

# MEDNAX<sup>®</sup>

HEALTH SOLUTIONS PARTNER

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## **Business overview**

Key highlights

Recent financial performance and operational update

# MEDNAX at a glance

Market cap: \$2.9 billion<sup>1</sup>

2018 revenue: \$3.6 billion<sup>2</sup>

EV/2018 EBITDA: 8.5x<sup>1</sup>

2018 Net debt/EBITDA: 3.4x<sup>2</sup>

## Women's and Children's Services

**FY '18 rev.: \$1.7bn (47% total)<sup>2</sup>**

- Neonatology
- Newborn follow-up
- Newborn hearing screening
- Newborn nursery services
- Cardiology
- Developmental pediatrics
- Emergency medicine
- ENT
- Gastrointestinal
- Hospitalist services
- Infectious disease
- Intensive care
- Maternal-fetal medicine
- OB hospitalist services
- Ophthalmology
- Otolaryngology
- Plastic surgery
- Surgery
- Urology



## Anesthesiology

**FY '18 rev.: \$1.3bn (35% total)<sup>2</sup>**

- Cardiothoracic
- Critical care
- Neurosurgical
- Obstetric
- Orthopedic
- Pain medicine
- Pediatric
- Regional

## Radiology

**FY '18 rev.: \$438mm (12% total)<sup>2</sup>**




- Onsite radiology
- Teleradiology

## Management Services



**FY '18 rev.: \$219mm (6% total)<sup>2</sup>**

- Billing and coding
- Eligibility and enrollment
- Patient pay
- Revenue recovery

# Overview – Women’s and Children’s Services

|   | Overview   | Segment snapshot  | Growth opportunities  |
|---|--|---|---|
|  <b>Neonatology and other services</b> | <ul style="list-style-type: none"> <li>› Clinical care to babies born prematurely or with complications within specific units at hospitals, primarily NICUs</li> </ul>   | <p><b>FY '18 rev: \$1,313mm (36% total)<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>› &gt;400 NICUs<sup>1</sup></li> <li>› ~1,270<sup>1</sup> affiliated neonatal physicians and ~365 pediatric clinicians in 36 states and Puerto Rico<sup>1</sup></li> </ul> | <ul style="list-style-type: none"> <li>› ~4 million births in the United States annually</li> <li>› ~14% require NICU admission</li> <li>› Market demand is a product of birth rates specific to each geographic area</li> <li>› New contract awards and expansion of existing contracts</li> </ul> |
|  <b>Maternal-fetal medicine</b>        | <ul style="list-style-type: none"> <li>› Inpatient and office-based clinical care to expectant mothers and their unborn babies</li> </ul>  | <p><b>FY '18 rev: \$292mm (8% total)<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>› ~365 affiliated maternal-fetal medicine subspecialists as well as obstetricians and other clinicians<sup>1</sup></li> </ul>   |   |
|  <b>Pediatric cardiology</b>          | <ul style="list-style-type: none"> <li>› Inpatient and office-based pediatric cardiology care of the fetus, infant, child and adolescent patient with congenital heart defects and acquired heart disease</li> </ul> | <p><b>FY '18 rev: \$109mm (3% total)<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>› ~110 affiliated pediatric cardiologists<sup>1</sup></li> </ul>  |   |

# Overview – Anesthesiology & Radiology

|  | Overview  | Segment snapshot   | Growth opportunities  |
|--|---|--|---|
|  <p><b>Anesthesiology</b></p> | <ul style="list-style-type: none"> <li>› Anesthesiologists work with certified registered nurse anesthetists (“CRNAs”), anesthesiologist assistants (“AAs”) and other clinicians to provide anesthesia care</li> <li>› Anesthesiologists support surgeons by providing medical care before, during and after surgery</li> </ul> | <p><b>FY '18 rev: \$1,276mm (35% total)<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>› Provides anesthesia care at &gt;150 hospitals<sup>1</sup>, 155 ambulatory surgery centers and office based practices</li> <li>› &gt;1,315 affiliated anesthesiologists<sup>2</sup></li> </ul> | <ul style="list-style-type: none"> <li>› Population growth/aging population with more chronic disease</li> <li>› Expansion of procedures done with anesthesia e.g. colonoscopies</li> <li>› Improved access to surgical treatments in both inpatient and outpatient settings</li> </ul>   |
|  <p><b>Radiology</b></p>      | <ul style="list-style-type: none"> <li>› Diagnostic imaging, interventional radiology and nuclear medicine</li> <li>› Technology platform enabling radiology to be practiced at a national level, and teleradiology capabilities that can enhance efficiency and provide subspecialty access</li> </ul>                         | <p><b>FY '18 rev: \$438mm (12% total)<sup>1</sup></b></p> <ul style="list-style-type: none"> <li>› Provides outsourced radiology and telemedicine services to &gt;2,100 facilities<sup>1</sup> across all 50 states<sup>1</sup></li> </ul>   | <ul style="list-style-type: none"> <li>› Highly fragmented market</li> <li>› General population growth / aging requiring more imaging</li> <li>› Teleradiology being driven by the need for around-the-clock attention and access to experts</li> <li>› Improved technology, enabling more widespread use of teleradiology</li> </ul> |

# Our radiology strategy

## Our initial investment in teleradiology



>2,100 hospital, health system and radiology group trusted partners



Proprietary technology platform and workflow solutions drive efficiency and improve quality



Largest radiology patient care benchmarking platform = statistically significant national and peer performance comparisons



>435 U.S. board-certified and eligible radiologists in all 50 states; majority are subspecialty trained



>6 million patient studies interpreted annually; >2 billion images processed on the world's largest and most advanced PACS



Integral Partner in IBM Watson Global Health Imaging Collaborative

## Our acquisition strategy

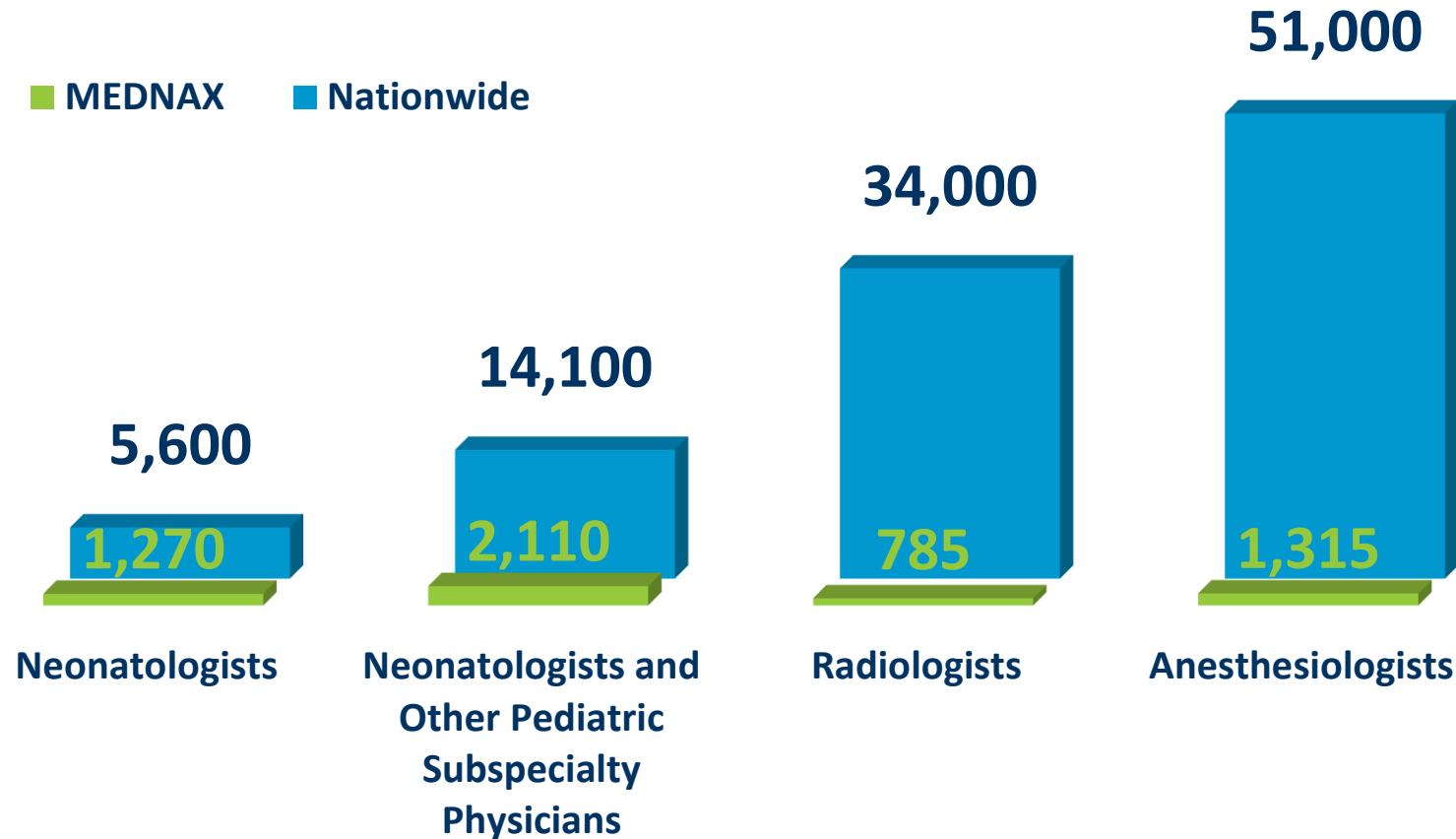
- Radiology represents \$18 billion of annual U.S. revenue
- Consolidation in the industry is largely small-scale; no single player with a >5% market share
- Radiology stands to benefit significantly from advances in technology and analytics
- Larger groups look to enhance their practices with MSO offerings
- Radiology is becoming more important in driving patient outcomes and augmenting population health
- Mobilizing the “Center of Excellence” model and protocols

## Recent developments

- Target smaller, tuck-in acquisitions to expand existing practices and continue to expand footprint
- Three strategic acquisitions in Q4
  - In Florida, Nevada, and Tennessee
  - Strong geographic area with attractive growth opportunity and established presence through Women’s and Children’s services

# Our addressable market

Positioning in Our Specialties – Physician Count



Currently >4,200 active physicians employed by or affiliated with MEDNAX

More than 95,000 U.S. physicians in our specialties



# Currently pursuing a divestiture of the MedData platform

## Description

- MedData is a leading provider of technology-enabled management services for hospitals and health systems that serve the entire patient financial lifecycle from pre-visit through post-discharge while improving the patient experience and helping them engage better with their providers.
- MedData provides services at over 2,600 healthcare facilities nationwide.

## Rationale

- MedData's current opportunities are more parallel to, rather than central to, MEDNAX's current growth and development strategy.
- Separate ownership can provide the focus needed for MedData to reach its future potential and accelerate and enhance its service offerings.
- A divestiture would also allow MEDNAX to focus solely on physician services, which has been at the core of the Company for almost forty years.



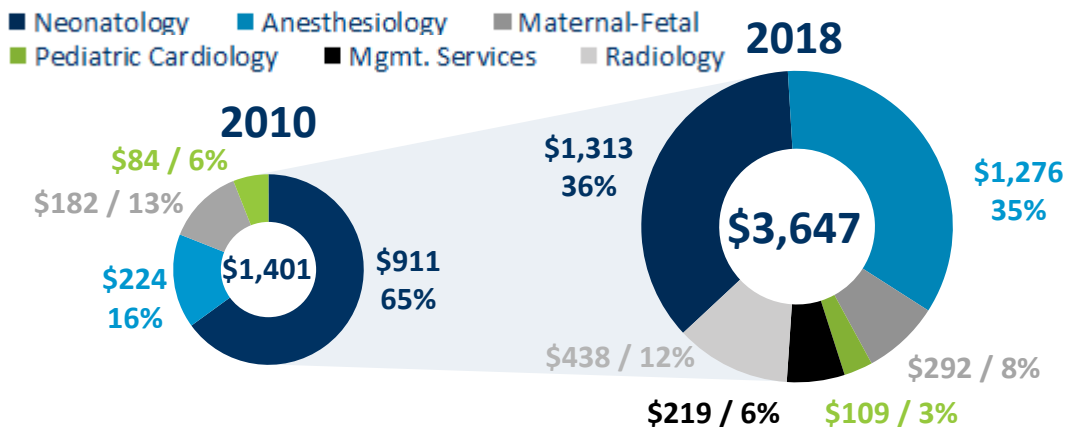
Business overview

**Key highlights**

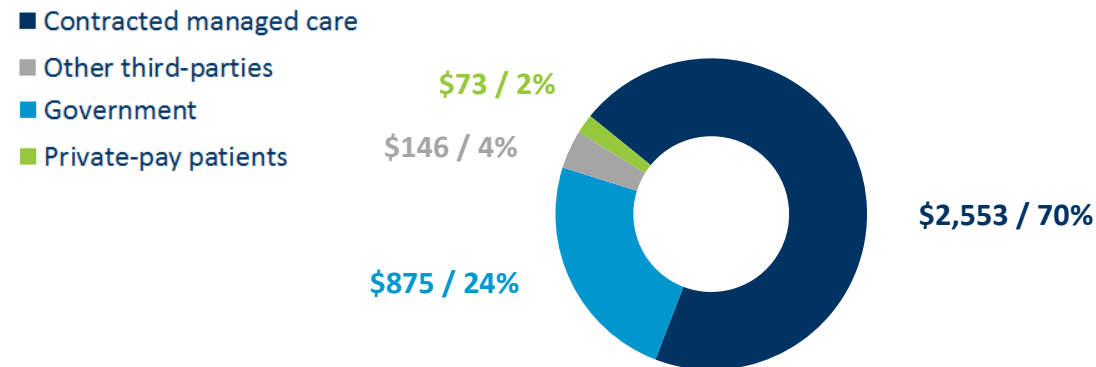
Recent financial performance and operational update

# Diversified revenue mix with significant market presence

## Historical revenue growth by service line (in mm)



## 2018 Revenue by payor type (in mm)



## Market presence

570<sup>1</sup> hospital contracts

>4,200 physicians

In all 50 states, expanding from 33 states in 2010

Top 5 states responsible for 52% of total revenues

## Diversification by service line

### Radiology

- vRad acquired in 2015: 2015 revenue of **\$111mm**
- Onsite groups added in 2017: 2018 revenue of **\$438mm**

### Anesthesiology

- 2011: 21% of revenue = **\$334mm**
- 2018: 35% of revenue = **\$1,276mm**

# Multiple levers of embedded growth

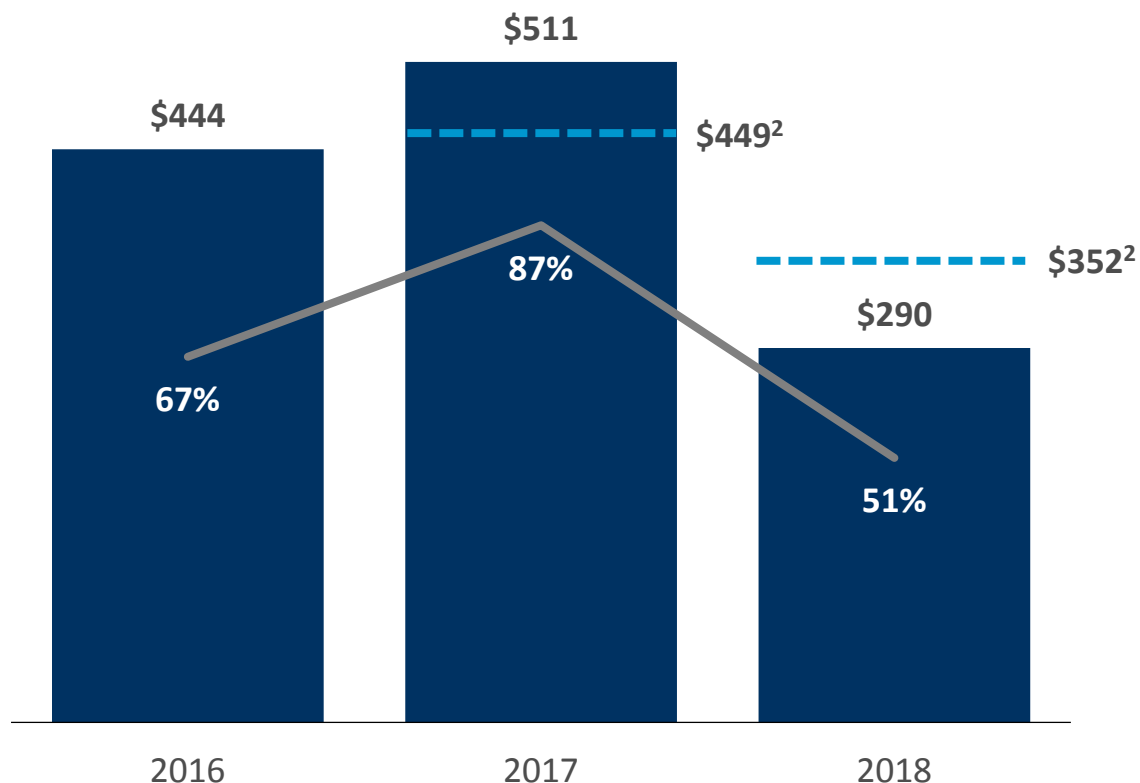
|                                |   |  |
|--------------------------------|---|--|
| Organic growth                 | <b>Organic growth within existing customers</b> | <ul style="list-style-type: none"> <li>Organic growth opportunities within existing customer base as physicians and providers are increasingly looking to partner with large practice management companies</li> <li>Within Women's and Children's Services, continued focus on building on the breadth and diversity of our services</li> </ul>  |
|                                | <b>Cross-selling opportunities</b>              | <ul style="list-style-type: none"> <li>Strong existing relationships represent cross-selling opportunities</li> <li>Expansion within existing facilities through collaboration to address hospital partners' needs</li> <li>Focus on newborn nursery care and OB hospitalist services which represent attractive addressable markets</li> <li>Enhanced potential to establish teleradiology with onsite radiology practices</li> </ul> |
|                                | <b>Establishing new customers</b>               | <ul style="list-style-type: none"> <li>Growth primarily driven by increased utilization of outsourced services by providers</li> <li>Potential customers in all segments remain underpenetrated, representing a large whitespace opportunity</li> </ul>  |
|                                | <b>Operational improvements</b>                 | <ul style="list-style-type: none"> <li>Operating efficiencies across corporate and within practices, targeting \$120mm in annual improvements, with the goal of achieving this target through the end of 2019</li> <li>Represents full realization of \$40mm in shared services improvements, as well as \$80mm in annualized improvements through our operational plans</li> </ul>  |
| Disciplined capital deployment | <b>Women's and Children's Services</b>          | <ul style="list-style-type: none"> <li>Extensive national footprint provides a robust platform for tuck-in acquisition</li> <li>Significant number of groups that remain private</li> <li>Consistently evaluating potential of new service lines and solutions</li> </ul>  |
|                                | <b>Radiology</b>                                | <ul style="list-style-type: none"> <li>Highly fragmented market</li> <li>Unique value proposition that combines operational excellence and a robust teleradiology infrastructure</li> <li>Grown to \$438mm in 3 years (2015 → 2018) with meaningful additional upside</li> </ul>   |



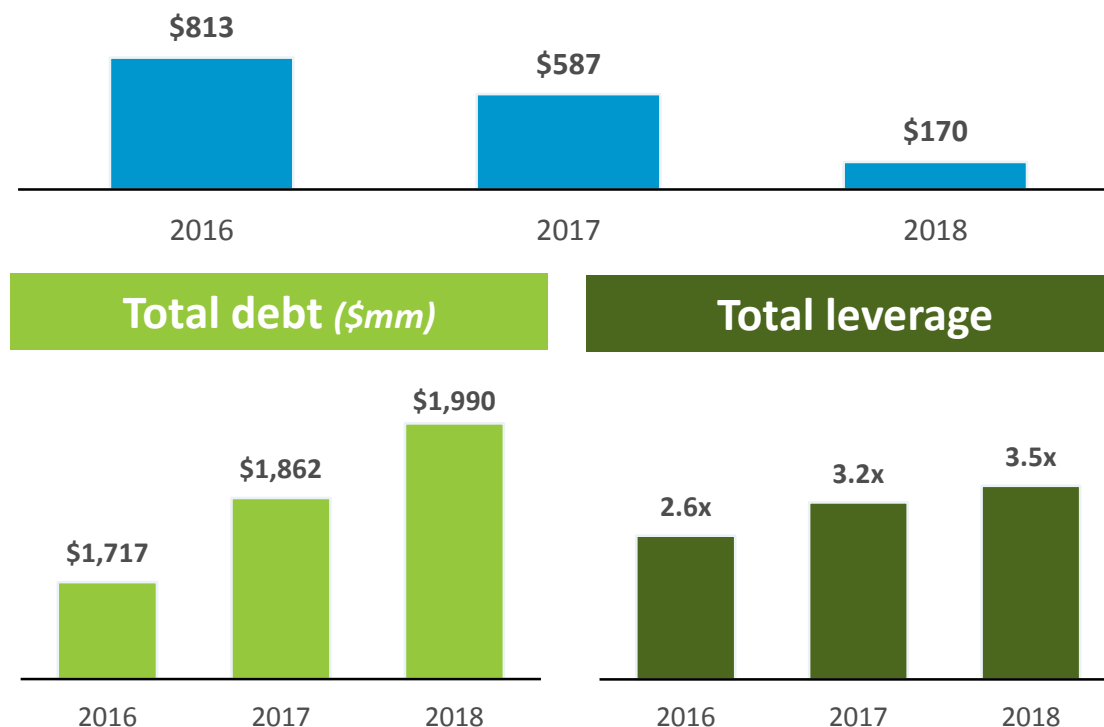
# Strong financial profile with conservative capital structure

*MEDNAX's strong cash flow enables it to invest in growth while maintaining modest leverage*

## Operating cash flow (\$mm) & conversion<sup>1</sup> (%)



## Acquisitions<sup>3</sup> and capital expenditures (\$mm)



(1) Operating cash flow/Reported EBITDA.

(2) Adjustment for 2017 tax incurred in Q3/Q4 2017, but paid in Q1 2018.

(3) Acquisition spend includes payments of contingent consideration and is net of cash acquired.



Business overview

Key highlights

**Recent financial performance and operational update**

# Discussion of 2018 performance

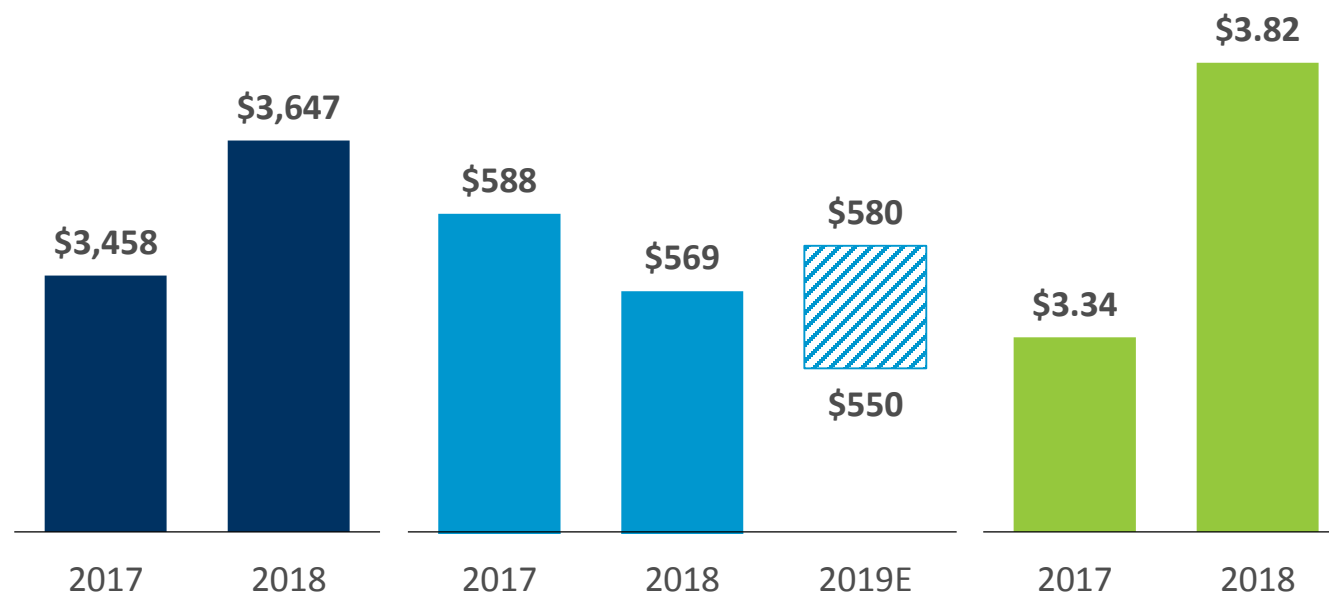
## Key drivers of 2018 results

- Favorable same-unit growth of 2.7%
  - Volume growth 1.2%
  - Pricing growth 1.5%
- Contribution from shared services and operational initiatives
  - \$60 million realized improvement
- Positive impact to adjusted EPS from Tax Act of 2017
  - Effective tax rate 27.2% vs 39.0%
- EBITDA reflects temporary expenses related to contract non-renewal
  - \$18 million in 2H 2018
  - Costs have ceased as of 12/31/18

**Revenue**  
**+5.5% Y/Y**

**Adjusted EBITDA**  
**-3.2% Y/Y**

**Adjusted EPS**  
**+14.4% Y/Y**



*\$mm, except per share metrics*

# Detailed review of operational and capital initiatives

*In response to its external and operational challenges, MEDNAX undertook a thorough review of its operations and put in place the building blocks for improved performance*

## Targeting \$120 million in run-rate improvements by year-end 2019

- \$40 million shared services expense reduction
  - In-year 2018 realization of \$25 million
- \$80 million operational improvements
  - In-year 2018 realization of \$35 million

## Targeted capital deployment toward acquisitive growth and share repurchases

### Practice-level

- Clinical, operational, and consulting support for our physician groups
- Practice-specific action plans
- Hospital contract evaluations and renegotiations
- Advocacy and government relations

### Shared Services

- Near-term targets and action plan driving shared services improvement
- Operational/cost efficiencies
- Process improvement initiatives
- Vendor optimization
- Service excellence

### Capital Deployment

- Focus on radiology and women's and children's services
- Targeted opportunities in existing specialties
- Continued review of share repurchases



# Capital structure and deployment

## Recent activity

- Completed a \$250 million ASR in Q4 2018; \$250 million of authorization remaining
- In Q4 2018, MEDNAX purchased three radiology practices and one neonatology practice
- Initiated a process to sell MedData
- Expect 2019 to be a year of internal focus, modest transaction activity

## Capital deployment (\$mm)

