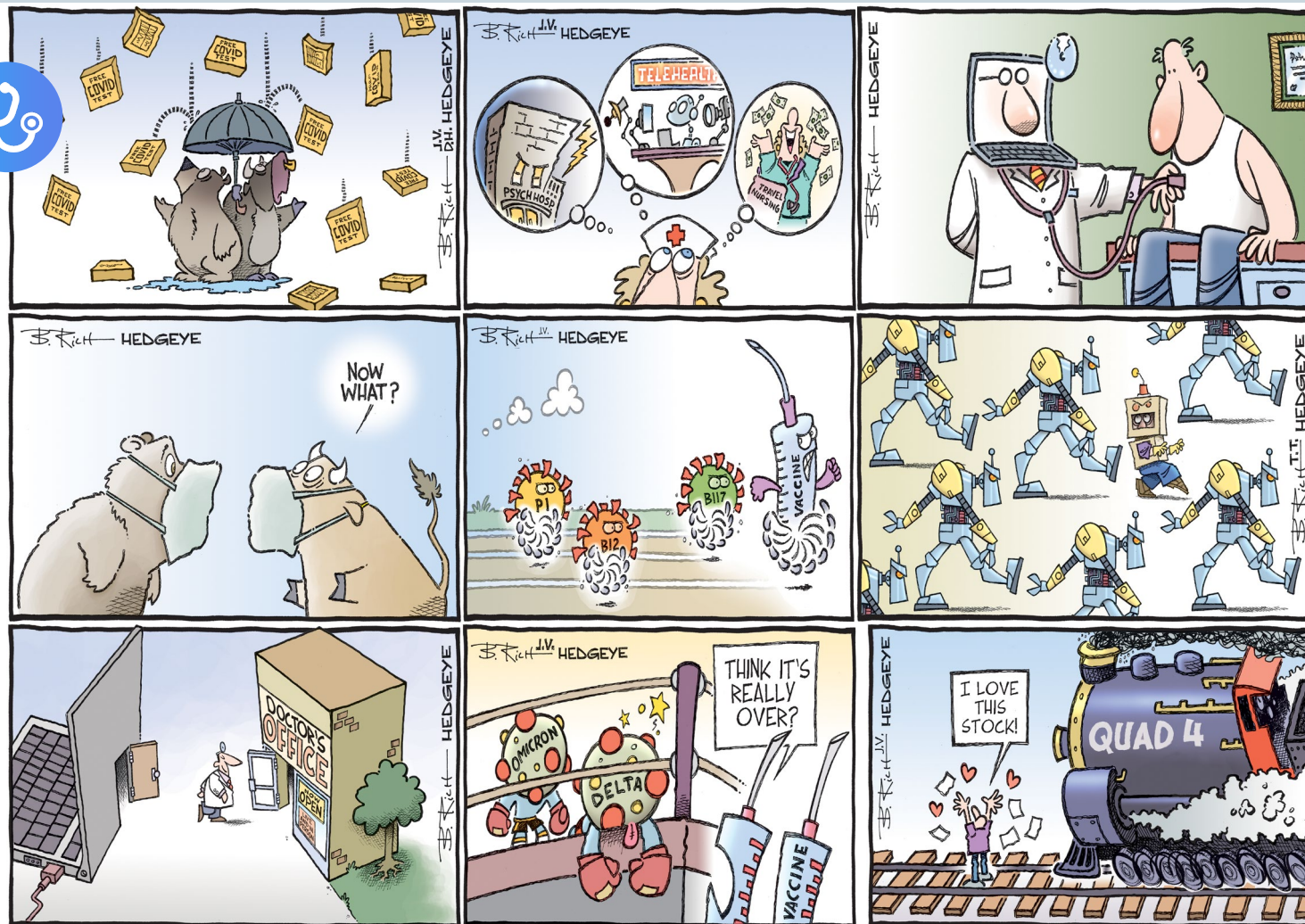


HEDGEYE

Health Care Quad Playbook Review

With Bonus Content: ACHC Thesis Update

May 16, 2022



Hedgeye Health Care

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MICROQUAD RESULTS

While we have up to five (5) years of data on the securities in the MicroQuads model, not all securities in the model have five years of trading history, and while we make every effort to assure the accuracy of the data, we cannot guarantee its accuracy. The methodology used to arrive at the results displayed herein is proprietary to Hedgeye and involves aggregating the actual historical results for each security while it "resides" in the appropriate MicroQuad over the defined periods of time. These results do not include any consideration for trading costs, commissions, or other factors that could impact results, we make no representations or warranties that past results will or can be repeated, and the data have not been verified by a third-party.

PERFORMANCE MONITOR FORWARD/PROSPECTIVE PRICE CHANGES

The data for each security are based on historic price performance and average forward returns and are not a guarantee of future performance. We make every effort to assure the accuracy of the calculations and forecasts; however, we cannot guarantee their accuracy or that performance will be repeated.

Health Care Position Monitor

HEDGEYE

For Week of May 16, 2022

Best Ideas - Longs						Best Ideas - Shorts					
LONG		Price	Mkt Cap (\$B)	Trend	Tail	SHORT		Price	Mkt Cap (\$B)	Trend	Tail
Active Longs						Active Shorts					
BAX	Baxter International Inc.	\$ 73.03	\$36.8B	✓	✓	TXG	10x Genomics Inc Class A	\$ 47.63	\$4.5B	×	×
HCA	HCA Healthcare Inc	\$ 214.92	\$63.5B	✓	✓	EXAS	Exact Sciences Corporation	\$ 52.29	\$9.2B	×	×
BDX	Becton, Dickinson and Company	\$ 248.44	\$70.8B	✓	✓	AMN	AMN Healthcare Services, Inc.	\$ 85.07	\$3.8B	×	×
DRIO	DarioHealth Corp.	\$ 5.86	\$0.1B	✓	✓	TDOC	Teladoc Health, Inc.	\$ 33.59	\$5.4B	×	×
ATIP	ATI Physical Therapy, Inc. Class A	\$ 1.73	\$0.4B	✓	✓	EYE	National Vision Holdings, Inc.	\$ 26.08	\$2.1B	×	×
						XHS	SPDR S&P Health Care Services ETF	\$ 84.52	\$0.1B	×	×
						ARKG	ARK Genomic Revolution ETF	\$ 32.40	\$2.6B	×	×
Long Bias						Short Bias					
ACHC	Acadia Healthcare Company, Inc.	\$ 70.59	\$6.4B			LFST	Lifestance Health Group, Inc.	\$ 6.79	\$2.5B		
PGNY	Progyny, Inc.	\$ 36.94	\$3.4B			CANO	Cano Health Inc Class A	\$ 5.15	\$1.1B		
PRVA	Privia Health Group, Inc.	\$ 24.05	\$2.6B			DGX	Quest Diagnostics Incorporated	\$ 136.39	\$16.0B		
CTKB	Cytek Biosciences, Inc.	\$ 9.38	\$1.3B			CYH	Community Health Systems, Inc.	\$ 6.49	\$0.9B		
ONEM	1Life Healthcare, Inc.	\$ 8.37	\$1.6B			NTRA	Natera, Inc.	\$ 34.20	\$3.3B		
DOCS	Doximity, Inc. Class A	\$ 31.82	\$3.4B								
XHE	SPDR S&P Health Care Equipment ETF	\$ 88.60	\$0.4B								

Note

Best Idea Longs/Shorts are high conviction ideas that we've either presented a Black Book for already or have one in the works (similar to other Hedgeye teams). Bias Ideas are ones in which we've done the bulk of the work, but there may be another question we need to answer to move it over the line. All active positions are higher conviction than bias ideas. We rank active versus active and bias versus bias.

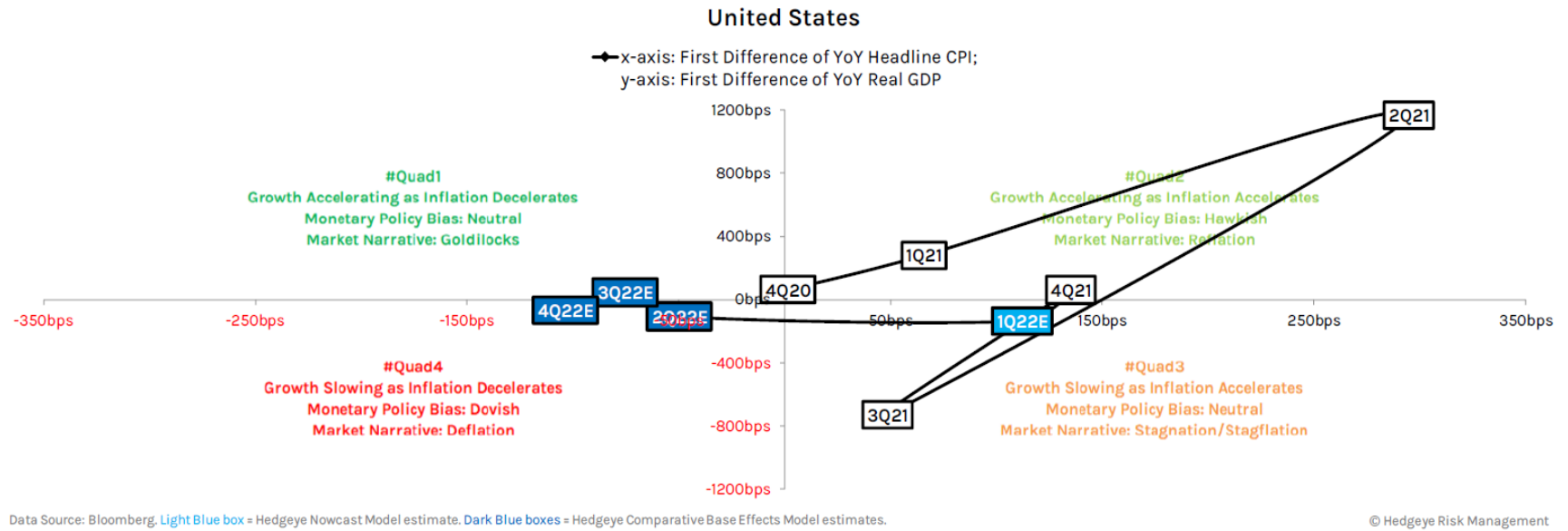
Disclaimer

Hedgeye's "bias" represents Hedgeye's outlook on companies currently under Hedgeye's review, or for which timing is not right for greater coverage. Hedgeye may or may not provide further commentary on any or all companies represented on the bias and representation of a company on the bias does not forecast whether Hedgeye will or will not issue any additional material on that company.

Hedgeye Macro Quad Outlook

Hedgeye Quad Model

United States	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	← Actuals Estimates →	1Q22E	2Q22E	3Q22E	4Q22E
Real GDP QoQ SAAR	2.40%	3.20%	2.80%	1.90%	-5.10%	-31.20%	33.80%	4.50%	6.30%	6.70%	2.30%	7.00%	Real GDP QoQ SAAR	0.99%	2.43%	4.08%	4.22%
Real GDP YoY	2.15%	2.11%	2.32%	2.57%	0.63%	-9.08%	-2.89%	-2.26%	0.55%	12.23%	4.95%	5.56%	Real GDP YoY	4.22%	3.16%	3.62%	2.96%
2yr Comparative Base Effects	2.45%	2.72%	2.66%	2.52%	2.58%	2.70%	2.69%	2.45%	1.39%	-3.49%	-0.28%	0.15%	2yr Comparative Base Effects	0.99%	1.57%	1.03%	1.65%
Headline CPI YoY	1.64%	1.81%	1.76%	2.03%	2.12%	0.36%	1.22%	1.24%	1.90%	4.85%	5.34%	6.69%	Headline CPI YoY	7.81%	7.32%	6.56%	5.53%
2yr Comparative Base Effects	2.38%	2.31%	2.30%	2.16%	1.93%	2.26%	2.20%	2.12%	1.88%	1.09%	1.49%	1.64%	2yr Comparative Base Effects	2.01%	2.61%	3.28%	3.96%



Health Care Preferred in #Quad4

Macro Quads are useful in guiding long and short and factor exposures including Sector weighting. However, at the stock level, the Macro Quads do not differentiate between tickers.

Favorable Quad 4 Factors

Quad 4: Deflation

Best Asset Classes:

Fixed Income, Gold, USD

Worst Asset Classes:

Commodities, Equities, Credit, FX

Best Equity Sectors:

Consumer Staples, Utilities, REITS, Health Care, Telecom

Worst Equity Sectors:

Energy, Tech, Industrials, Financials, Materials

Best Equity Style Factors:

Low Beta, Dividend Yield, Quality, Defensives, Value

Worst Equity Style Factors:

High Beta, Momentum, Leverage, Secular Growth, Cyclical Growth

Best Fixed Income Sectors:

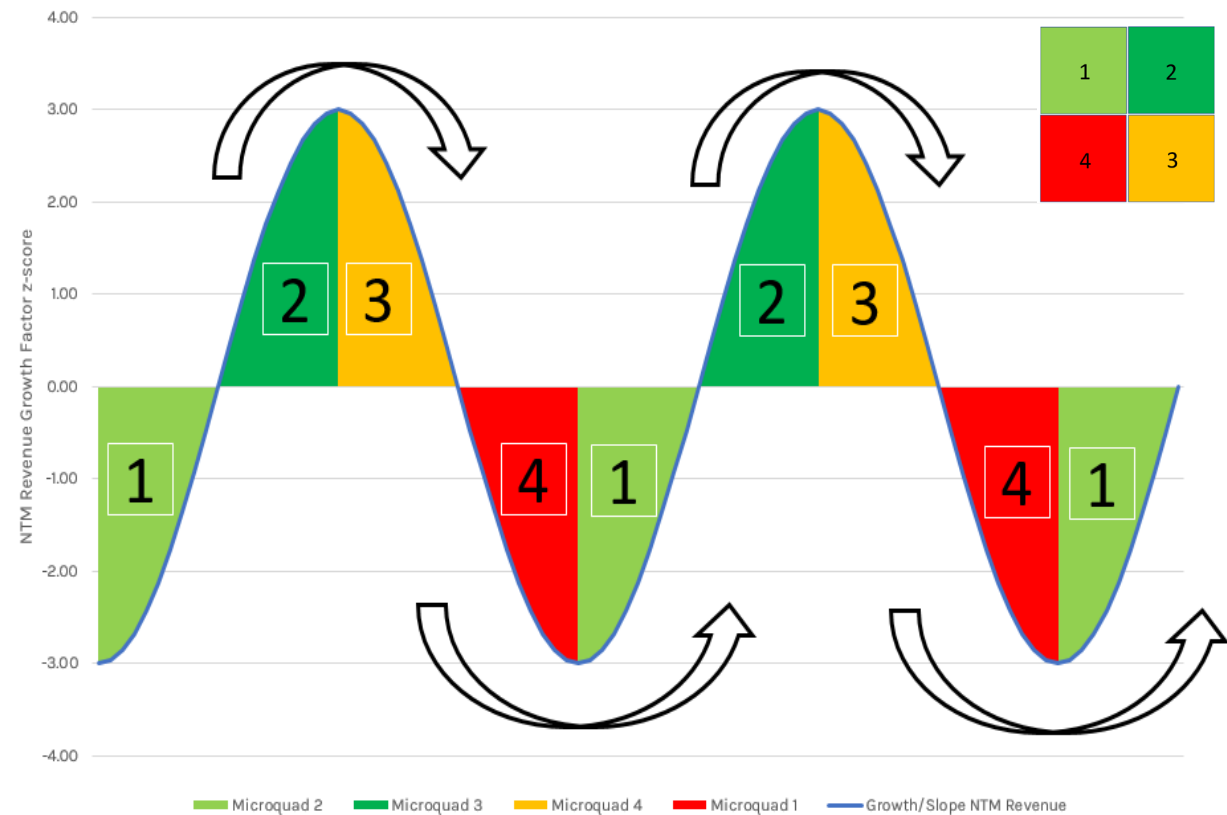
Long Bond, Treasury Belly, IG Credit, Munis, MBS

Worst Fixed Income Sectors:

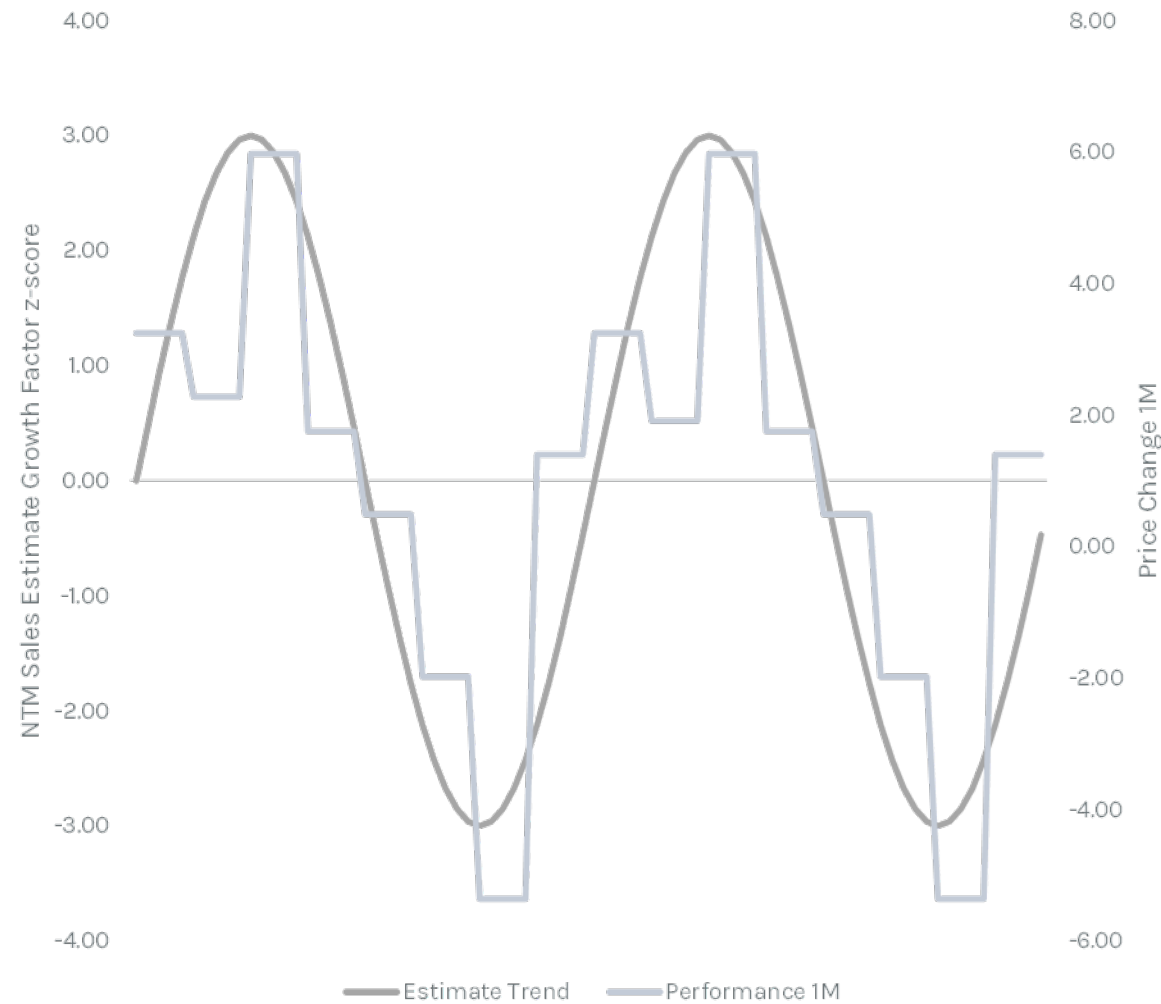
Preferreds, EM Local Currency, BDCs, Leveraged Loans, TIPS

Micro Quad | Model vs Backtest

MicroQuad – Generic Growth Curve Progression



Historical 1M Performance vs MicroQuad Curve



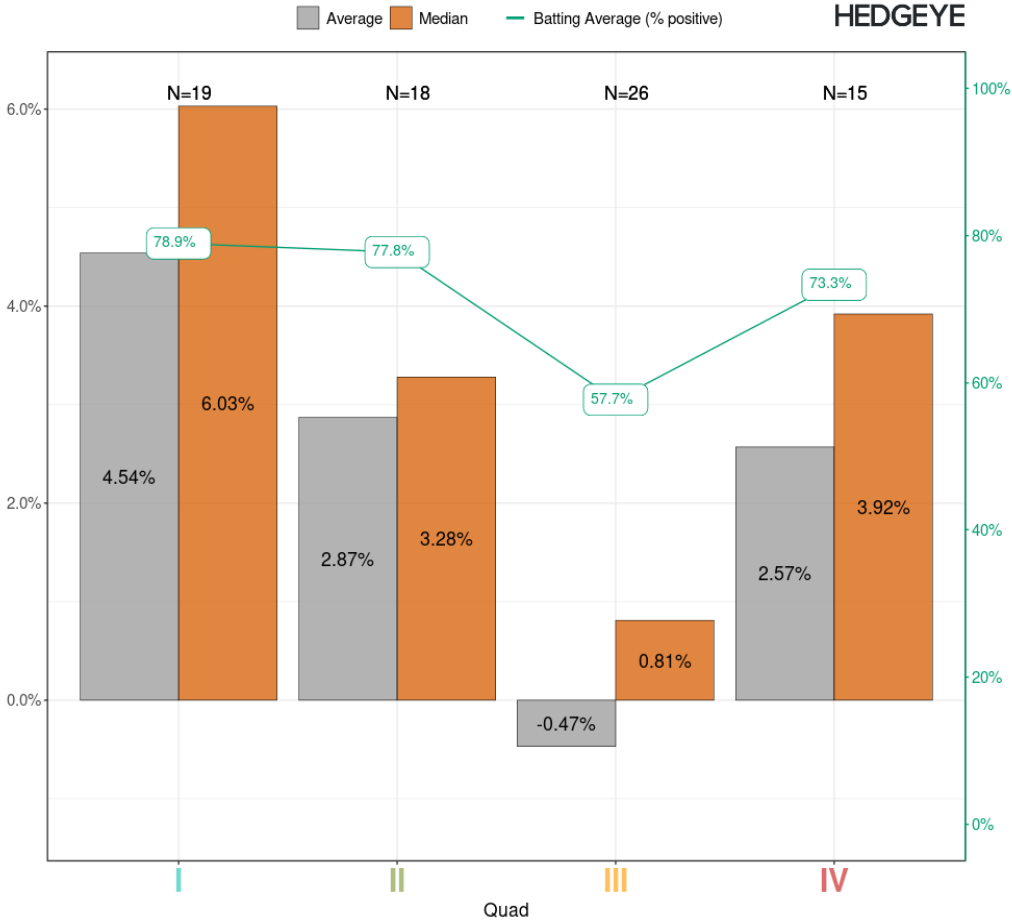
Health Care Macro Utilization Data Outperforms in Quad 4

Personal Consumption Expenditure agrees with the XLV back test

Table 2.4.3U. Real Personal Consumption Expenditures by Type of Product, Quantity Indexes	Macro Quad			
	1	2	3	4
Health care	2.7%	2.6%	3.1%	3.2%
Outpatient services	2.9%	3.1%	3.7%	3.6%
Physician services (44)	3.3%	3.5%	4.5%	3.9%
Dental services (45)	0.4%	1.1%	1.3%	1.6%
Paramedical services (46)	3.3%	3.4%	3.5%	4.0%
Home health care	3.2%	2.3%	3.1%	3.4%
Medical laboratories	5.3%	4.7%	5.2%	6.9%
Other professional medical services	3.3%	3.8%	3.5%	3.9%
Specialty outpatient care facilities and health and allied services	3.4%	3.5%	3.6%	3.9%
All other professional medical services	3.3%	4.3%	3.3%	4.2%
Hospital and nursing home services	2.5%	2.2%	2.6%	2.8%
Hospitals (51)	2.7%	2.5%	2.8%	3.3%
Nonprofit hospitals' services to households	2.9%	2.6%	3.0%	3.2%
Proprietary hospitals	3.1%	1.4%	3.1%	3.5%
Government hospitals	1.8%	2.5%	2.2%	3.4%
Nursing homes (52)	1.6%	1.0%	1.1%	0.8%
Nonprofit nursing homes' services to households	1.5%	1.1%	0.3%	0.8%
Proprietary and government nursing homes	1.7%	0.9%	1.6%	0.8%
Prescription drugs	5.6%	4.5%	4.3%	5.7%
Nonprescription drugs	5.9%	4.9%	6.6%	4.7%

Quarterly Performance

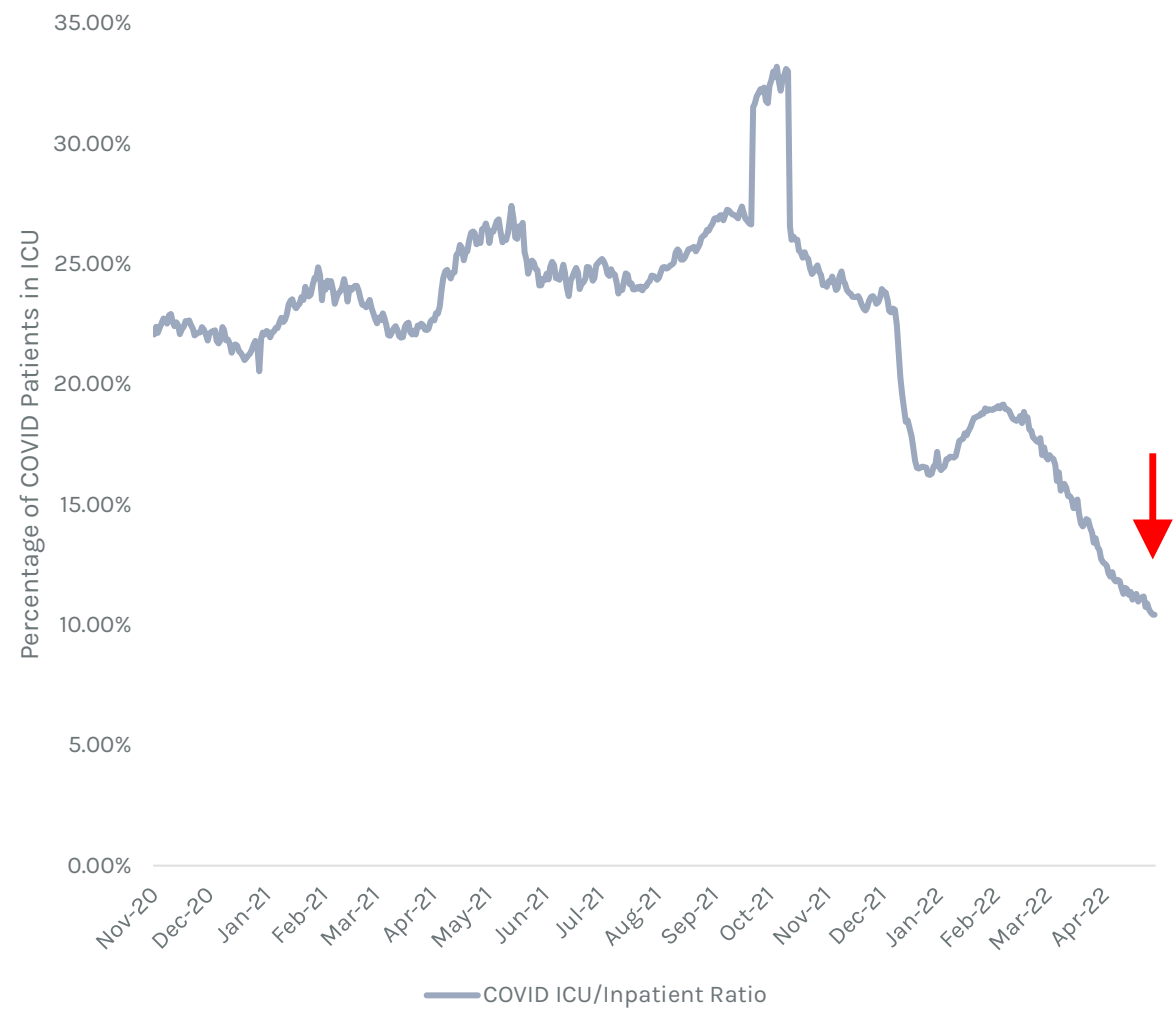
Health Care Select Sector SPDR Fund (\$XLV)



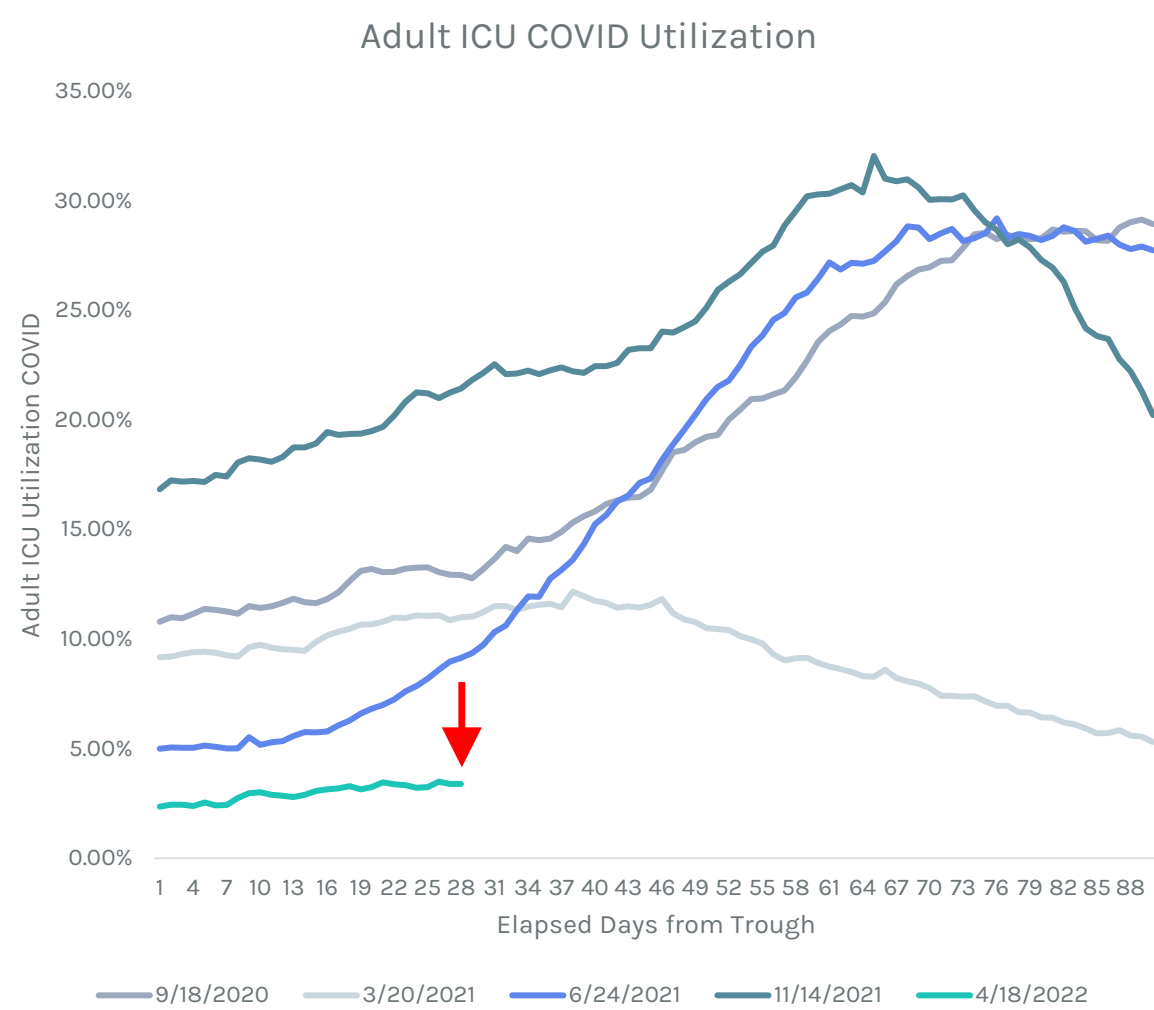
Data Sources: Federal Reserve Economic Data (FRED)
FactSet Research Systems Inc.

Current COVID-19 Wave Less Severe

Percentage of COVID Hospitalizations in the ICU



ICU Utilization Post Trough



Quad 4 Ranked Factor Exposure

Combining Quad and Factors across the Health Care Universe

Factor Name	Macro Quad 4				
	Average 3M Performance				Q ₄ vs Q ₁
	Quartile 1	Quartile 2	Quartile 3	Quartile 4	Effect Size
Short Interest Days to Cover	7.76	2.51	-0.94	0.17	7.59
Consensus Sales Momentum Bin1 (-1,0,+1)	0.05	2.02	2.56	5.92	5.87
Consensus Sales Estimate Momentum	0.11	0.28	3.13	5.65	5.55
EV/Sales	0.66	0.88	3.21	5.87	5.21
Sales Bin2	4.80	3.84	1.95	-0.15	4.95
EBITDA NTM	-0.88	3.31	2.57	3.07	3.94
Consensus Sales Acceleration Standardized	8.62	7.65	9.22	4.95	3.67
Consensus Sales Slope Unstandardized	-0.27	1.88	3.70	3.25	3.52
EBITDA Growth NTM/LTM	2.58	3.12	2.38	-0.39	2.97
Dollar Volume	1.14	1.82	3.21	4.10	2.96
Consensus EPS Growth, STM/NTM	4.87	0.07	2.88	2.19	2.68
Consensus EPS Growth, NTM/LTM	4.83	0.86	1.95	2.37	2.46
EV/EBITDA	5.12	-2.32	3.04	3.04	2.09
MicroQuad Average	2.76	6.40	3.72	0.72	2.04
Consensus Sales Growth, STM/NTM	3.27	2.89	3.05	1.24	2.03
Sales Correlation	4.28	2.09	1.53	2.82	1.45
Consensus Sales Growth, NTM/LTM	1.59	2.75	3.06	2.99	1.40
Consensus EBITDA Growth STM/NTM	0.98	2.31	2.58	2.31	1.33
Enterprise Value	1.72	2.01	3.56	3.00	1.28
Price Volatility, Quarterly	3.26	2.51	2.25	2.33	0.92
EBITDA Margin	1.27	2.91	2.52	2.14	0.87
Sellside Rating	3.60	2.24	1.61	2.75	0.85
Consensus Sales NTM	3.57	1.18	2.13	2.74	0.83
Sellside Rating	3.39	-0.53	2.95	4.10	0.71
Market Capitalization	2.34	2.19	2.81	2.90	0.56
Debt to Total Capitalization	3.39	-0.53	2.95	3.75	0.36

This table includes data aggregated from our 306 unique tickers currently held across major Health Care ETFs including XLV, XBI, XHE, XHS, ARKG, and PINK. The data covers the period from 4Q 2008 to 1Q 2022.

The Average 3M Performance is measured daily and averaged for the quarter for each individual equity, which was then grouped by factor quartile.

The Effect Size is the absolute difference between quartile 4 and quartile 1.

Consensus estimate trends are passed through a weekly process that drives our MicroQuad analysis for estimate momentum. Standardized values compare daily readings to the trailing 3 years.

Factor Screen by Macro Quad

MicroQuad plus factors helps identify high probability risks and opportunities

Macro Quad	Rank	Factor	RSQ	Slope	Q1	Q2	Q3	Q4
1	1	MicroQuad Consensus Sales	0.79	5.38	Red			Green
1	2	Price Volatility	0.77	133.52	Red			Green
1	3	Revenue Growth STM	0.50	5.30	Red			Green
1	4	Short interest Days to Cover	0.49	-0.68	Green			Red
1	5	EBITDA Margin %	0.49	-0.09	Green			Red

Quad 1: Growth Accelerating and Inflation Slowing

MicroQuad upper quartile and steepest slope, alongside highest expected revenue growth. High short interest is always a negative factor with 3 days to cover a key threshold. Companies with negative EBITDA are richly rewarded with a huge performance spread over more profitable companies.

Macro Quad	Rank	Factor	RSQ	Slope	Q1	Q2	Q3	Q4
2	1	Price Volatility	0.75	159.23	Red			Green
2	2	MicroQuad Consensus Sales	0.63	4.39	Red			Green
2	3	Short interest Days to Cover	0.51	-0.68	Green			Red
2	4	EV/Sales	0.46	0.25	Red	Red	Green	Green
2	5	Revenue Growth NTM	0.32	5.84	Green			Red

Quad 2: Growth Accelerating and Inflation Accelerating

Similar set up to Macro Quad 1 with the inclusion of EV/Sales favoring the higher multiple names.

Macro Quad	Rank	Factor	RSQ	Slope	Q1	Q2	Q3	Q4
3	1	MicroQuad Consensus Sales	0.64	2.76	Red			Green
3	2	Short interest Days to Cover	0.51	-0.70	Green			Red
3	3	EV/Sales	0.33	0.11	Red	Red	Green	Green
3	4	Revenue Growth NTM	0.27	2.63	Green			Red
3	5	EBITDA Margin %	0.13	-0.03	Green			Red

Quad 3: Growth Decelerating and Inflation Accelerating

Quad 3 is the worst sector for Health Care. Lower multiple names do poorly alongside high short interest names, likely reflecting perceived quality. There is a downshift from higher growth and not-for-profit to slower growth and higher margin.

Macro Quad	Rank	Factor	RSQ	Slope	Q1	Q2	Q3	Q4
4	1	MicroQuad Consensus Sales	0.38	2.23	Red			Green
4	2	Short interest Days to Cover	0.31	-0.49	Green	Red	Red	Red
4	3	EV/Sales	0.24	0.12	Red	Red	Green	Green
4	4	EBITDA Margin %	0.21	0.06	Red			Green
4	5	Debt to Total Capital	0.16	0.05	Red			Green

Quad 4: Growth Decelerating and Inflation Slowing

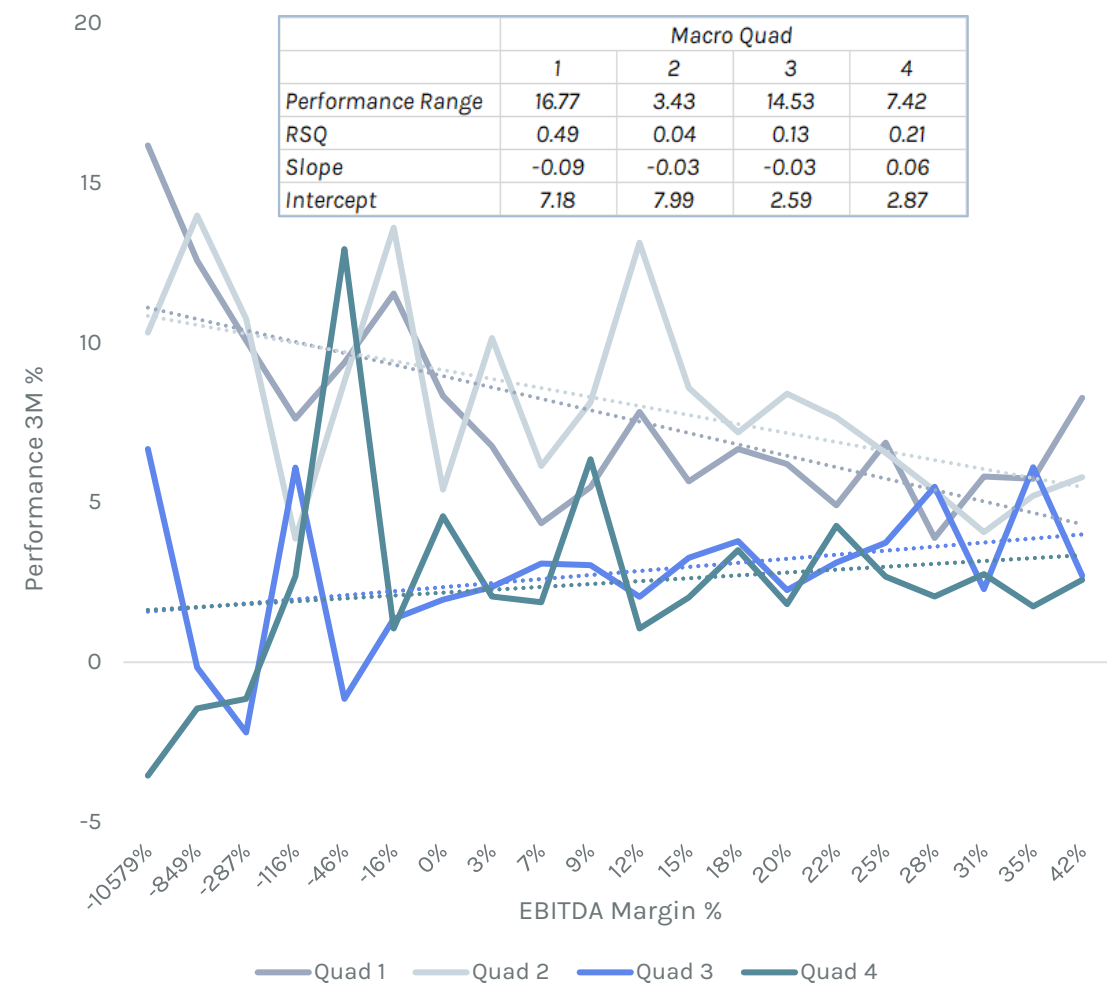
Health Care growth accelerates in Quad 4. Any short interest is bad short interest in Quad 4, and lower multiple names are considered broken. A negative margin and a low EV/Sales multiple is particularly negative factor combination. Debt to total capital screens out companies using only equity as a source of capital.

Factor Screen: Short Interest and EBITDA Margin %

Short Interest: Quad 4 RSQ 0.31

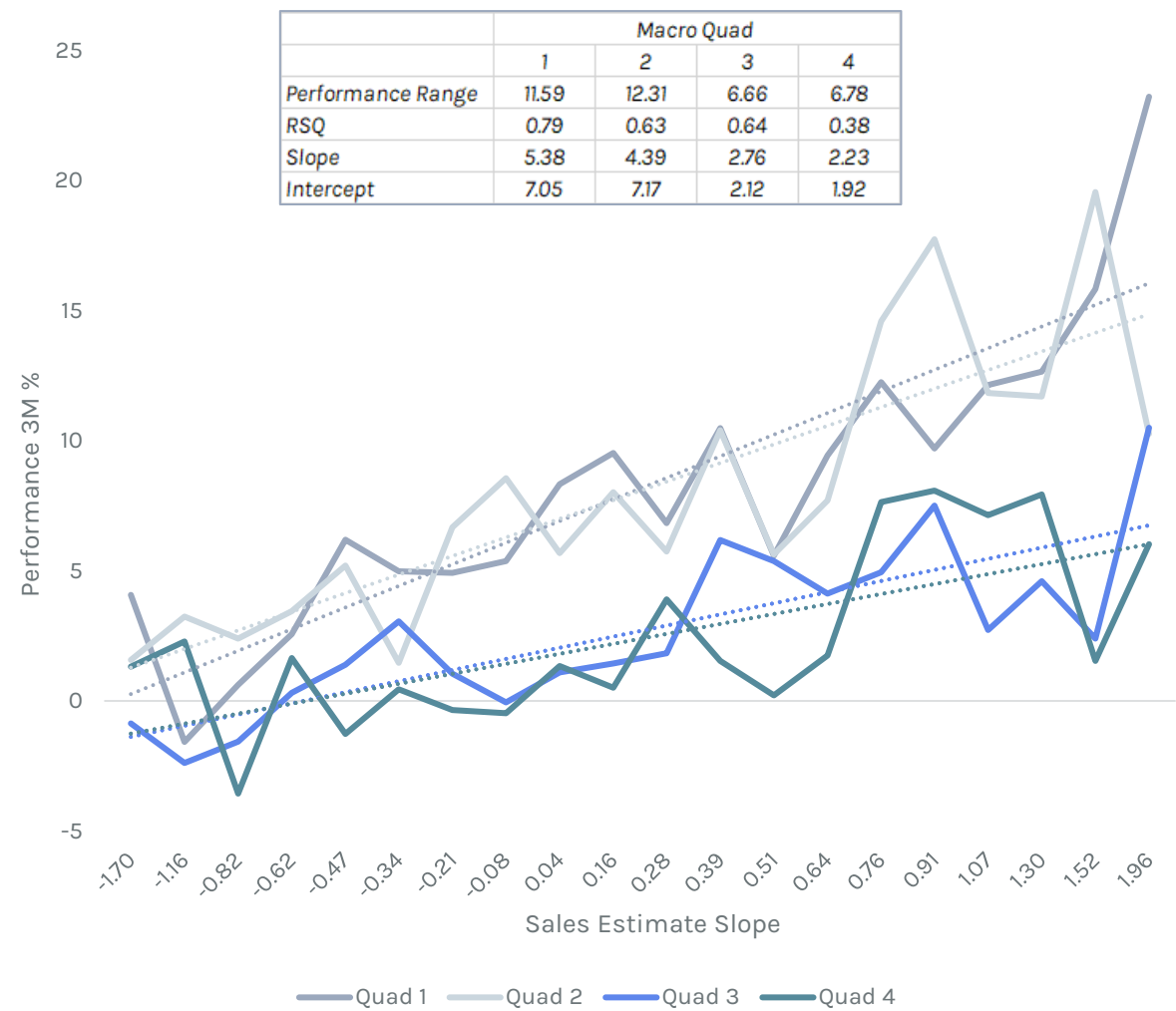


EBITDA Margin: Quad 4 RSQ 0.21

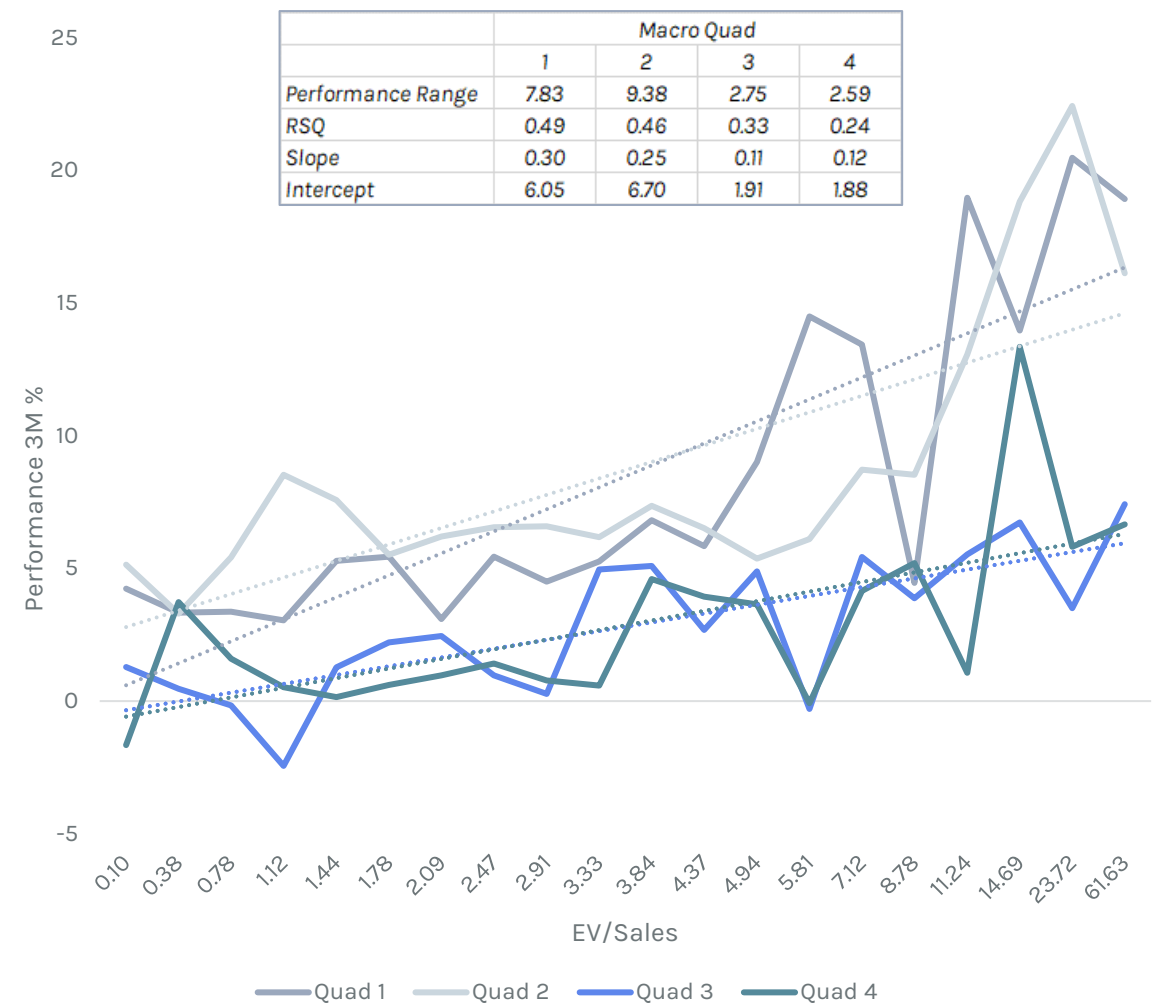


Factor Screen: Consensus Trend and EV/Sales

MicroQuad: Quad 4 RSQ 0.38

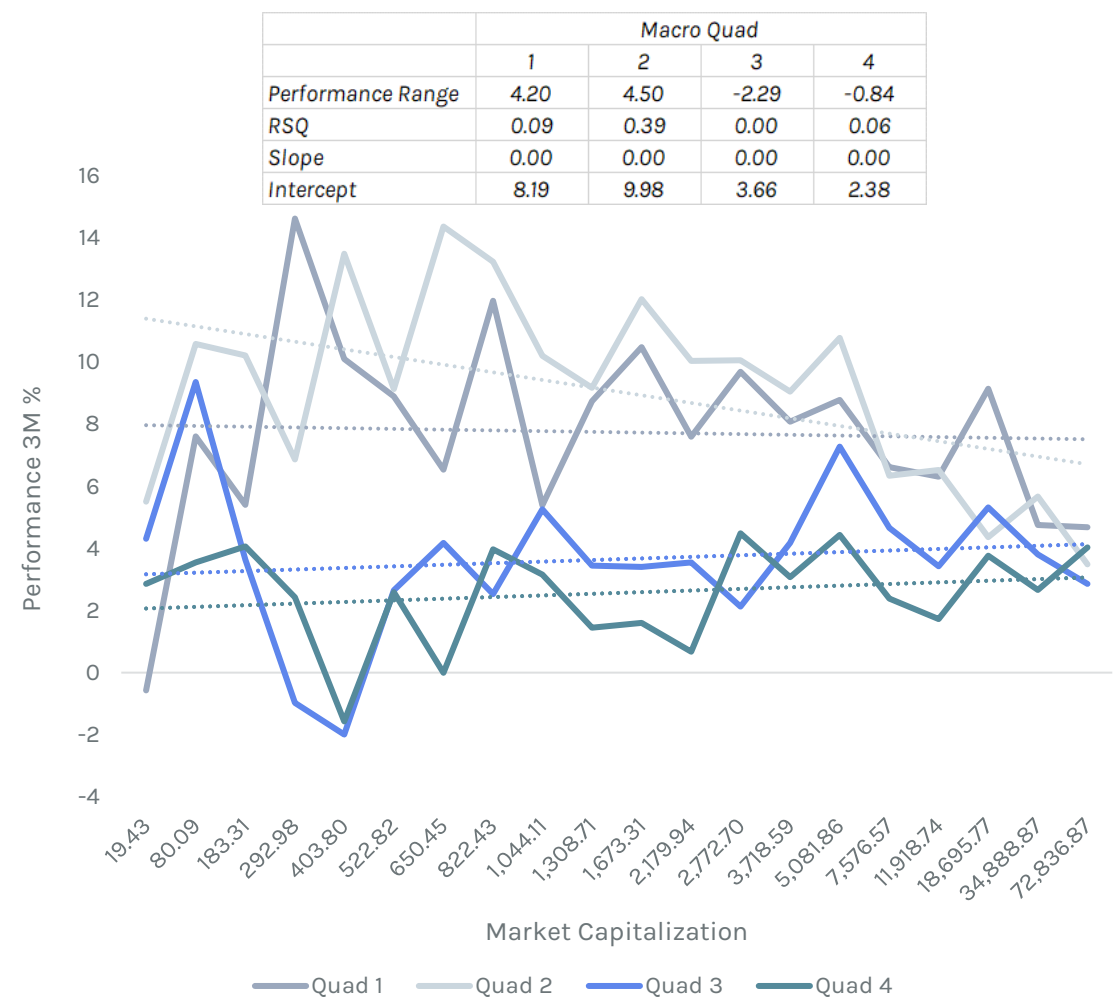


EV/Sales: Quad 4 RSQ 0.24

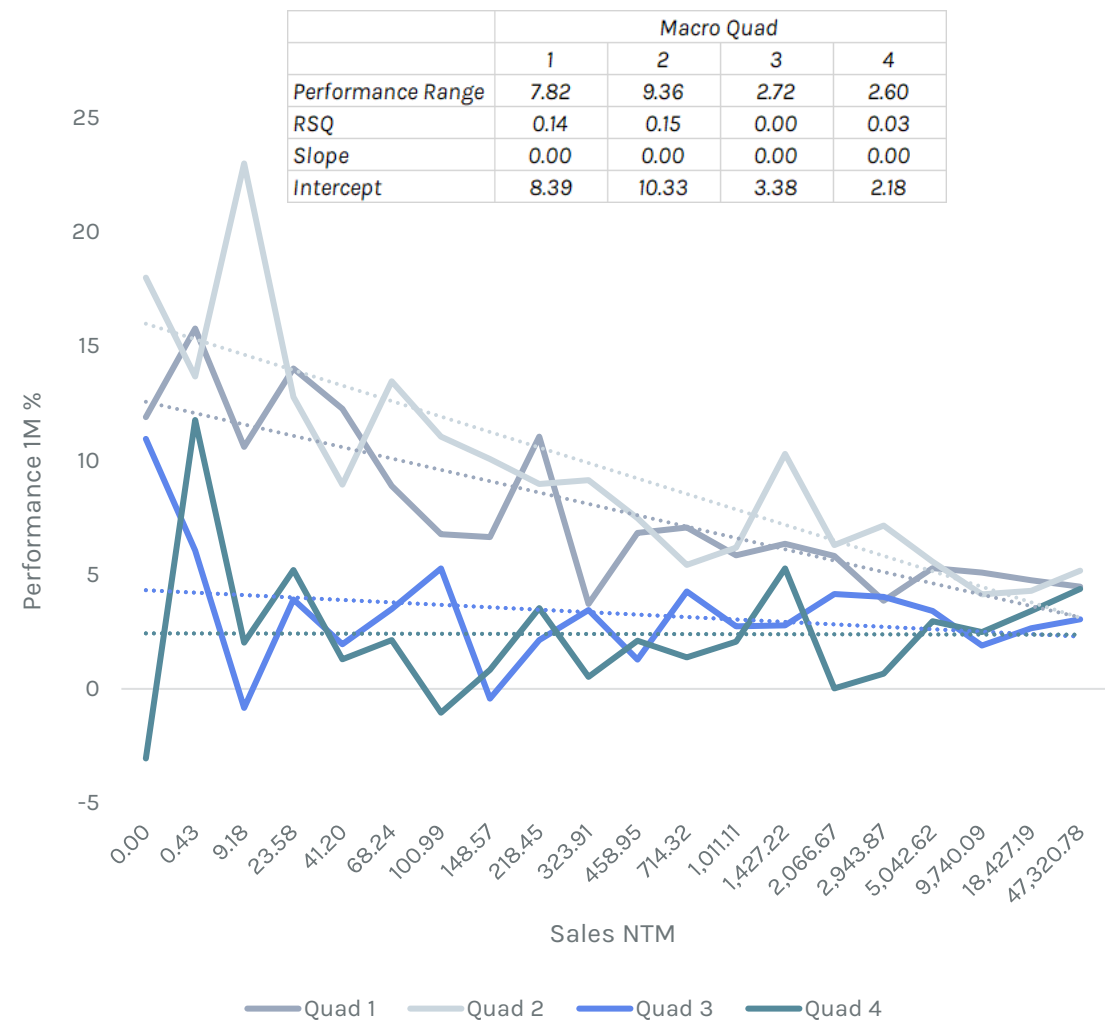


Factor Screen: Market Cap and Sales NTM

Market Cap: Quad 4 RSQ 0.06



Sales NTM: Quad 4 RSQ 0.03



Long Screens Results

Team Meeting Notes

BAX – levered to recovery in hospital volume

BSX – Pent up demand for diagnostics and interventions accelerating

CRL – Contract research likely under pressure with recent volatility and funding trends

CVS – New fiduciary rules, accelerating medical costs

CYH – Lower quality hospital assets

★ **HOLX – Converting COVID testing platform to non-COVID menu, pent up demand.**

ITGR – Medical device contract manufacturing

MMSI – Pent up demand, delayed diagnostics and interventions

★ **TFX – Levered to hospital volume, amenable to forecast algorithm method**

★ **THC – Favorable outpatient surgery volume and staffing trends**

UHS – Lower quality version of ACHC

UNH – Risk for accelerating medical costs,

Short Screen Results

Team Meeting Notes

ALHC – Fits in with the advanced primary care trend

ALKS – Long term un-profitability

AXNX – Adoption risk

★ **CDNA – Competition in transplant genetic testing from Natera**

CLOV – Market has uncovered this short already, but may be a zero

DNA – Levered to biotech funding

EXAS – Competition, colonoscopy recovery, Thrive adoption risk vs spending

NARI – Adoption and regulatory risk

ONEM – Staffing strength, utilization recovery, long bench

★ **OSH – Mature patient population with cost trend challenges post COVID**

SLGC – Proteomics science experiment, biotech funding risk

TXG – Massive deceleration in revenue, delayed profitability in 2023

Estimate Trend | Still Down and to the right... but

The rate of change looks better and the upturn in the forecast is in mid-July, but it's flattening.



Based on the current forecast trend, we see the bottom/cycle upturn happening in mid-July.

Comments on 1Q22 thus far are underwhelming, as uncertainty seems to be an issue. The Macro Quad backdrop and labor inflation may be to blame, or perhaps it's stubbornly high COVID case counts.

Regardless, consensus revenue estimates began to turn negative at the end of February 2021, coincident with the beginning of a slide in performance across our Health Care universe. **The upturn could be in sync with the end of Quad 4.**

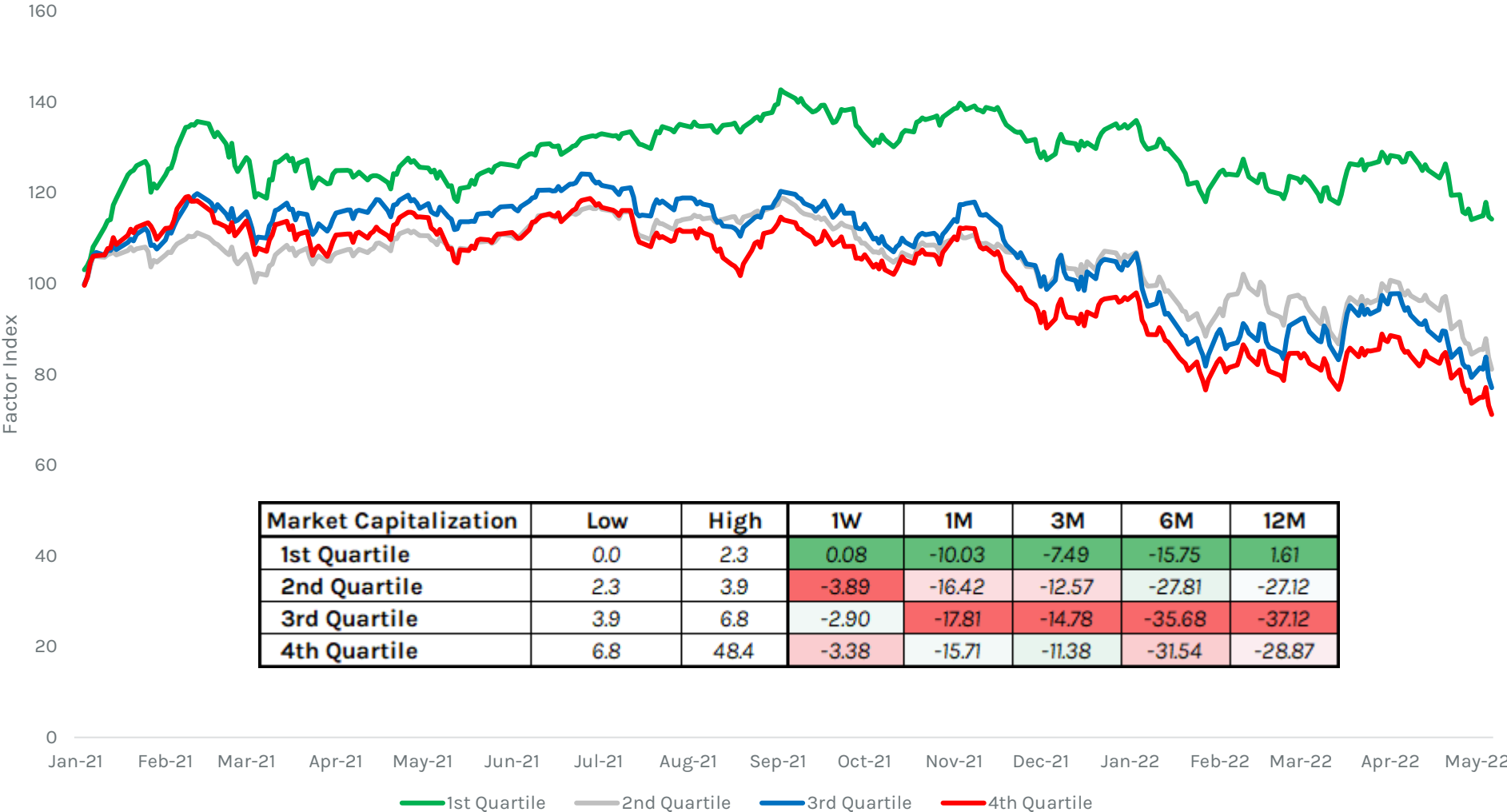
Multiples - especially for small caps and stocks with high EV/Sales multiples - have been crushed over the past ~1 year.

Factor Index | Short Interest Days to Cover

Short interest is the top Factor in Quad 4

Our work on how to quantify and track the impact of stock factors at the individual equity level shows short interest routinely ranks at or near the top for effect size.

In Quad 4, the separation between low short interest names versus high is dramatic. Although in the last few weeks, the impact has been less significant during the rallies.

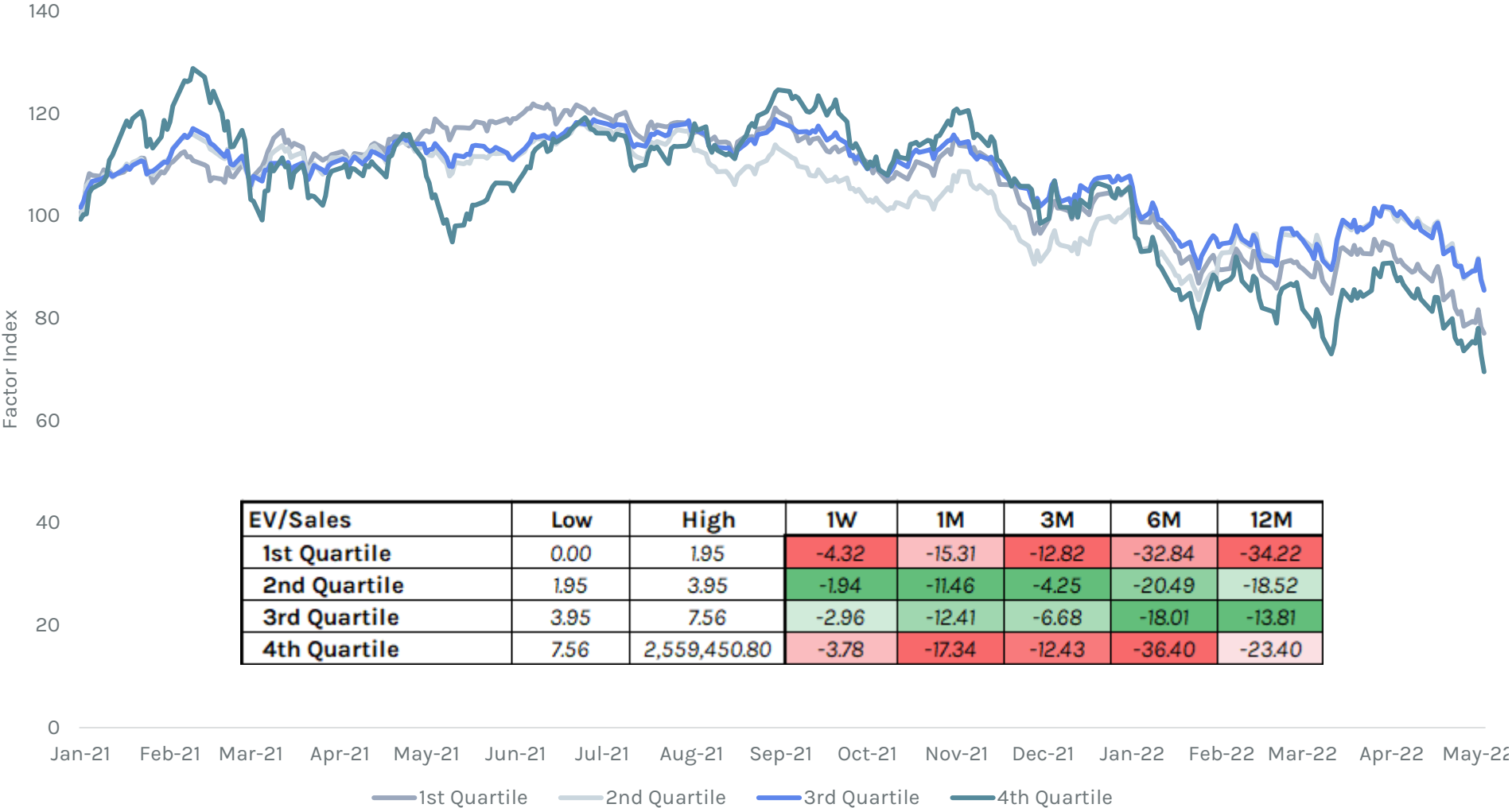


Factor Index | Enterprise Value to Sales

EV/Sales is a mediocre Factor in Quad 4

EV/Sales has shown only modest results in separating high versus low multiple names.

We did notice that the absolute level of EBITDA saw good separation between large and small values, presumably driven by unprofitable TAM stories, although the signal was lost at the EV/Sales level.

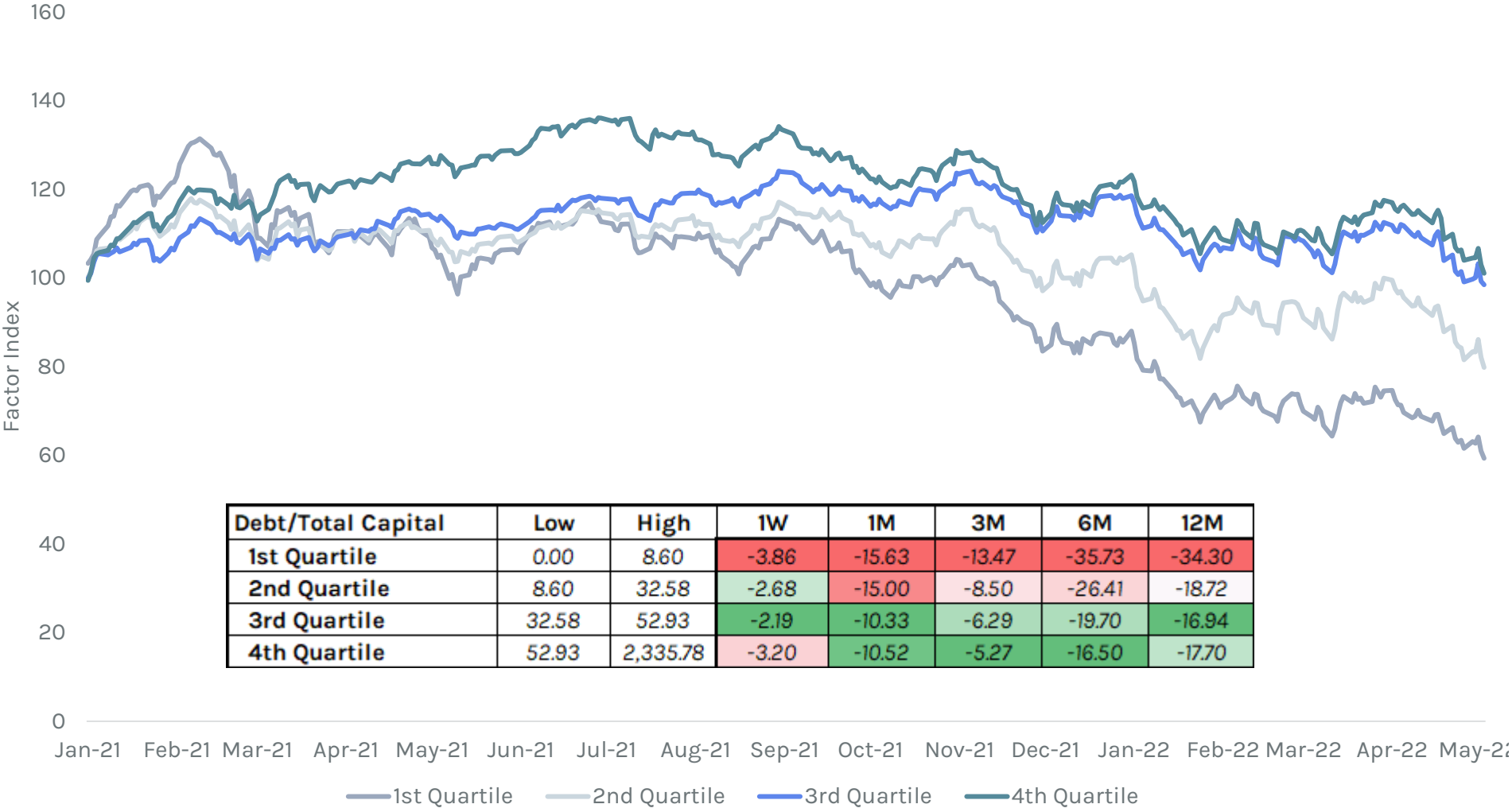


Factor Index | Debt to Total Capital

Debt to Total Capital is the top Factor in Quad 4

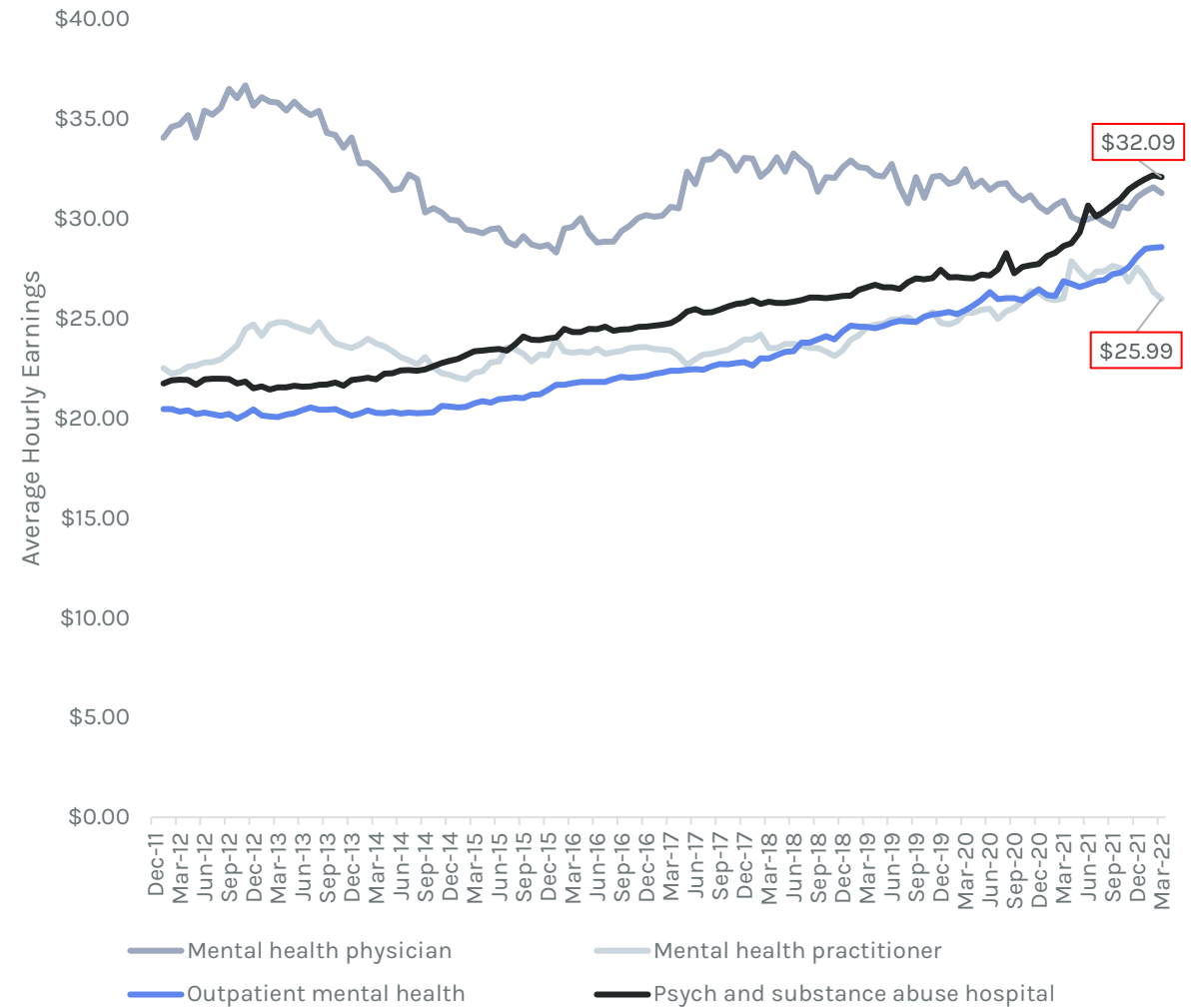
Debt to total capital suggests not that debt is a positive, but instead of correlating to low quality, it more likely reflects market cap and access to capital.

Smaller capitalization stocks tend to use equity instead of debt to fund operations particularly for unprofitable growth.



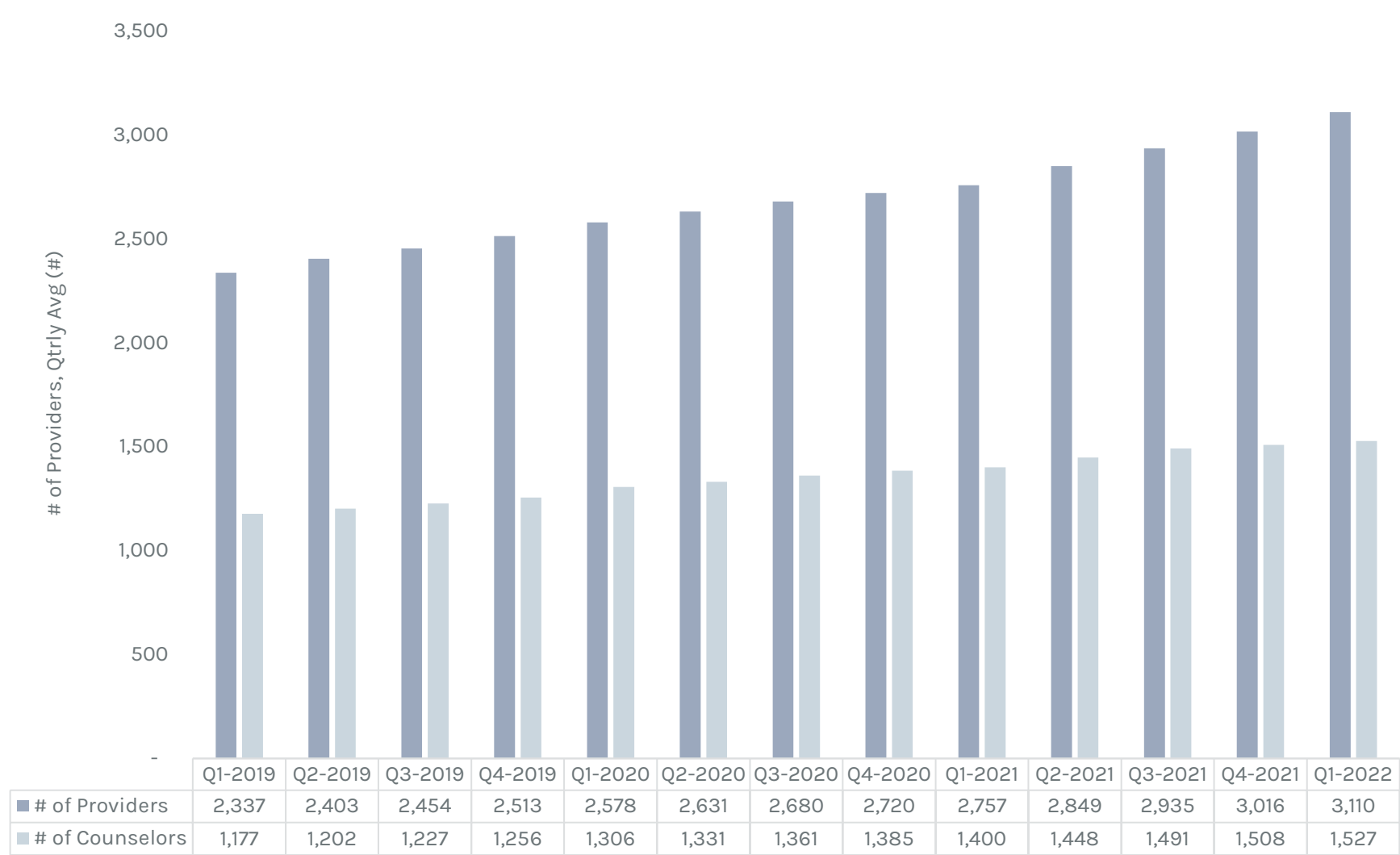
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Wages Continue to Climb for Inpatient



Despite Labor Headwinds, ACHC Continues Hiring

Tracker updates since the earnings call show that hiring has improved MoM since February



Summary: ACHC Locations Tracker

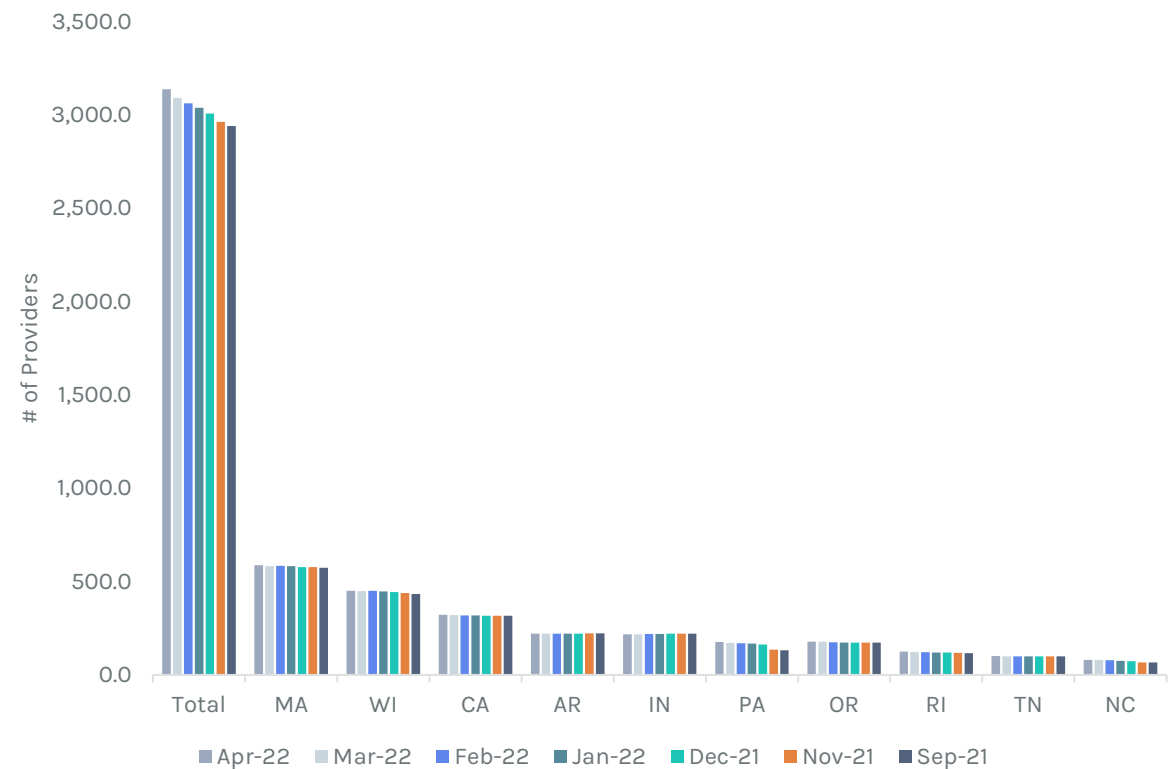
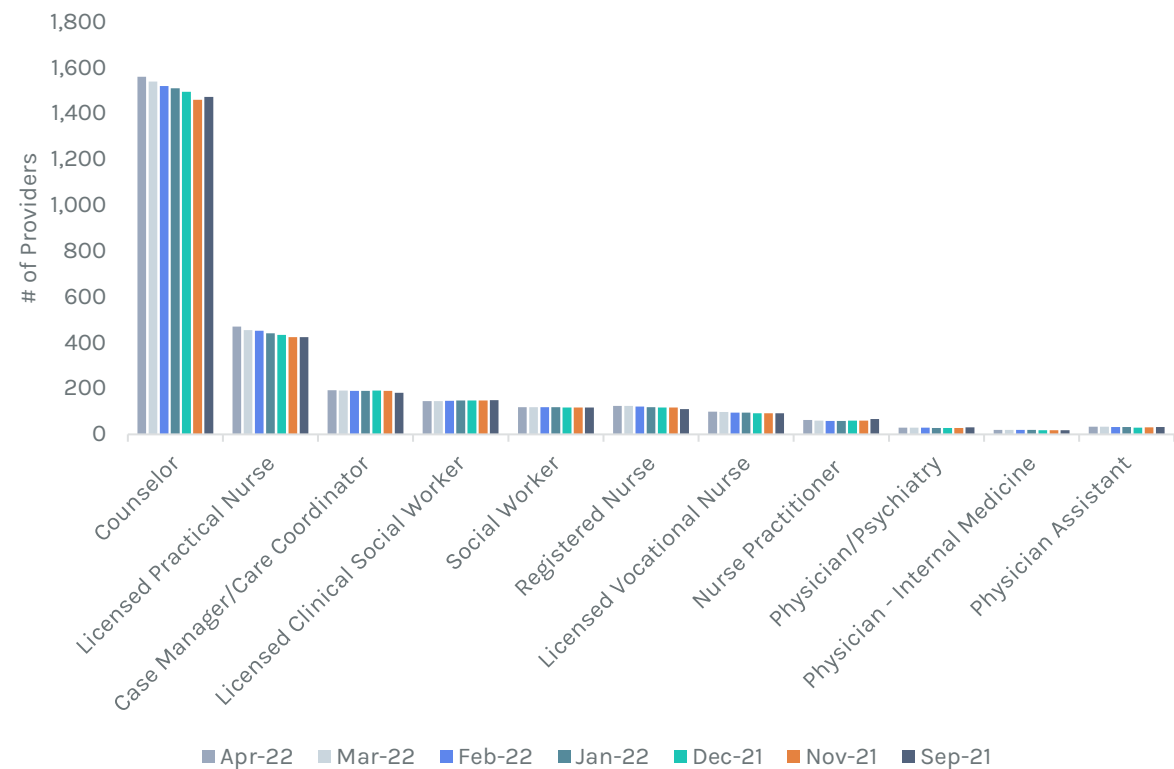
Since the FY21 earnings call, we have continued to update our trackers. From the updates since, we can see that hiring has continued to accelerate MoM, attrition has remained low, and management looks to be replacing poorly- reviewed facilities with new ones.

Management Response to Hiring

Despite system-wide pressure to staff inpatient, behavioral beds, ACHC appears to be navigating the hiring landscape well through state- affiliated Direct Payment Programs, the installment of incremental agency labor, and tactful full- time employment.

Facilities Tracker Shows Hiring by Type and State

Additional granularity from our Facilities Tracker feeds into our model assumptions



Our most recent update shows the largest positive net change in Pennsylvania which lines up with management’s expectation to ramp the existing Tower Behavior Health Facility to 144 beds and the estimated open of a 192-bed facility in conjunction with Geisinger Health. Other states that showed net positive gains were Massachusetts, Wisconsin, and California, but hiring seems to be broad- based this time around.

Model Adjustment | Incorporation of CTC Business

	365	366	90	91	92	92	365	90	91	92	92	365	90	91	92	92	365
	FY2019	FY2020	Q1-2021	Q2-2021	Q3-2021	Q4-2021	FY2021	Q1-2022	Q2-2022	Q3-2022	Q4-2022	FY2022	Q1-2023	Q2-2023	Q3-2023	Q4-2023	FY2023
Total Revenue																	
US Facilities Revenue, mm	2,008.4	2,089.9	551.2	582.2	587.6	575.6	2,296.5	616.7	641.8	666.8	646.9	2572.1	660.3	693.7	712.8	699.7	2766.5
US Primary Facilities Revenue, mm	1,667.0	1,734.6	457.5	483.2	493.5	480.6	1,914.9	521.1	530.1	560.8	542.3	2,154.3	558.5	574.9	600.2	587.2	2,320.7
CTC Facilities Revenue, mm	341.4	355.3	93.7	99.0	94.0	95.0	381.6	95.6	111.7	106.0	104.7	417.9	101.8	118.8	112.7	112.5	445.8
UK Facilities Revenue, mm	1,099.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporate and Other Revenue, mm	0.0	0.0	0.0	0.0	0.0	17.9	17.9	0.0	0.0	0.0	6.0	6.0	0.0	0.0	0.0	0.0	0.0
Total Revenue, mm	\$3,107.5	\$2,089.9	\$551.2	\$582.2	\$587.6	\$593.5	\$2,314.4	\$616.7	\$641.8	\$666.8	\$652.9	\$2,578.1	\$660.3	\$693.7	\$712.8	\$699.7	\$2,766.5
Consensus Revenue, mm									\$647.8	\$657.9	\$664.4	\$2,587.9	\$668.4	\$701.3	\$712.7	\$722.0	\$2,806.2
Delta, %									-0.9%	14%	-17%	-0.4%	-12%	-11%	0.0%	-3.1%	-1.4%
CTC Facilities Revenue																	
US Facilities Revenue, mm	2,008.4	2,089.9	551.2	582.2	587.6	593.5	2,314.4	616.7	641.8	666.8	652.9	2,578.1	660.3	693.7	712.8	699.7	2,766.5
US Behavioral Healthcare Facilities - EoP, # of facilities	224	227	228	229	230	238	238	238	240	241	242	242	243	244	245	246	246
Total CTC Facilities, # of facilities	127	131	133	134	136	141	141	142	144	146	148	148	150	152	154	156	156
Net change in CTC Facilities, #		4	2	1	2	5	10	1	2	2	2	7	2	2	2	2	8
Average # of CTCs, # of CTCs								142	143								
Month 1								142	143								
Month 2																	
Month 3																	
CTC Facilities Revenue, mm	341.4	355.3	93.7	99.0	94.0	95.0	381.6	95.6	111.7	106.0	104.7	417.9	101.8	118.8	112.7	112.5	445.8
% of Total Revenue	17.0%	17.0%	17.0%	17.0%	16.0%	16.0%	16.5%	15.5%	17.4%	15.9%	16.0%	16.2%	15.4%	17.1%	15.8%	16.1%	16.1%
% of Total Locations	56.7%	57.7%	58.3%	58.5%	59.1%	59.2%	59.2%	59.7%	60.0%	60.6%	61.2%	61.2%	61.7%	62.3%	62.9%	63.4%	63.4%
CTC Revenue per Facility, 000s		2,712.1	704.5	738.6	691.2	673.5	2,706.6	673.1	775.5	725.8	707.1	2,881.5	678.5	781.7	731.6	721.3	2,913.1
CTC Revenue per Facility Growth, %								-4.5%	5.0%	5.0%	5.0%	6.5%	0.8%	0.8%	0.8%	2.0%	1.1%
CTC Revenue per Facility per Month, 000s		904.0	234.8	246.2	230.4	224.5	902.2	224.4	258.5	241.9	235.7	960.5	226.2	260.6	243.9	240.4	971.0
Patients per Month, #		45.2	47.0	49.2	46.1	44.9	45.1	44.9	51.7	48.4	47.1	48.0	45.2	52.1	48.8	48.1	48.6
Average Cost of a 30-Day Outpatient Rehab Program, \$000s		20	5	5	5	5	20	5	5	5	5	20	5	5	5	5	20
CTC Revenue per Facility per Day, 000s		7.4	7.8	8.1	7.5	7.3	7.4	7.5	8.5	7.9	7.7	7.9	7.5	8.6	8.0	7.8	8.0
CTC Facilities Revenue Growth, YoY%			8.2%	18.5%	0.9%	3.2%	7.4%	2.0%	12.8%	12.7%	10.2%	9.5%	6.5%	6.4%	6.3%	7.5%	6.7%
US Same Facility - Revenue Growth, %			7.4%	18.0%	7.9%	10.7%	10.9%	8.6%									
Impact on Revenue per Patient Day by Service Line																	
CTC Facilities Revenue, mm		355.3	93.7	99.0	94.0	95.0	381.6	95.6	111.7	106.0	104.7	417.9	101.8	118.8	112.7	112.5	445.8
Remaining Service Lines Revenue, mm		1,734.6	457.5	483.2	493.5	498.5	1,932.8	521.1	530.1	560.8	548.3	2,160.3	558.5	574.9	600.2	587.2	2,320.7
Corporate and Other Revenue, mm		-	-	-	-	17.9	17.9	-	-	-	6.0	6.0	-	-	-	-	-
Total Revenue, mm		2089.9	551.2	582.2	587.6	611.4	2332.3	616.7	641.8	666.8	658.9	2584.1	660.3	693.7	712.8	699.7	2766.5
US Facility Patient Days, 000s days		2,667.8	674.5	712.6	701.4	686.6	2,775.1	706.3	744.6	759.0	737.8	2,947.7	751.0	801.1	805.8	783.2	3,141.1
CTC Facilities Revenue per Patient Day (calculated), \$		133.2	138.9	138.9	134.0	112.2	131.1	135.3	150.0	139.6	133.7	139.7	135.5	148.3	139.8	143.7	141.9
US Facility Revenue ex CTC per Patient Day (calculated), \$		650.2	678.3	678.0	703.7	752.2	702.9	737.7	711.9	738.9	751.3	734.9	743.6	717.6	744.8	749.7	738.8
US Facility Revenue per Patient Day (calculated), \$		783.4	817.2	816.9	837.8	864.4	834.0	873.0	861.9	878.5	885.0	874.6	879.1	865.9	884.6	893.4	880.7

CTC Patient Profile

Patients seeking treatment at an outpatient rehab facility are often self-referred or court mandated, employed, and enroll in a 30-to-90-day program that costs between \$3k and \$10k per month (with the average being \$5k). The mix of insurance types is roughly 45% self-pay, 35% Medicaid, 15% commercial, and 5% Medicare based on an application summary for the South Nashville Comprehensive Treatment Center in December 2020.

CTC Business Analysis

From what we understand about the business, we believe the set-up is well-positioned for the post- COVID environment of higher acuity patients carrying additional stresses as they “return to normal.” Demand for these services will be defensible, in-demand, and cheap in the near- term. Additionally, we expect that the CTC facilities recognize a lower mix of salaries due to the taxonomy codes of the employees who operate them.

Valuation | Upside to Current Price, but Better Entry Point

EV/Sales

		2022 Sales				
2022 EV/Sales		\$2,336	\$2,458	\$2,588	\$2,717	\$2,853
	1.5x	20.57	22.53	24.60	26.67	28.84
	2.0x	33.01	35.63	38.39	41.14	44.04
	2.5x	45.45	48.73	52.17	55.62	59.24
	3.0x	57.89	61.82	65.96	70.09	74.44
	3.5x	70.34	74.92	79.74	84.57	89.63
	4.0x	82.78	88.02	93.53	99.04	104.83

		2023 Sales				
2023 EV/Sales		\$2,533	\$2,666	\$2,806	\$2,946	\$3,094
	1.5x	23.72	25.85	28.09	30.33	32.69
	2.0x	37.21	40.05	43.04	46.03	49.17
	2.5x	50.70	54.25	57.99	61.72	65.65
	3.0x	64.19	68.45	72.94	77.42	82.13
	3.5x	77.68	82.65	87.88	93.12	98.61
	4.0x	91.17	96.85	102.83	108.81	115.09

EV/EBITDA

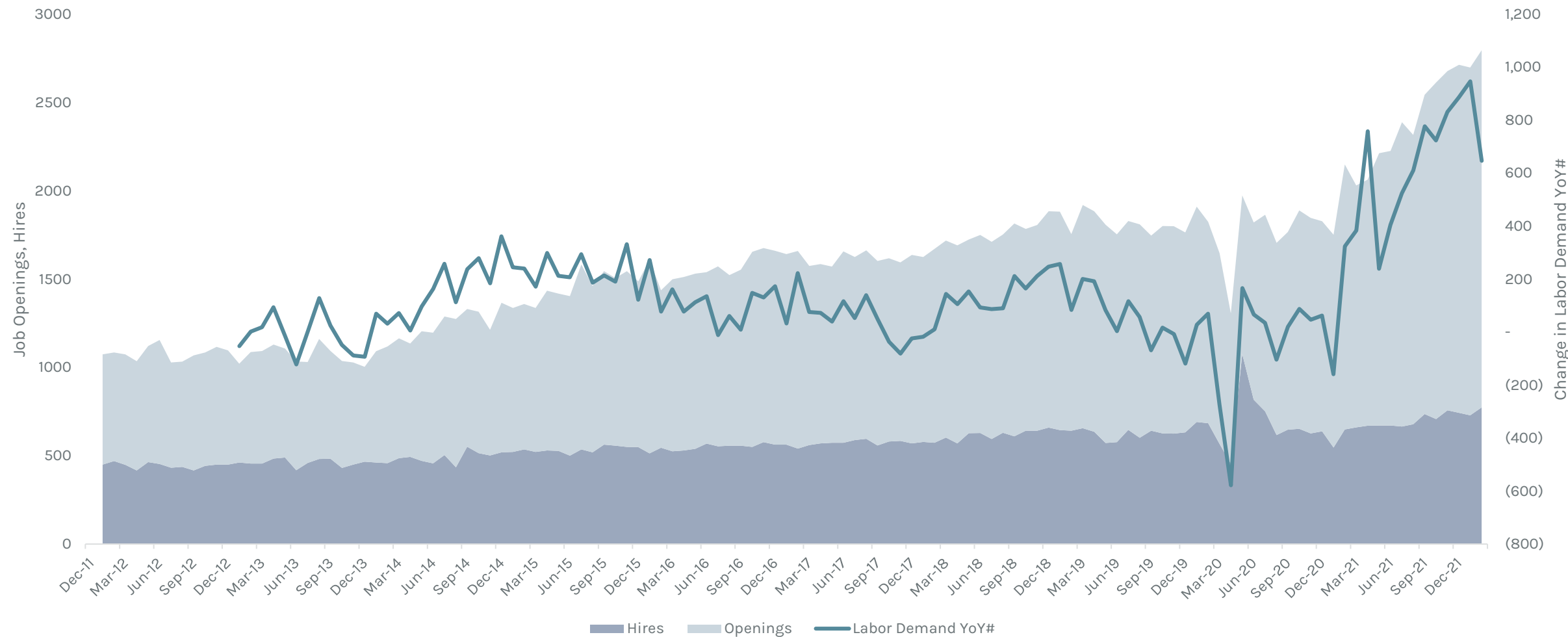
		2022 EBITDA				
2022 EV/EBITDA		\$584	\$587	\$590	\$593	\$596
	10.0x	45.51	45.83	46.14	46.46	46.77
	11.0x	51.74	52.08	52.43	52.78	53.12
	12.0x	57.97	58.34	58.72	59.10	59.48
	13.0x	64.19	64.60	65.01	65.42	65.83
	14.0x	70.42	70.86	71.30	71.74	72.18
	15.0x	76.65	77.12	77.59	78.06	78.53

		2023 EBITDA				
2023 EV/EBITDA		\$644	\$647	\$650	\$653	\$657
	10.0x	51.81	52.15	52.50	52.85	53.19
	11.0x	58.67	59.04	59.42	59.81	60.19
	12.0x	65.52	65.93	66.35	66.77	67.18
	13.0x	72.38	72.83	73.28	73.73	74.18
	14.0x	79.23	79.72	80.20	80.69	81.17
	15.0x	86.09	86.61	87.13	87.65	88.17

Based on our estimates and utilizing ACHC's historical EV/NTM EBITDA range of 10-15x, we believe there is upside of 10-20% from the current price, but expect a better entry point later in 2Q22. The Quad 4 environment, which is expected to persist through FY22, should pin down the share price in the coming weeks during a quiet period for our expected catalyst path. For this reason, we have chosen to add ACHC to our long bench and will wait to be informed by our Trackers before pushing the name to an active long.

Health Care Labor Demand is Extremely Elevated

2.0M Job Openings hits a new high even as hiring, which should draw down on Job Openings, hits its own 20-month high.

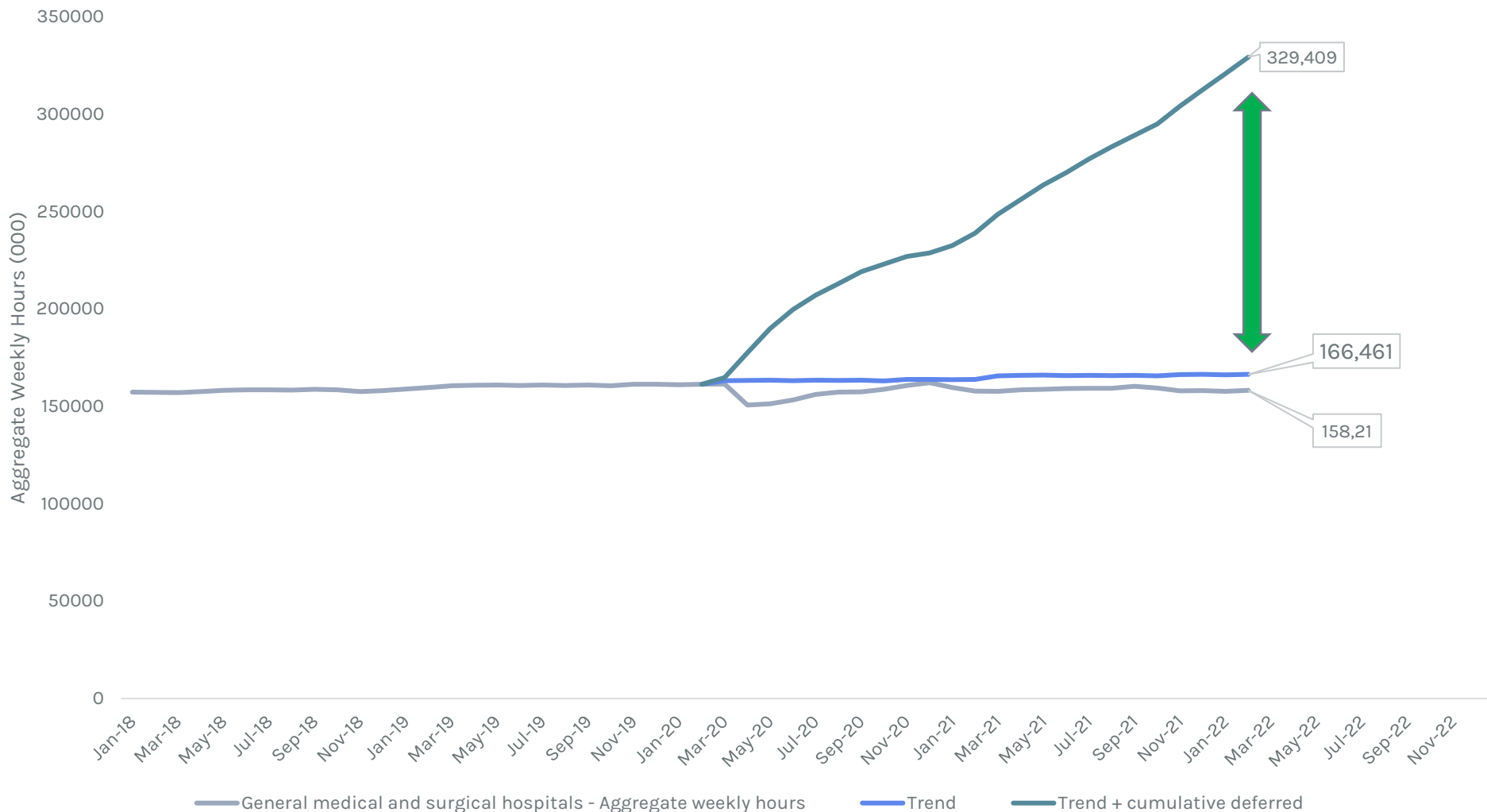


Deferred Care | General Medical and Surgical Hospitals

Hospital care has never recovered to trend and continues to build the deferral pool

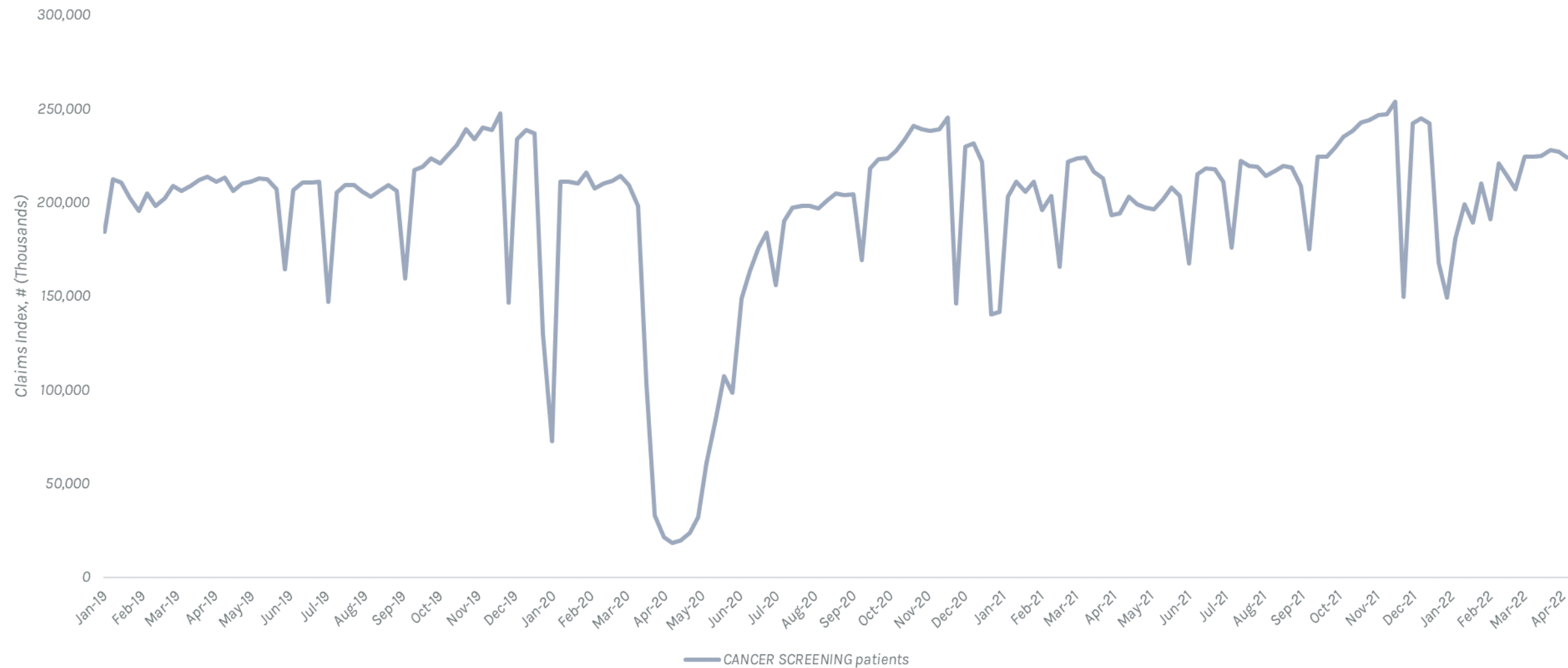
Compared to the pre-pandemic trend, the US General and Medical Surgical Hospitals have built up 329,000 Aggregate Weekly Hours among Production and Nonsupervisory Workers, greater than twice the current Aggregate Weekly Hours reading as of February 2022.

It takes staff to deliver care and the gap in aggregate hours is proportional to the amount of care that was deferred and will return either as incremental patient volume or sicker patients with higher acuity. In either scenario, we should expect above trend volume for an extended period.



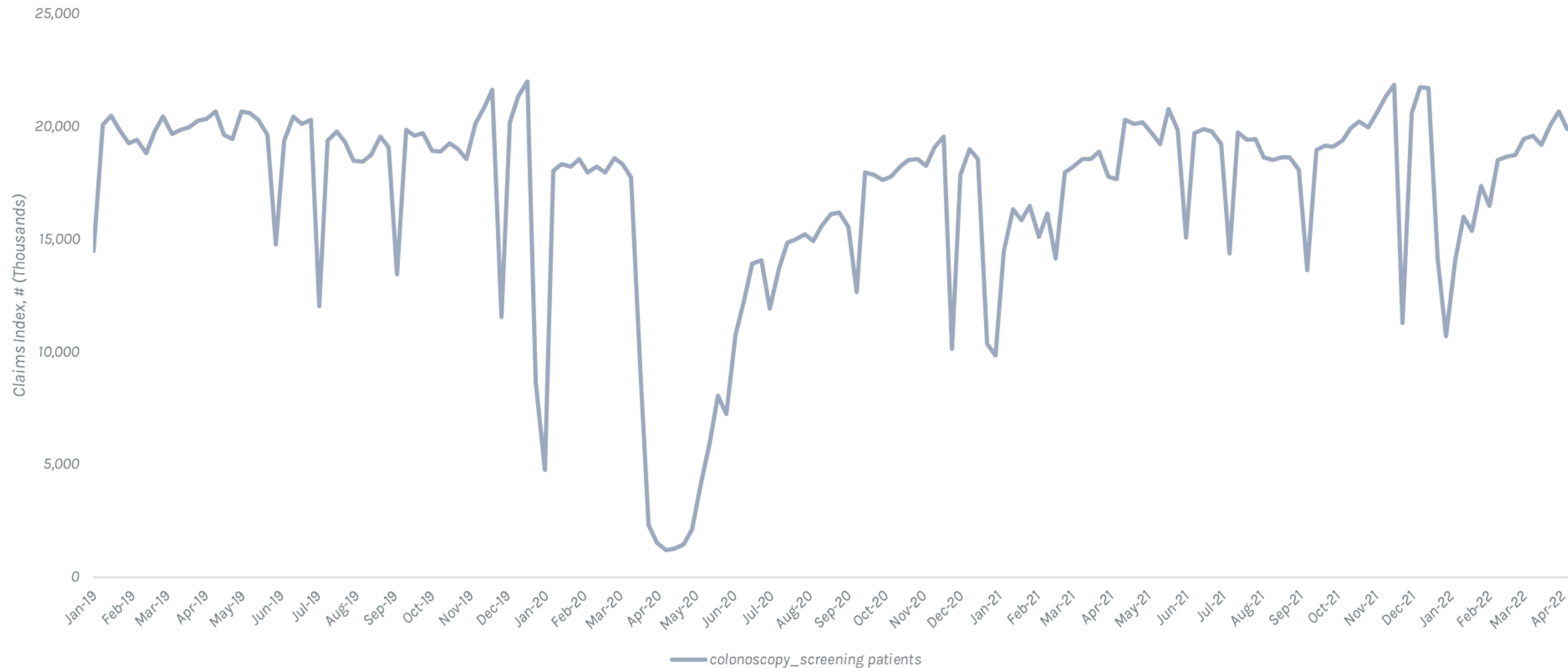
Cancer Screening Above 2021 Levels

Requires office visits and biopsies, follow for advanced diagnostics such as imaging



Screening Colonoscopy

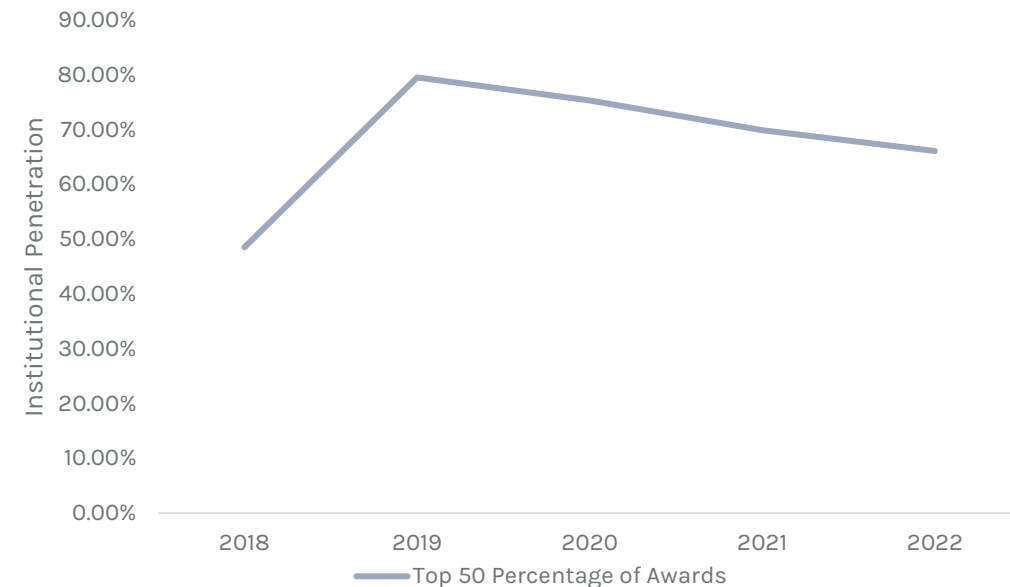
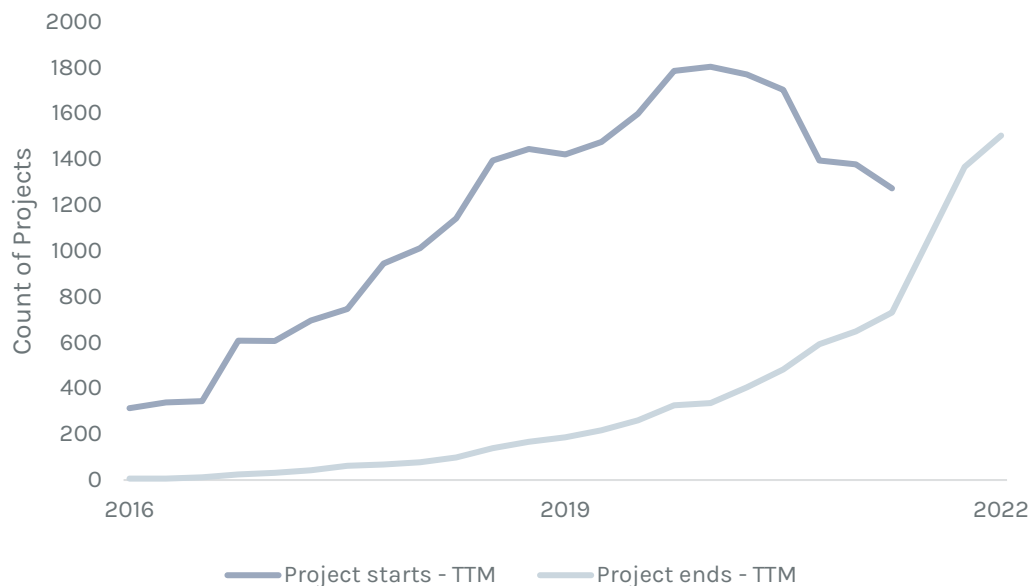
Requires office visits and in person imaging



TXG | “Single Cell” Grant Awards

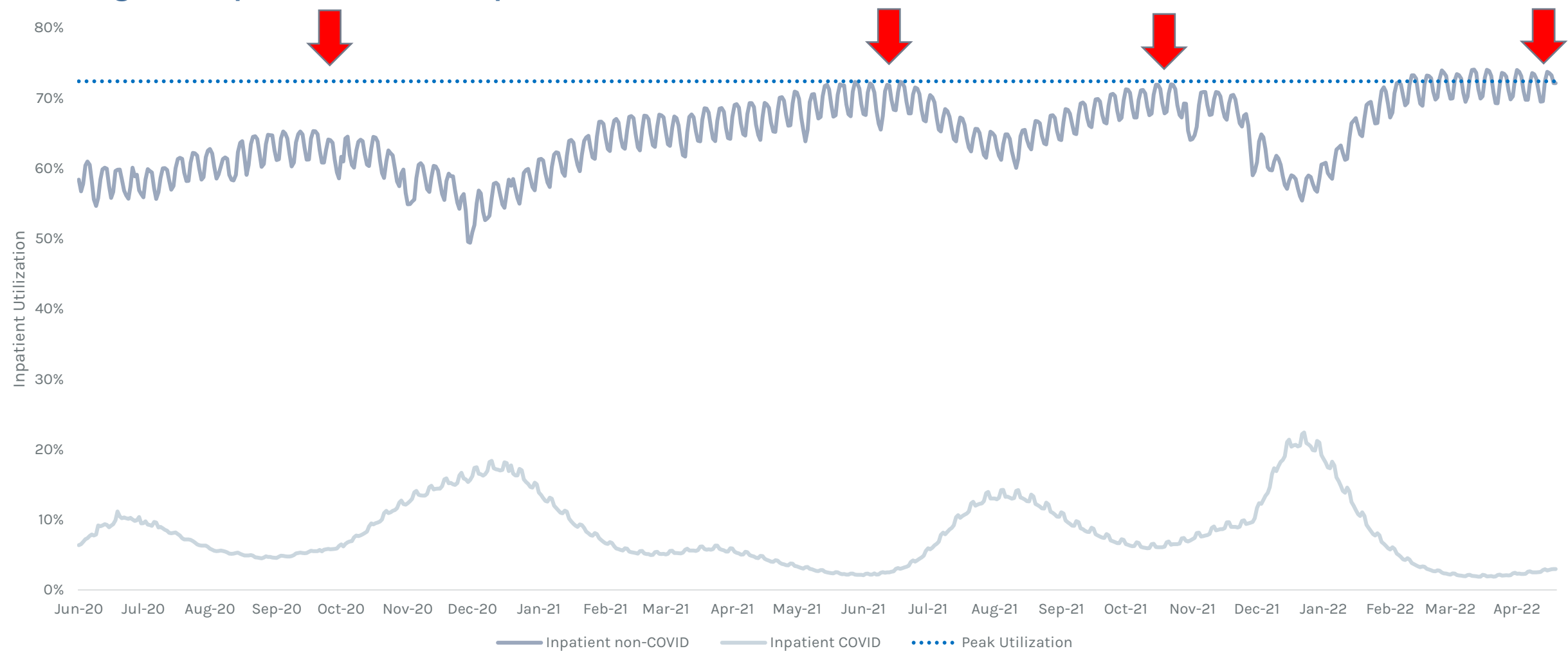
The pace of new awards continues to lag the number of Project Ends while Institutional funding remains highly concentrated among Top 50 institutions.

						Max Award Notice Date	4/22/2022						
						Pct Qtr Complete	24%						
						New Funded PIs QTD	24						
						Remaining/Adjustment	75.27						
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	
Funded PI - Count Actual	2340	2609	3053	3128	3340	3439.27	4066	4130	4330	4255	5059	5107	
Funded PI - Count Forecast					3340	3439	4066	4130	4330	4255	5059	5107	
Funded PI - Count YoY#	958	986	1013	1007	1000	830	1013	1002	990	815	993	977	
Funded PI - Count ROC	364	266	102	58	42	-156	0	-5	-10	-15	-20	-25	
Funded PI - Count Slope	223.2	192.6	306.5	280.8	226.8	137.1	291.3	299.7	273.6	76.6	271.2	313.5	
YoY% change in Slope	50.8%	13.8%	7.7%	6.6%	1.6%	-28.8%	-5.0%	6.7%	20.6%	-44.1%	-6.9%	4.6%	



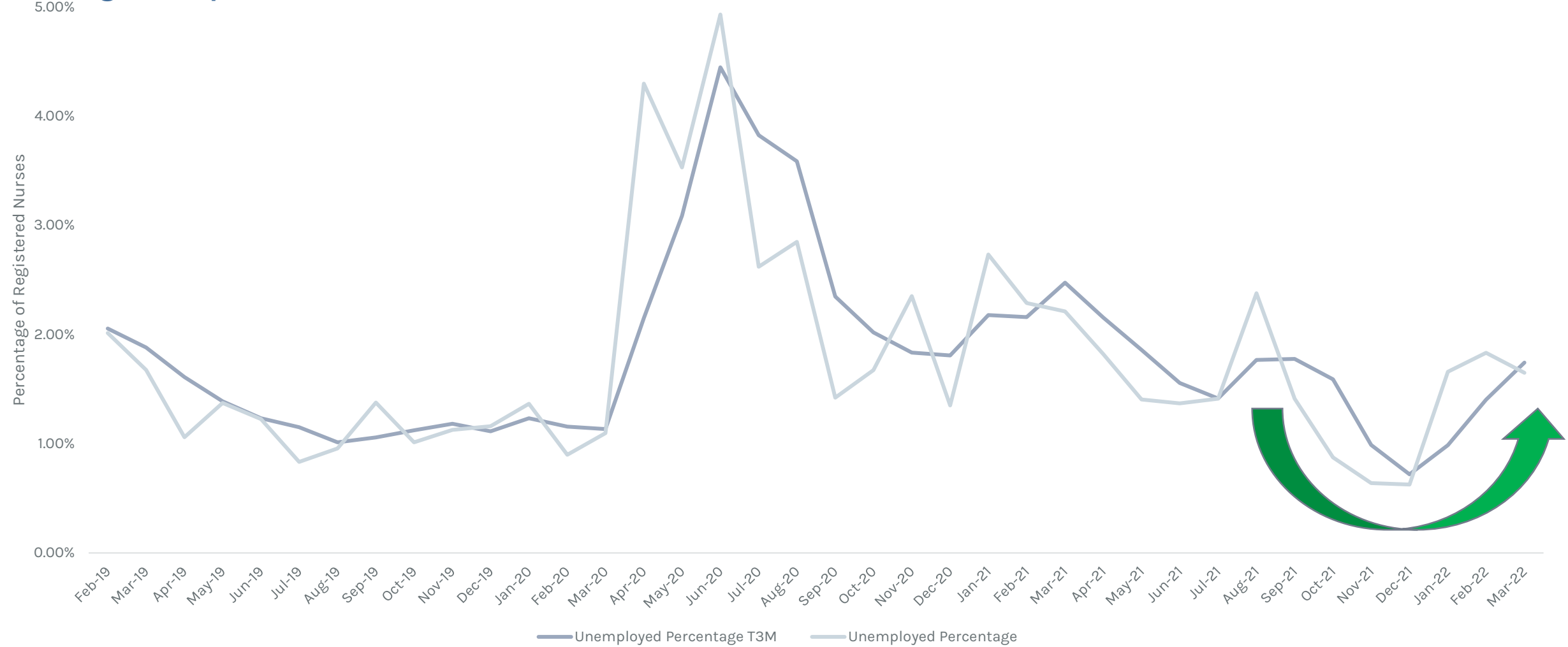
Hospital Non-COVID Occupancy 72.4%

Non-COVID Hospital Occupancy is up +8% year over year, hitting new post pandemic highs, and breaking above prior inter-COVID peaks.



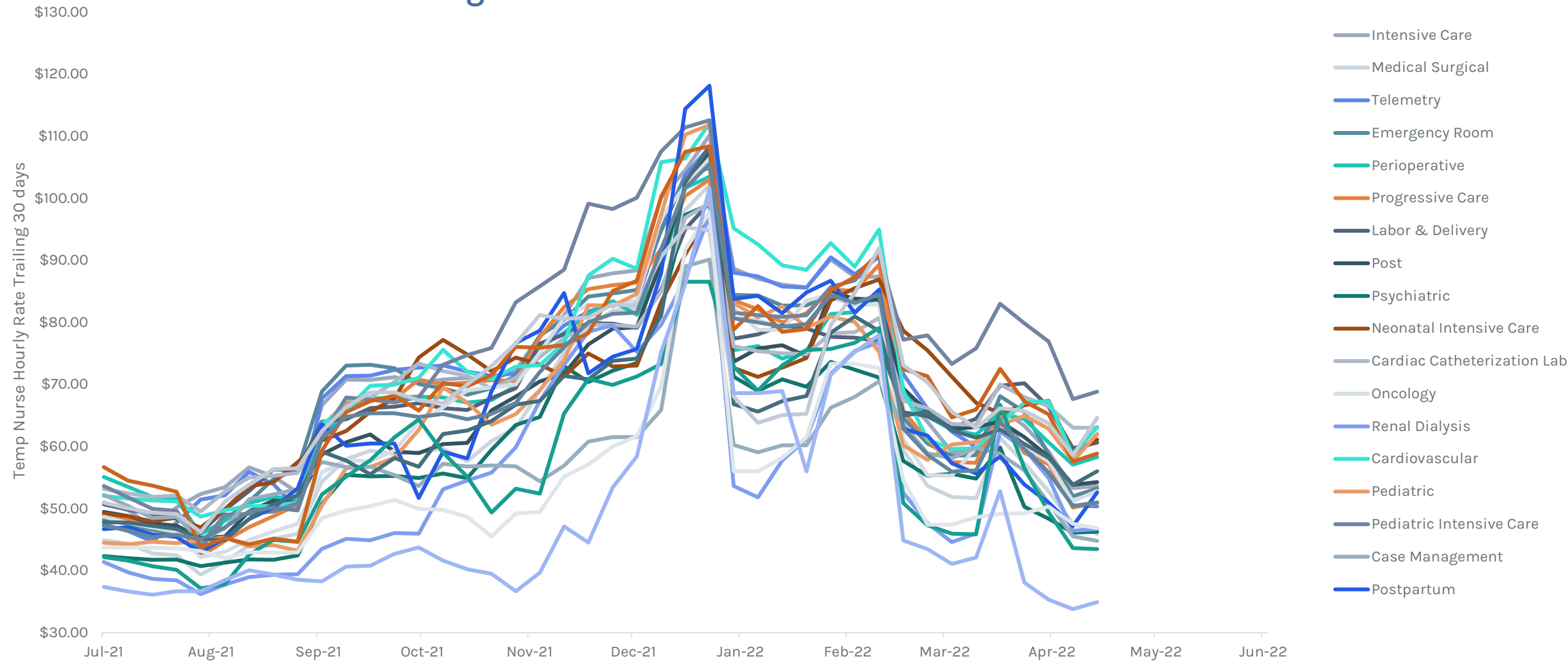
Registered Nurse Employment Status

Omicron, and prior COVID waves, both suppress supply and create demand. Labor supply is shaking loose post Omicron.



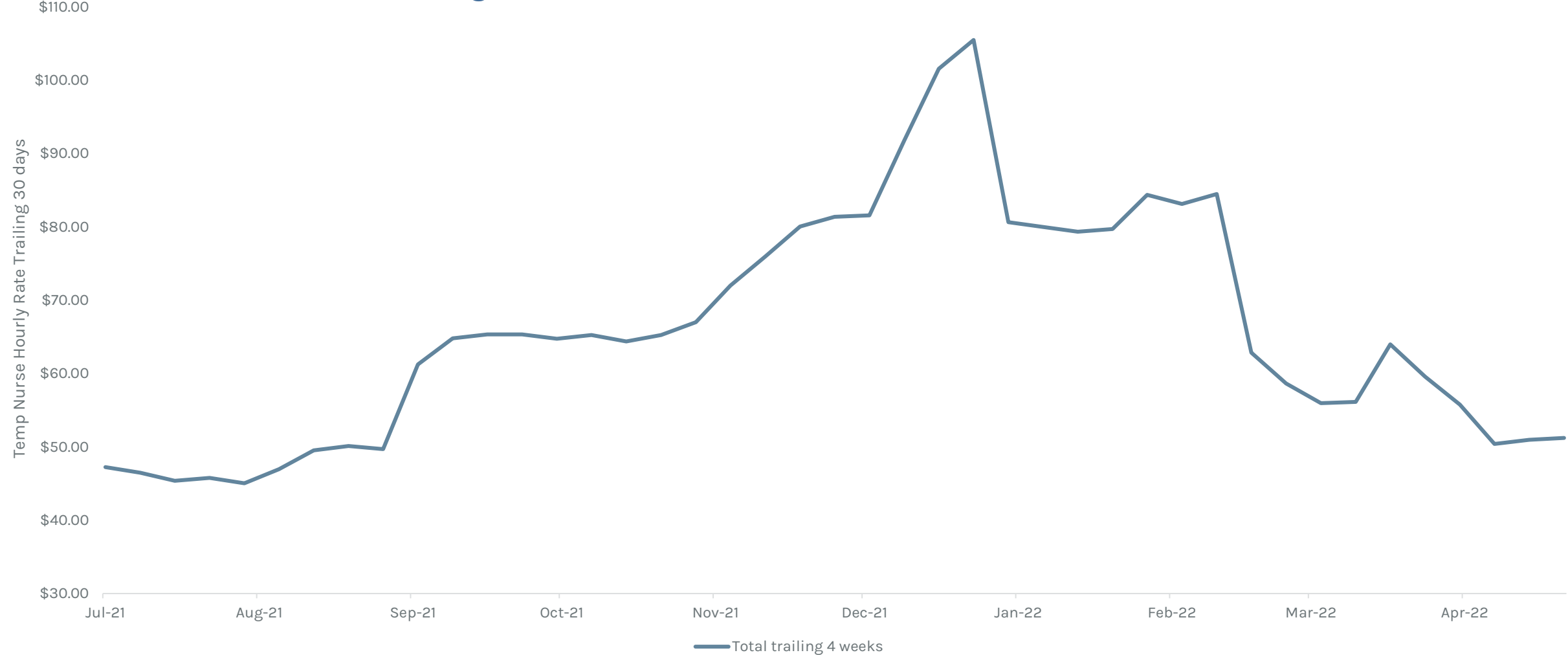
Extremes in Wage Inflation Easing

As of May 2022, our tracker data for spot labor pricing peaked in January and has retraced much of the Delta and Omicron gains.



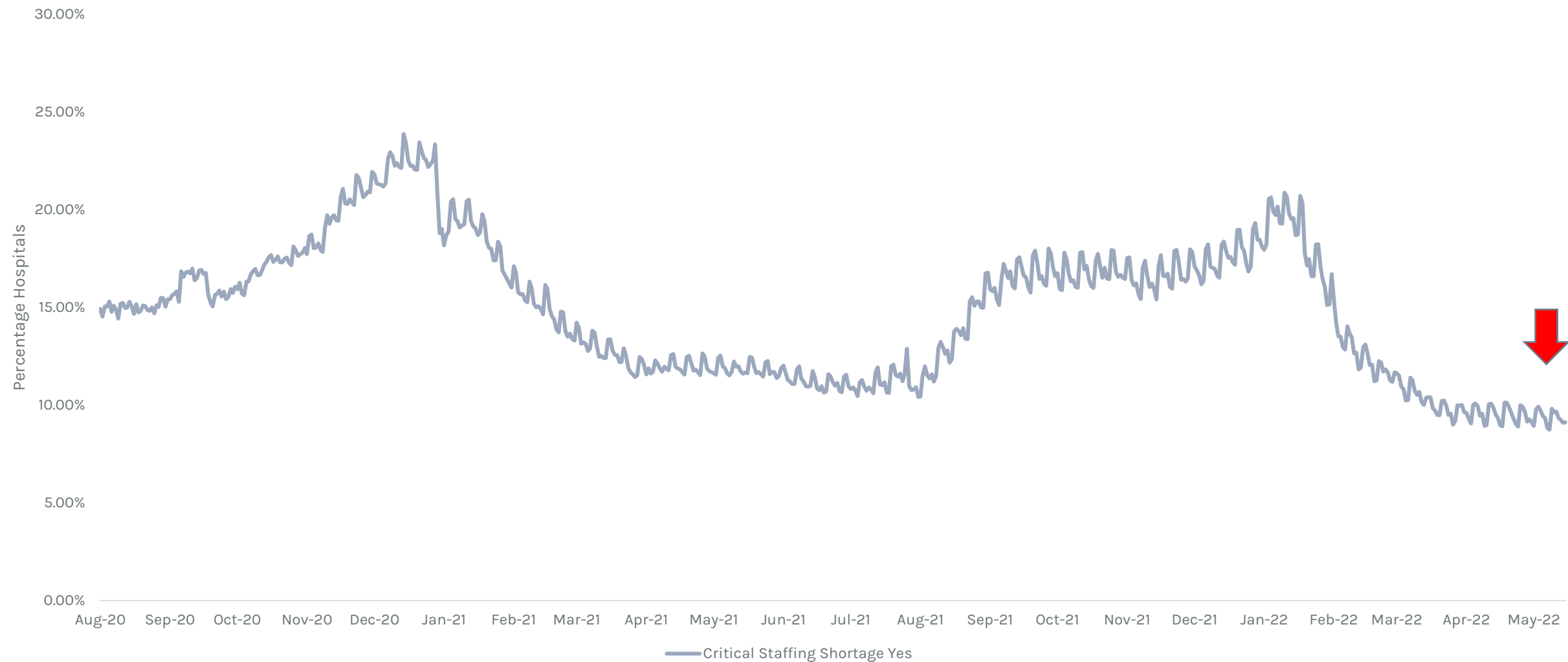
Extremes in Wage Inflation Easing

As of May 2022, our tracker data for spot labor pricing peaked in January and has retraced much of the Delta and Omicron gains.



Fewer Critical Labor Shortages

HHS has been surveying hospital capacity and labor availability since July 2020



Field Notes | Hospital CFO Call – COVID-19 & Margins

80% drop through on the incremental surgical case for the non-COVID volume recovery

On April 13, we spoke with a hospital CFO within a 30+ hospital system about COVID-19 testing, staffing/labor, and general business trends. We last spoke with this contact in January, and **his opinions and feedback help explain how an operator like HCA can navigate COVID waves and “win” in a post-COVID environment.**

Key points:

1. Our contact saw COVID testing drop from ~\$200k estimated cost in January to ~\$50k in March.
2. The average rate for temp staffing (ICU, ER) has dropped from a peak of ~200/hr. to \$140-\$150/hr. but reducing the % of temp staff has not been possible, despite best efforts: “It’s still a really tight market.”
3. While there’s been a decrease in inpatient surgeries, there’s been a “leap forward” in outpatient.
4. Through 1Q22, outpatient visits were up nearly 5% y/y, and our contact thinks that can trend toward +6% to 8%- maybe 10% - over the course of this year.
5. Most systems should be able to handle a 5% uptick in volume with current staff.
6. On incremental case volume, up to 70%-80% of revenue can fall to the bottom line, on average (50% is a good, “appropriately conservative” estimate).

Q&A Highlights

How are your surgeons doing on volume?

- When I speak to surgeons, there’s no “I’m slowing down.” Surgeons do 500-600 cases per mo., and we’ve already got ~350 on the schedule for May.

How’s acuity trending?

- It was ~1.45 to start the year, then it ticked up to 1.47, now its 1.50. Back of the envelope, if that’s \$150/\$200 per admit – 1600 admits, it’s another \$320k through the door just due to sicker patients.

With the consumer – do you have any worries about bad debt? How might this year compare to prior recessions?

- We try to work w/ patients. If someone owes \$2k, can they give us \$500 (for a colonoscopy, can we get about same as Medicare?). Thinking back to 2015, the hospital I was at crushed it. I recall having good years in ‘08-’09 as well. Overall, I’m optimistic – April is going well, 1Q was pretty good. **It’s a good demand environment.**

How important are relationships with independent physician groups?

- It’s super important – you don’t have to pay them; goals may be more aligned. Some of the employed docs don’t care as much. The independents are hard working, and we want to get as many of their patients in, let them know we appreciate it, etc. **If you need to employ them, you’re likely doing it as a defensive move.**

How are labor/temp rates trending?

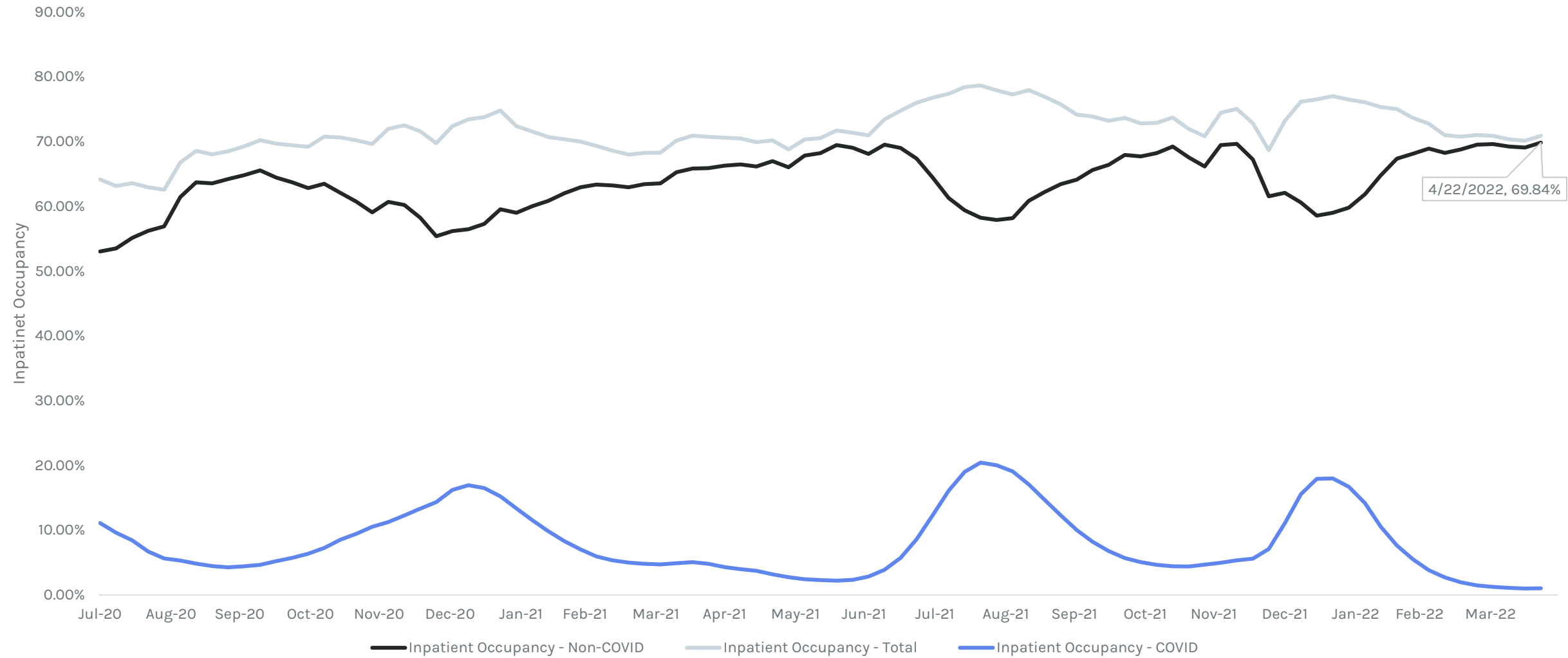
- In surgical and GI suites, the rates are much lower than Med-Surg and ICU/ER; there’s not as much demand.
- \$138-\$145 recently – the rates have really compressed – Med surge was \$160, and the others were near \$200.

If you can add procedures because COVID is falling off or otherwise, how much of that falls to the bottom line?

- On incremental cases – up to 70%-80% can fall to the bottom line.

HCA | Non-COVID Occupancy Making a New High

Occupancy for non-COVID hit 69.84% a new high for the pandemic



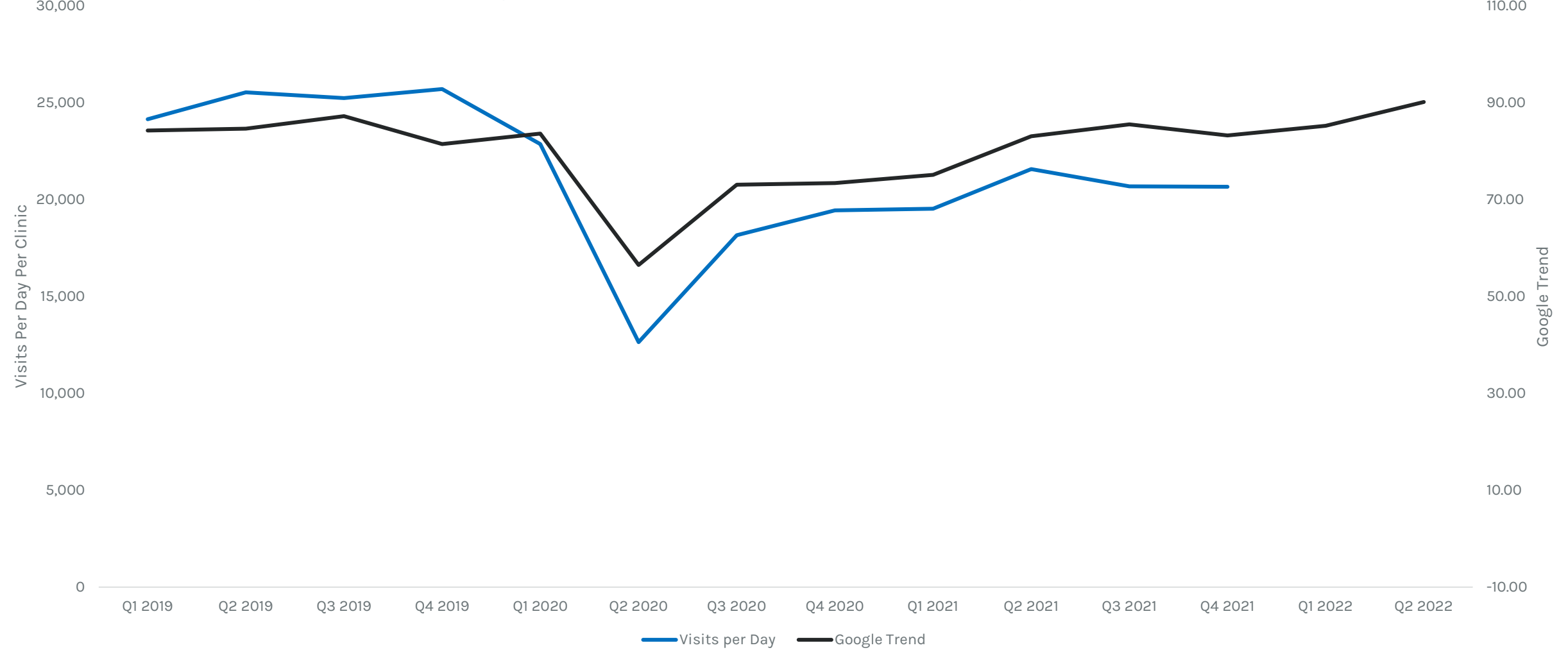
ATIP | Clinical FTE vs Tracker

ATI reported Clinical FTE vs our Tracker based on clinic listed locations



ATIP | Visits Per Day vs Google Trend

Google Trend “Physical Therapy” vs Visits per day or patient visits divided by operating days.
We had previously shown our Google Trend lines up with visits per day.



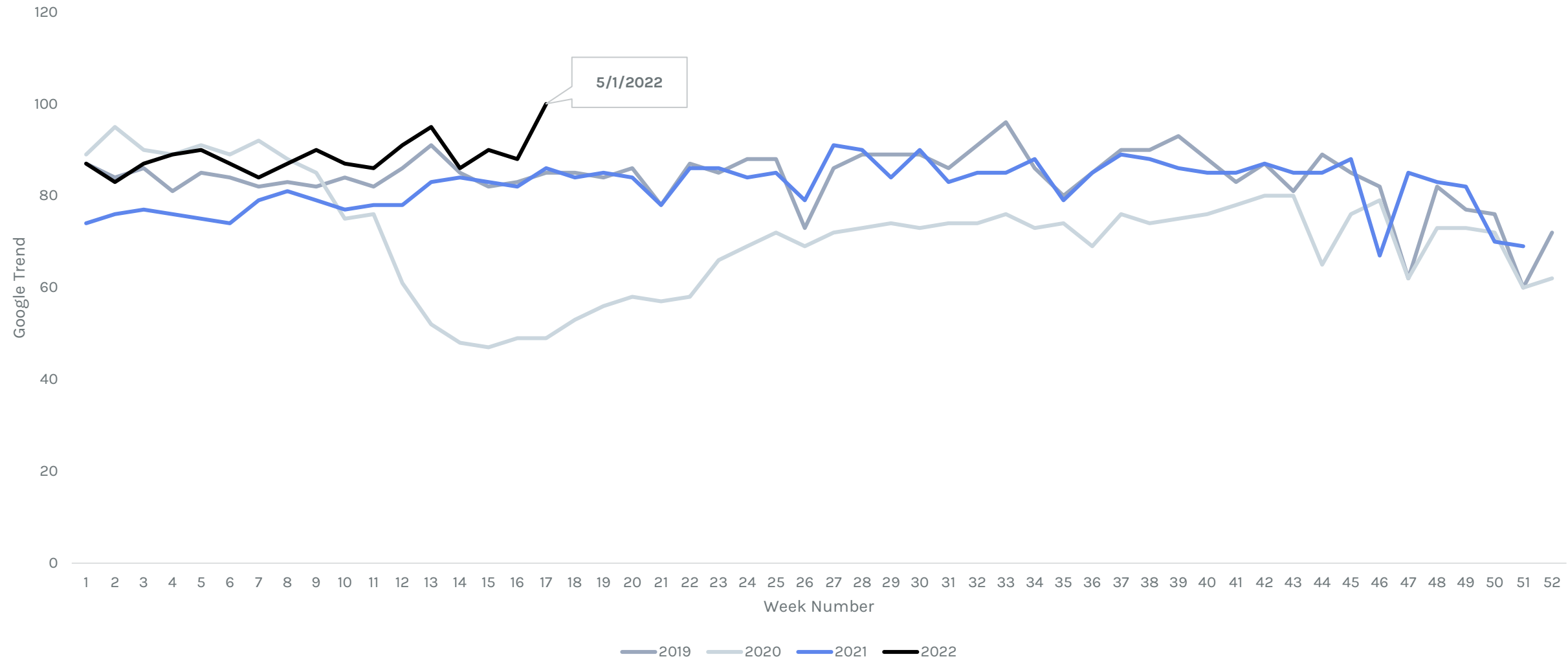
Physical Therapy | Claims Trend

Omicron impact looks modest compared to normal seasonality



Physical Therapy | Demand Accelerating

Google Trend for 'Physical Therapy'

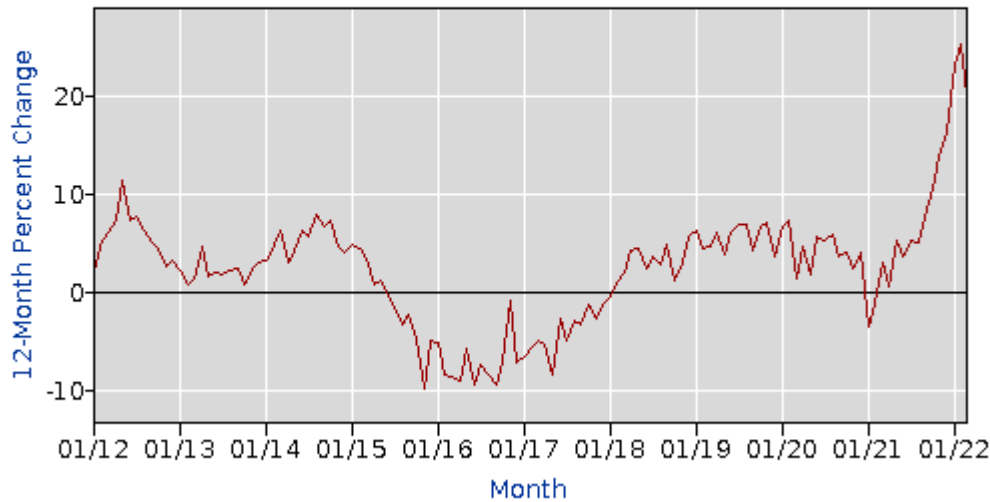


EYE | Unfavorable Optical Goods Operating Trends

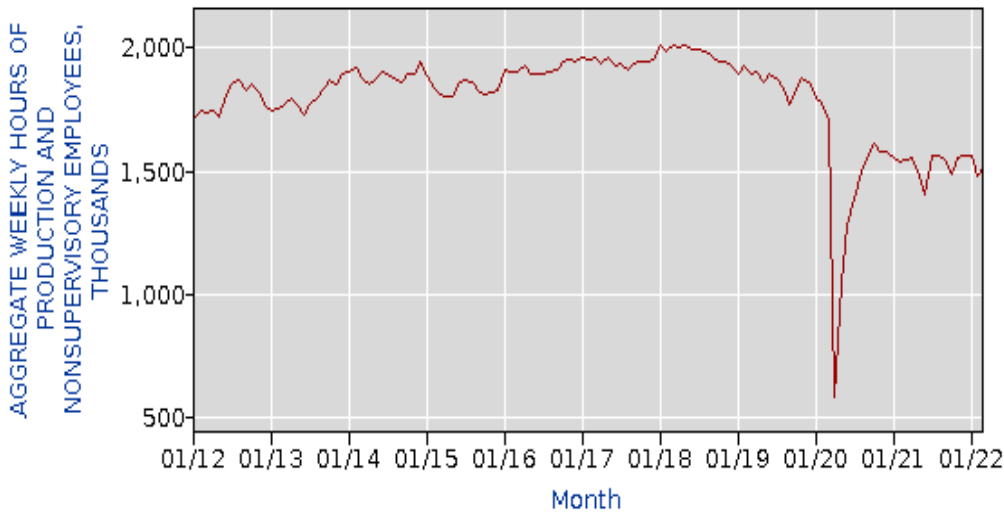
Average Hourly Earnings +20%

Aggregate Weekly Hours -1%

Super Sector: Retail trade
Industry: Optical goods stores
NAICS Code: 44613
Data Type: AVERAGE HOURLY EARNINGS OF PRODUCTION AND NONSUPERVISORY EMPLOYEES



Super Sector: Retail trade
Industry: Optical goods stores
NAICS Code: 44613
Data Type: AGGREGATE WEEKLY HOURS OF PRODUCTION AND NONSUPERVISORY EMPLOYEES, THOUSANDS



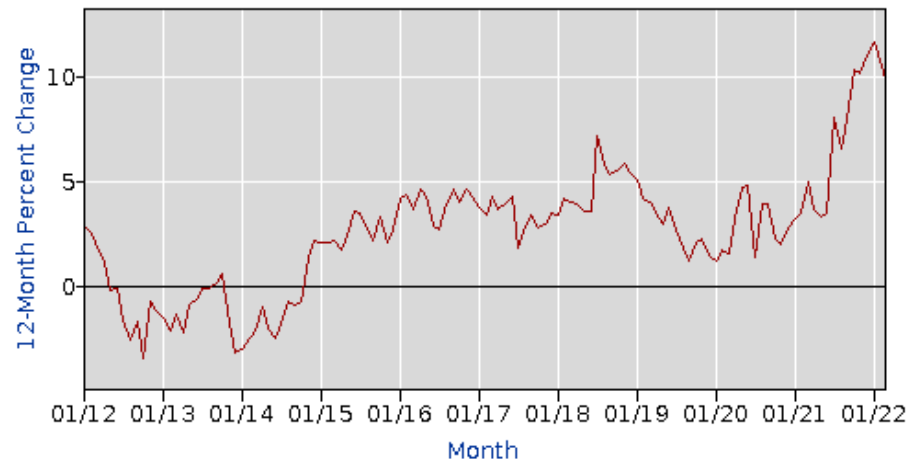
LFST | High Attrition Risk

Tracker and anecdotes have been negative

	12/13/2021	1/11/2022	2/2/2022	3/3/2022	3/31/2022	5/5/2022
Date of Addition	5036.00	124.00	81.00	381.00	180.00	280.00
Inactive		44.00	100.00	225.00	524.00	111.00
Total	5036.00	5116.00	5097.00	5253.00	4909.00	5078.00

	12/13/2021	1/11/2022	2/2/2022	3/3/2022	3/31/2022	5/5/2022
Remote		28.00	25.00	139.00	30.00	82.00
In-Person		74.00	45.00	193.00	141.00	198.00
Total	5036.00	5116.00	5097.00	5253.00	4909.00	5078.00

Industry: Outpatient mental health centers
NAICS Code: 62142
Data Type: AVERAGE HOURLY EARNINGS OF PRODUCTION AND NONSUPERVISORY EMPLOYEES



Anecdotes:

- We've spoken with several former employees, some of which were at a practice at the time of a Lifestance acquisition.
- Reports of management problems and retention are consistently negative
- In the current high demand and accelerating wage environment, we expect continued topline and margin pressure.

For more information, contact us at:

HealthCareTeam@Hedgeye.com