



National HealthCare Corp. (NHC)

Updated August 6th, 2023, by Ian Bezek

Key Metrics

Current Price:	\$63	5 Year CAGR Estimate:	7.6%	Market Cap:	\$945 M
Fair Value Price:	\$53	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	09/28/23
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.3%	Dividend Payment Date:	11/01/23
Dividend Yield:	3.7%	5 Year Price Target	\$78	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

National HealthCare was founded in 1971 to own and manage medical facilities. It operates skilled nursing facilities, home and hospice agencies, assisted living facilities, independent living facilities, and behavioral health hospitals. Besides operating its own facilities, National HealthCare leases some facilities to third-party operators. As of June 30th, 2023, National Healthcare operated or managed 68 skilled nursing facilities with 8,732 licensed beds in addition to its assortment of other healthcare, homecare, and hospice assets.

The company has been in a period of transition over the past few years. Covid-19 initially was a shock to the business, as it created a series of unprecedented challenges and obstacles to providing skilled care. However, the government provided substantial aid to the industry, giving National HealthCare a large amount of stimulus income in 2020 and 2021. After National HealthCare's record profits in 2021, though, momentum has faded, with earnings falling sharply. In addition, National HealthCare has trimmed its portfolio. It left the Massachusetts and New Hampshire markets in the third quarter of 2022 as it moved on from seven facilities in those states. This concentrates National HealthCare's focus on its home market in the Southeast.

National HealthCare reported its second quarter results on August 4th, 2023. Adjusted earnings-per-share of \$0.89 rose from the \$0.46 figure recorded in the same period of 2022. Revenues increased 4% to \$283 million for the quarter. This quarter appears to be a turning point for the company, as it marked the first significant improvement in the firm's operations since its 2022 earnings trough. That said, National Health Care is still adapting to the post-pandemic operating landscape and investors shouldn't expect earnings to return to pre-pandemic levels in the immediate future.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.87	\$3.14	\$3.20	\$3.32	\$3.69	\$3.87	\$4.44	\$2.72	\$5.32	\$2.42	\$2.80	\$4.11
DPS	\$1.26	\$1.34	\$1.48	\$1.75	\$1.89	\$1.98	\$2.06	\$2.08	\$2.08	\$2.26	\$2.36	\$2.74
Shares¹	14	14	15	16	15	15	15	15	15	15	15	15

National HealthCare has had a somewhat volatile but a generally increasing earnings-per-share trend over the past decade; at least that was the case until March 2020. With the onset of the pandemic, however, the business faced many additional costs for keeping facilities safe and well-staffed with qualified healthcare professionals. National HealthCare received \$47.5 million and \$63.4 million of CARES Act government relief in 2020 and 2021 respectively, which added a great deal to the company's overall earnings.

As this emergency aid has wound down, however, the company's earnings have slumped to below pre-pandemic levels given the impact of inflation on the industry. The company's results this quarter show that National HealthCare has maneuvered through the worst of the slowdown and operations are back on track.

The company had delivered a strong series of dividend hikes prior to 2020. However, the dividend was paused during the pandemic before hikes resumed in 2022. On May 5th, National HealthCare announced a 4% dividend increase, raising its quarterly payment from 57 cents to 59 cents.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.5	17.8	19.9	19.6	18.6	18.0	18.2	25.3	13.4	26.8	22.5	19.0
Avg. Yld.	2.6%	2.4%	2.3%	2.7%	2.8%	2.8%	2.6%	3.0%	2.0%	3.7%	3.7%	3.5%

National HealthCare has generally maintained a P/E ratio in the mid-to-high teens. The company's P/E ratio is currently above average, however that is in part because 2022 earnings were depressed. We expect the firm's P/E ratio to settle back at 19 in future years as the company's earnings picture normalizes.

The company has traditionally offered a dividend yield between 2.5% and 3.0%. The company's dividend yield has moved up to 3.7% thanks to the sell-off in the company's shares. This could offer investors a stronger entry point, with the caveat being that dividend growth will likely be modest from here.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	33%	43%	46%	53%	51%	51%	46%	76%	39%	93%	84%	66%

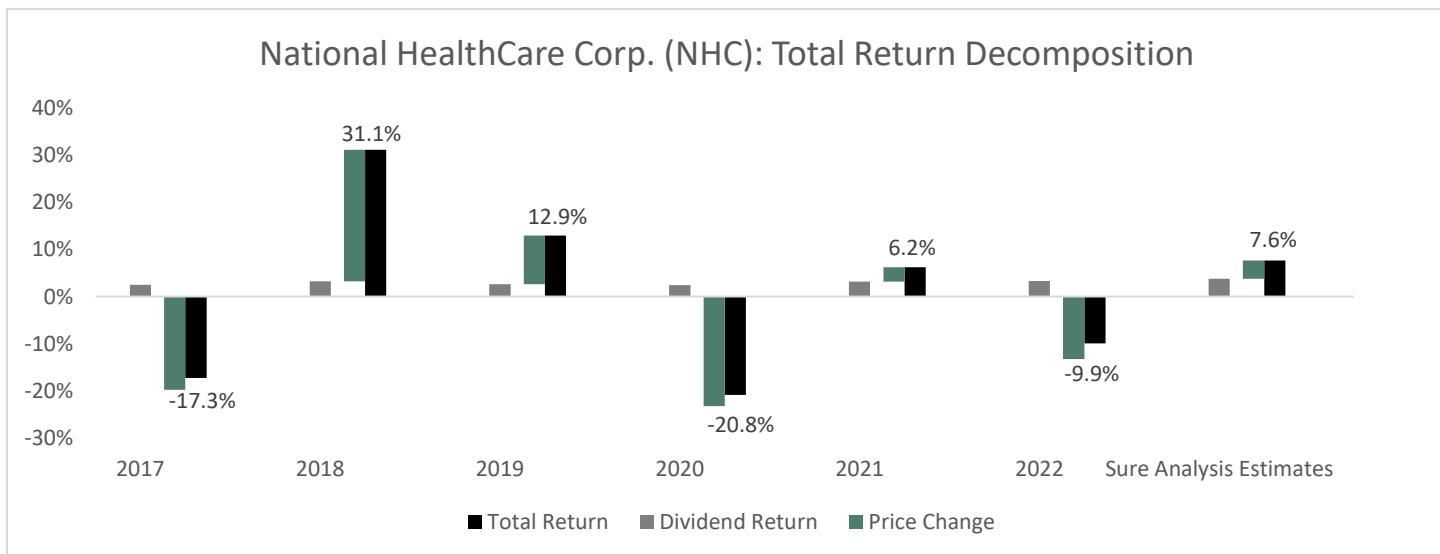
National HealthCare saw its payout ratio spike in 2022 given the fall in its earnings. The pandemic highlighted a number of risk factors within the skilled healthcare industry that investors previously hadn't focused on. That said, the industry has normally been viewed as a defensive one serving a growing market given America's aging demographics.

In addition, National HealthCare has a pristine balance sheet. It has no long-term debt, while holding a significant cash position. This gives it additional flexibility to navigate the currently choppy waters in its industry.

Final Thoughts & Recommendation

Prior to the pandemic, National HealthCare looked like a steady low-volatility dividend growth investment. The Covid-19 outbreak fundamentally shook that understanding, and earnings are currently facing material headwinds. That said, the company's strong balance sheet is a major asset. And the essential nature of the services it provides ensures future demand will be there. We forecast a 7.6% annualized return outlook over the next five years. That's thanks to earnings growth picking back up, but that being offset by a decline in the company's P/E ratio. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	789	872	907	924	964	980	996	981	1,011	1,074
SG&A Exp.	493	550	573	589	612	624	633	650	670	727
D&A Exp.	29	34	37	39	43	42	42	42	41	40
Operating Profit	78	70	70	64	59	61	52	50	60	29
Op. Margin	9.9%	8.1%	7.7%	7.0%	6.1%	6.2%	5.2%	5.1%	5.9%	2.7%
Net Profit	65	53	53	51	56	59	68	42	139	22
Net Margin	8.2%	6.1%	5.9%	5.5%	5.8%	6.0%	6.8%	4.3%	13.7%	2.0%
Free Cash Flow	59	29	25	28	62	69	74	181	23	(21)
Income Tax	38	32	32	30	19	16	20	10	11	7

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	984	1,074	1,045	1,087	1,097	1,081	1,287	1,362	1,403	1,275
Cash & Equivalents	82	70	38	26	59	43	50	147	108	59
Acc. Receivable	80	79	84	83	87	97	93	90	96	100
Inventories	7	7	8	8	7	7	7	9	9	7
Goodwill & Int.	18	18	18	18	18	21	21	21	175	175
Total Liabilities	296	340	414	418	393	346	508	564	495	398
Accounts Payable	13	16	20	19	16	20	19	21	22	17
Long-Term Debt	10	10	120	120	100	55	10	-	-	-
Total Equity	518	564	631	670	703	733	779	795	903	874
LTD/E Ratio	0.01	0.01	0.19	0.18	0.14	0.08	0.01	-	-	-

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.8%	5.2%	5.0%	4.7%	5.1%	5.4%	5.8%	3.2%	10.0%	1.7%
Return on Equity	12.9%	9.9%	8.9%	7.8%	8.2%	8.2%	9.0%	5.3%	16.3%	2.5%
ROIC	9.5%	7.4%	7.1%	6.6%	7.1%	7.4%	8.6%	5.3%	16.2%	2.5%
Shares Out.	14	14	15	16	15	15	15	15	15	15.5
Revenue/Share	47.25	61.29	62.56	60.73	63.34	64.34	64.87	63.81	65.57	69.55
FCF/Share	3.53	2.01	1.72	1.86	4.08	4.51	4.80	11.80	1.49	(1.39)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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