STOCKS
DOWN UNDER

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ASX Small Caps Stocks Down Under

"The single greatest edge an investor can have is a long-term orientation."

- Seth Klarman (b. 1957), Baupost Group CEO

HEALTHIA

An allied healthcare roll-up

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Stocks Down Under rating: ★★★★

ASX: HLA
Market cap: A$193.1M

52-week range: A$1.26 / A$2.43
Share price: A$1.42

The health industry on the ASX is saturated with healthcare companies trying to develop the next big drug or medical device. But today, we're looking at Healthia (ASX:HLA) a company with a solid existing business. It is a rollup of allied healthcare businesses across several spaces, particularly podiatry and physiotherapy. The company is profitable and has a track record of growth since listing, but shares have taken a hit in the last 12 months as investors become wary of M&A-heavy companies.

Share price chart

Source: Tradingview

A Jack of several trades

Healthia listed in late 2018 at $1 a share and a market capitalisation of $63m, having begun 14 years earlier with just one clinic, reaching 104 by 2018 and 307 today. At the time Healthia listed, it exclusively specialised in podiatry and physiotherapy, making it unique among ASX health providers. It operated the MyFootDr Podiatry group of clinics along with the Allsports Physiotherapy and Sports Medicine Clinics – and it still runs these franchises to this day.

However, the company has expanded its offerings into occupational therapy, exercise physiology, speech pathology clinics, optometry and audiology stores. It operates through three segments: Feet & Ankles, Bodies & Minds and Eyes & Ears. By being a 'roll up' of health practices, Healthia can create synergies and generate cost savings that otherwise wouldn't be available through scale and improved practice management.

Healthia is chaired by Glen Richards, a name that might be familiar with some investors. This is because he was the founding chief of vet provider Greencross that was also ASX listed before being acquired. You may also know Richards for being a judge on TV series Shark Tank. Also sitting on Healthia's board from Greencross was the former CFO of Greencross, Wesley Coote, who serves as Healthia's Managing Director.

An active M&A participant

Today, Healthia's market capitalisation is nearly 3 times higher than when it listed – at ~$187m, but the share price is just 42.5% higher at $1.425. It has raised significant capital since listing, including a $60m raise in September 2021 to buy 64 physiotherapy clinics from Back in Motion, a deal that added over $60m in revenue to the company. And in September 2022, it raised $15m to buy a total of 12 businesses.

You see, Healthia is active in a number of big markets that are highly fragmented with numerous operators, and it wants to grow its market share both through M&A and organically. And while some industries are known for being M&A heavy, meaning there's competition for acquisitions, physiotherapy is not one of them.

Healthia had a solid FY22 with $202.8m in revenue (up 44%), $24.5m in EBITDA (up 14.3%) and a $9.2m NPAT (up 3.8%). Nevertheless, shares are down by roughly 30% in 12 months. This has placed it at cheap multiples of EV/EBITDA of 8.7x and P/E of 11x for FY23. Consensus estimates are $265.1m in revenue and $42.1m in EBITDA, up 32% and 72%. For FY24, consensus estimates call for $291.5m in revenue and $47.6m in EBITDA, up 10% and 13% from FY23. The company has issued strong EBITDA guidance of over $40m, a figure which even in a worst-case scenario would still be 63% ahead of FY22. So, why have shares declined then?

When Medicare won't help you

We think investors fear that consumers will cut their spending on the services Healthia provides. Unlike the services provided by other healthcare stocks (such as pathology), services like physiotherapy and speech therapy typically are not covered by Medicare. As the company admitted in its prospectus, private health insurance drives industry revenue and individuals are more likely to spend money on these services when disposable levels of income are growing. In respect of physiotherapy, it also helps when there is an increase in participation of sports – both organised and casual.

Investors have also been skeptical of 'roll up' companies, a term for businesses that build themselves up through M&A. Other ASX examples of 'roll up' companies include DGL Group (ASX: DGL), Corporate Travel (ASX:CTM) and WiseTech (ASX: WTC). In a period of record low interest rates and high share market valuations, it is easy to take out competition like prey. But this is a lot harder for companies to pull off in a period of rising interest rates and lower share market valuations, especially when funded with debt or your own equity.

A roll up that has succeeded and we think will continue to

We think Healthia will continue to undertake M&A activity given it still has a low market share of less than 4% of the physiotherapy market, less than 2.5% of the podiatry market and less than 1.5% in optometry. This continued M&A may continue to spook investors.

On the flip side, we don't think the 'cost of living' crisis will last forever and we think the company can gain from favourable demographics. Physiotherapy and podiatry clinics tend to be utilised by older consumers with higher levels of disposable income and more likely to have private health insurance. The longer-term aging of the population and increasing health consciousness will help too. We also like the company's Clinic Class Share model that allows clinicians to have continued ownership in the clinics they continue to work in, which will help with vendor engagement post-acquisition.

Overall, we like Healthia's solid consensus estimates, the stock's low valuation multiples relative to its growth and the fact that one of Australia's most notable money managers Wilson Asset Management is a major shareholder (with an 8.3% stake that increased from 6.5% in the last 6 months). So, it's four stars from us.

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