

Public Healthcare Operators: Valuation Trends Summary

Introduction

While the valuation of a public company is dependent on macroeconomic, industry, and company-specific factors, VMG Health has attempted to isolate key drivers of the recent market pullback of public healthcare operators. Specifically, VMG Health has isolated two variables:

- 1 Change in equity analyst consensus EBITDA estimates for FY 2022.
- 2 Change in the implied forward EBITDA multiple utilizing current enterprise value.

Methodology

VMG Health reviewed the change in enterprise value, EBITDA, and the implied forward multiple, as defined below, of 17 publicly traded healthcare operators from December 31, 2021, to June 10, 2022. We then quantified the impact on enterprise value for each of the identified companies in **Exhibit A** resulting from fluctuations in EBITDA as compared to the implied forward multiple over the observed period.

Key Definitions

EBITDA: Equity analyst consensus EBITDA estimates for FY 2022 as of the observation date per S&P Capital IQ [1].

Enterprise Value: Defined as the market value of equity plus interest-bearing debt (excluding right-of-use liabilities) and minority interest less cash and cash equivalents.

Implied Forward Multiples: $\$[\text{Enterprise Value}] \div [\text{FY 2022 Consensus EBITDA Estimates}]$.

Key Observations

Based on a review of 17 publicly traded healthcare operators, aggregate total enterprise value declined by approximately \$46.1 billion, or 15.0%, from December 31, 2021, to June 10, 2022. While 10 of the 17 companies now have lower consensus EBITDA estimates, this appears to account for only 10.9% of the enterprise value decline. The overwhelming reduction in the total enterprise value is due to multiple contraction with 13 of the 17 companies currently trading at a lower implied multiple.

Furthermore, 14 of the 17 public operators experienced a decline in enterprise value over the last six months, whereas Acadia Healthcare Company, Inc., LHC Group, Inc., and U.S. Physical Therapy, Inc. were the only three companies that saw an enterprise value increase over the same period [2]. Unsurprisingly, these companies also did not experience multiple contraction.

The two publicly traded diagnostic laboratory businesses, Laboratory Corporation of America Holdings and Quest Diagnostics Incorporated, experienced the most significant enterprise value decline because of multiple contraction. On average, the implied forward EBITDA multiples decreased by approximately 4.0 turns of EBITDA, from around a 13.0x to approximately a 9.0x.

Consensus Estimates	Sector	Ticker	Dec. 31, 2021	BEV			Change in Value: Multiple			Change in Value: EBITDA			BEV
				Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	Jun. 10, 2022
<i>Diagnostic Laboratories</i>													
Laboratory Corporation of America Holdings	Laboratory	LH	34,120	12.5x	8.3x	(12,567)	2,737	3,022	3,562	25,115			
Quest Diagnostics Incorporated	Laboratory	DGX	24,598	13.6x	9.6x	(7,673)	1,813	1,951	1,870	18,795			
Total Diagnostic Laboratories			58,718	12.9x	8.8x	(20,240)	4,550	4,974	5,431	43,910			

Select Medical Holdings Corporation ("Select") saw the most significant enterprise value decline due to a decrease in consensus EBITDA estimates. Select's EBITDA has declined by almost \$150.0 million over the last 6 months, which has resulted in a 15.6%, or \$1.2 billion, reduction in enterprise value. Overall, the trading multiples for public operators within the post-acute care sector have remained relatively flat, but consensus EBITDA estimates have declined by approximately 6.7% with an approximately \$2.6 billion impact on enterprise value.

Consensus Estimates	Sector	Ticker	Dec. 31, 2021	BEV			Change in Value: Multiple			Change in Value: EBITDA			BEV
				Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	Jun. 10, 2022
<i>Post-Acute Care</i>													
Encompass Health Corporation	Post-Acute	EHC	10,213	9.4x	9.2x	(228)	1,087	1,031	(530)	9,455			
Chemed Corporation	Post-Acute	CHE	8,261	17.6x	15.7x	(871)	468	447	(366)	7,025			
Acadia Healthcare Company, Inc.	Post-Acute	ACHC	6,900	11.8x	12.9x	646	586	593	74	7,619			
Select Medical Holdings Corporation	Post-Acute	SEM	7,741	8.3x	9.0x	553	937	791	(1,205)	7,089			
Amedisys, Inc.	Post-Acute	AMED	5,725	18.9x	15.5x	(975)	302	281	(410)	4,340			
LHC Group, Inc.	Post-Acute	LHCG	5,101	17.8x	21.6x	1,082	287	279	(152)	6,031			
Total Post-Acute Care			43,941	12.0x	12.1x	207	3,668	3,421	(2,588)	41,560			

Among the publicly traded acute-care hospital operators, HCA Healthcare, Inc. experienced the most significant dollar reduction in enterprise value, decreasing \$19.6 billion, or 17.0%, from \$115.3 billion to \$95.8 billion. Of this change, approximately 62.6% was due to multiple contraction and 37.4% was due to consensus EBITDA decline. Collectively, enterprise value for the acute care hospital sector decreased by approximately 14.2%, or \$24.0 billion, driven primarily by a contraction in trading multiples of nearly 1.0 turn of EBITDA.

Consensus Estimates	Sector	Ticker	Dec. 31, 2021	BEV			Change in Value: Multiple			Change in Value: EBITDA			BEV
				Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	Jun. 10, 2022
<i>Acute Care Hospitals</i>													
HCA Healthcare, Inc.	Acute Care Hospitals	HCA	115,363	8.9x	7.9x	(12,250)	12,933	12,113	(7,317)	95,797			
Community Health Systems, Inc.	Acute Care Hospitals	CYH	13,887	7.6x	7.0x	(1,015)	1,831	1,838	55	12,927			
Tenet Healthcare Corporation	Acute Care Hospitals	THC	25,262	7.5x	6.7x	(2,982)	3,348	3,524	1,321	23,601			
Universal Health Services, Inc.	Acute Care Hospitals	UHS	14,605	7.6x	7.1x	(832)	1,926	1,801	(945)	12,827			
Total Acute Care Hospitals			169,117	8.4x	7.5x	(17,079)	20,038	19,275	(6,886)	145,152			

Of the other publicly traded healthcare operators observed, Surgery Partners Inc. experienced the most significant impact on enterprise value, on a percentage basis, due to the contraction in implied multiple. The company's multiple declined by almost 5.0 turns of EBITDA from December 31, 2021, to June 10, 2022, resulting in a \$1.9 billion, or 21.8%, reduction in enterprise value. Overall, declines in consensus EBITDA estimates did not have as significant of an impact on enterprise value as implied multiple contraction for the other companies with two of the five operators experiencing growth in their consensus EBITDA estimates over the observed period.

Consensus Estimates	Sector	Ticker	Dec. 31, 2021	BEV			Change in Value: Multiple			Change in Value: EBITDA			BEV Jun. 10, 2022
				Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	Dec. 31, 2021	Jun. 10, 2022	Implied \$ Impact	
<i>Other</i>													
MEDNAX, Inc.	Physician Services	MD	2,837	10.5x	8.7x	(508)	269	272	33	2,362			
U.S. Physical Therapy, Inc.	Physician Services / Other	USPH	1,480	17.3x	20.5x	273	86	85	(16)	1,737			
DaVita Inc.	Dialysis	DVA	21,632	9.1x	8.4x	(1,667)	2,378	2,261	(1,060)	18,905			
Surgery Partners, Inc.	Ambulatory Surgery Centers	SGRY	8,512	23.1x	18.2x	(1,856)	368	379	242	6,898			
RadNet, Inc.	Diagnostic Imaging	RDNT	2,346	10.6x	9.2x	(290)	221	204	(176)	1,880			
Total Other			36,808	11.1x	9.9x	(4,048)	3,321	3,201	(976)	31,783			

Conclusion

The equity markets continue to react to macroeconomic factors, such as interest rate fluctuations, as well as industry-specific information, including rising labor costs. While many of the public companies currently have lower consensus EBITDA estimates for FY 2022, the market seems to have also pulled back on valuations, as evidenced by the decline in the implied forward multiples. It is yet to be determined if this reduction is short-term in nature, and VMG Health will continue to monitor the public markets.

Exhibit A

Consensus Estimates	Sector	Ticker	Dec. 31, 2021	BEV			Change in Value: Multiple			Change in Value: EBITDA			BEV
				Dec. 31, 2021	Jun. 17, 2022	Implied \$ Impact	Dec. 31, 2021	Jun. 17, 2022	Implied \$ Impact	Dec. 31, 2021	Jun. 17, 2022	Implied \$ Impact	
Acute Care Hospitals													
HCA Healthcare, Inc.	Acute Care Hospitals	HCA	115,363	8.9x	7.3x	(19,157)	12,933	12,105	(7,389)	88,817	12,105	(7,389)	88,817
Community Health Systems, Inc.	Acute Care Hospitals	CYH	13,887	7.6x	7.0x	(1,076)	1,831	1,836	44	12,856	1,836	44	12,856
Tenet Healthcare Corporation	Acute Care Hospitals	THC	25,262	7.5x	6.4x	(4,069)	3,348	3,523	1,315	22,508	3,523	1,315	22,508
Universal Health Services, Inc.	Acute Care Hospitals	UHS	14,605	7.6x	6.7x	(1,659)	1,926	1,803	(934)	12,012	1,803	(934)	12,012
Total Acute Care Hospitals			169,117	8.4x	7.1x	(25,961)	20,038	19,267	(6,963)	136,193	19,267	(6,963)	136,193
Post-Acute Care													
Encompass Health Corporation	Post-Acute	EHC	10,213	9.4x	9.1x	(349)	1,087	1,029	(545)	9,318	1,029	(545)	9,318
Chemed Corporation	Post-Acute	CHE	8,261	17.6x	15.3x	(1,059)	468	447	(366)	6,836	447	(366)	6,836
Acadia Healthcare Company, Inc.	Post-Acute	ACHC	6,900	11.8x	12.2x	286	586	597	132	7,318	597	132	7,318
Select Medical Holdings Corporation	Post-Acute	SEM	7,741	8.3x	8.7x	371	937	791	(1,205)	6,907	791	(1,205)	6,907
Amedisys, Inc.	Post-Acute	AMED	5,725	18.9x	15.6x	(934)	302	281	(410)	4,381	281	(410)	4,381
LHC Group, Inc.	Post-Acute	LHCG	5,101	17.8x	20.7x	810	287	279	(152)	5,759	279	(152)	5,759
Total Post-Acute Care			43,941	12.0x	11.8x	(876)	3,668	3,425	(2,545)	40,520	3,425	(2,545)	40,520
Diagnostic Laboratories													
Laboratory Corporation of America Holdings	Laboratory	LH	34,120	12.5x	8.4x	(12,414)	2,737	3,022	3,562	25,267	3,022	3,562	25,267
Quest Diagnostics Incorporated	Laboratory	DGX	24,598	13.6x	9.6x	(7,827)	1,813	1,957	1,953	18,724	1,957	1,953	18,724
Total Diagnostic Laboratories			58,718	12.9x	8.8x	(20,241)	4,550	4,980	5,515	43,991	4,980	5,515	43,991
Other													
MEDNAX, Inc.	Physician Services	MD	2,837	10.5x	8.6x	(516)	269	272	33	2,354	272	33	2,354
U.S. Physical Therapy, Inc.	Physician Services / Other	USPH	1,480	17.3x	19.3x	169	86	85	(16)	1,634	85	(16)	1,634
DaVita Inc.	Dialysis	DVA	21,632	9.1x	8.2x	(2,015)	2,378	2,261	(1,060)	18,556	2,261	(1,060)	18,556
Surgery Partners, Inc.	Ambulatory Surgery Centers	SGRY	8,512	23.1x	17.1x	(2,292)	368	379	242	6,463	379	242	6,463
RadNet, Inc.	Diagnostic Imaging	RDNT	2,346	10.6x	8.7x	(397)	221	204	(176)	1,774	204	(176)	1,774
Total Other			36,808	11.1x	9.6x	(5,051)	3,321	3,201	(976)	30,780	3,201	(976)	30,780
Total			308,583	9.8x	8.1x	(52,129)	31,578	30,872	(4,970)	251,485	30,872	(4,970)	251,485

Footnotes

- VMG Health relied on S&P Capital IQ for the FY 2022 consensus EBITDA estimates as of December 31, 2021, and June 17, 2022. The consensus EBITDA as of December 31 is primarily based on analyst estimates following companies' Q3 2021 earnings calls through December 2021. Similarly, the consensus EBITDA as of June 17 is largely comprised of analyst estimates following the Q1 2022 earnings calls through June 2022.
- While VMG Health's analysis focuses on the effect of two variables on enterprise value, we understand there are additional factors impacting public company valuations. For example, following the March 29, 2022 announcement of UnitedHealth's plan to acquire LHC Group, LHC's price and forward multiple increased and have remained elevated based on the market expectations of this transaction.

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