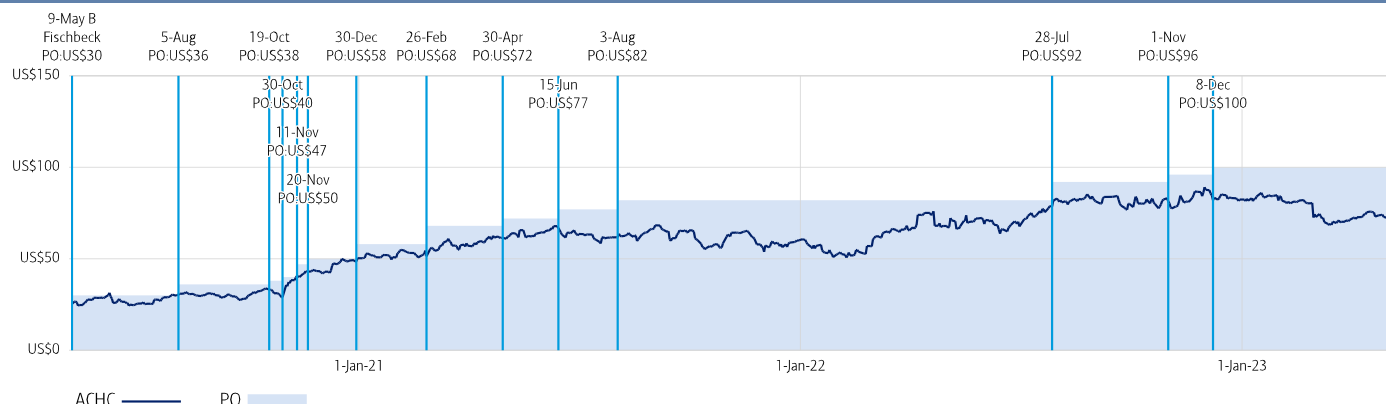
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Acadia Healthcare (ACHC) Price Chart



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

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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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