



INSTITUTIONAL RESEARCH

Healthcare & Biotechnology

COMPANY UPDATE

Member FINRA/SIPC

Toll Free: 866-928-0928 ♦ www.DawsonJames.com ♦ 925 Federal Highway, 6th Floor ♦ Boca Raton, FL 33432

May 3, 2010

Mednax, Inc. (NYSE/MD)

Robert M. Wasserman

Director of Research

561-208-2905

rwasserman@dawsonjames.com

BUY Q1 in-line, Q2 looks on track as well

Mednax manages physician practices in neonatology and anesthesiology

Investment Highlights

1) Mednax reported strong financial results for their Q1/2010 quarter this morning, earning \$0.81 per share (or \$0.82 per share on a non-GAAP basis) versus \$0.74 one year ago, on revenues of \$332.9 million, up 9.6% year-over-year. Revenue growth was led by a 2.2% increase in same-unit revenues, offset to some extent by lower same-unit patient volume, reduced by economy-related health plan membership factors. Acquisition-related growth also was a factor in Q2/2010, especially in the core neonatology area, thanks to a number of small acquisitions made in this sector over the past twelve months. Same-unit revenue growth was a result of improved reimbursement factors, primarily from commercial health plan members, and represents a positive long-term development. Earnings in the quarter also benefited from tight cost controls and synergies implemented over the past twelve months, as evidenced by an improvement in overall margin to 19.1% in Q2/2010 from 18.6% in Q1/2009. Our estimates for the quarter had been earnings per share of \$0.82 on revenues of \$335.8 million, very close to actual.

2) Company management also provided near-term earnings and revenue guidance, including EPS of \$1.00-\$1.05 for Q2/2010 and flat-to-1% higher same-unit patient volume as well as a higher proportion of reimbursement from government sources vis-à-vis Q2/2009. Our estimates for the quarter had been within this range of guidance, at earnings of \$1.02 per share on revenues of \$358.2 million, or 12% higher than the year ago period. Although we are keeping our earnings estimates for the entire year for Mednax at \$3.95 per share and our revenue estimate for 2010 the same at \$1.42 billion, up 10.4% over 2009, we now have more confidence these metrics will be achieved in a difficult reimburse and economic environment in 2010.

3) In a quarter typically cash flow negative due to annual requirements for incentive bonuses, Mednax used \$41.6 million in cash to fund operations, with an additional \$40.2 million used to fund new acquisitions and contingent earn-out payments for prior deals; these

Current Price \$56.86

Target Price \$80.00

| Estimates | F2008A | F2009A | F2010E |
|-------------------------------|-----------|-----------|-----------|
| Sales(\$mil) | \$1,068.3 | \$1,288.3 | \$1,422.1 |
| 1Q | 245.6 | 303.9 | 332.9 A |
| 2Q | 257.7 | 319.8 | 358.2 E |
| 3Q | 267.2 | 331.3 | 364.4 E |
| 4Q | 297.8 | 333.3 | 366.6 E |
| Prev. Rev. Estimate (\$ mil.) | | | \$1,425.0 |

| | | | |
|-----------------------|--------|--------|----------|
| EPS | \$3.09 | \$3.78 | \$3.95 |
| 1Q | 0.67 | \$0.74 | \$0.82 A |
| 2Q | 0.80 | \$0.93 | \$1.02 E |
| 3Q | 0.81 | \$1.03 | \$1.05 E |
| 4Q | 0.81 | \$1.07 | \$1.06 E |
| Previous EPS Estimate | | | \$3.95 |
| P/E (x) | 18.4 | 15.0 | 14.4 |

| | | | |
|---------------|--------|--------|--------|
| EBITDA/Share | \$5.47 | \$6.61 | \$6.94 |
| EV/EBITDA (x) | 10.5 | 8.7 | 8.3 |

| Stock Data | |
|----------------------------------|-----------------|
| 52-Week Range | \$34.78-\$61.60 |
| Shares Outstanding (mil.) | 47.3 |
| Market Capitalization (mil.) | \$2,687.6 |
| Enterprise Value (mil.) | \$2,706.0 |
| Debt to Capital (12/09) | 4.0% |
| Book Value/Share (12/09) | \$25.18 |
| Price/Book | 2.3 x |
| Average Trading Volume (3-Month) | 488,000 |
| Insider Ownership | 5.0% |
| Institutional Ownership | 90.0% |
| Short interest (Million shares) | 1.0 |
| Dividend / Yield | \$0.00/0.0% |



Price target and ratings changes over the past 3 years:
Initiated - January 2, 2010 - Target \$80

Please find Important Disclosures beginning on Page 4.

amounts compare with \$22.0 million and \$11.5 million spent last year for operations and acquisitions, respectively. At the end of quarter, the Company had \$31.6 million in cash and short-term investments on hand, compared with \$31.9 million at the start of the quarter; long-term debt balances outstanding rose to \$129.4 million from \$50.4 million. If expected profitability and operating cash flow stay on course for Mednax, we would not be surprised to see the Company re-initiate its regular share buy-back program later this year, which would be accretive; alternatively, Mednax could step-up its acquisition activity, which has also been historically accretive and in this case drives revenue growth as well.

Conclusion/Stock Valuation

Mednax shares have bounced back this spring after selling off earlier in the year primarily due to overall concerns regarding funding for federal healthcare programs, especially Medicaid. However, the Company's solid first quarter earnings growth has set the stage nicely for a good year in 2010 despite a difficult environment for healthcare service firms in general, and tough years for market-share leaders such as Mednax historically opens up opportunities for acquisition or market share gains in the longer-term for the Company. Thus, we very well may see accelerated growth for Mednax next year, and we are maintaining our Buy rating and a 12-18 month price target of \$80 for Mednax, just a little over 20X estimated 2010 earnings of \$3.95 per share. We believe Mednax represents a fast-growing yet value-based investment in the health care services area with an exemplary earnings track record, strong operating cash flow, leading market share position, and plenty of room for both internal efficiencies and acquisition-related growth.

Risk Factors

Mednax derives a significant portion of its revenues from **government sources**, including **Medicaid** for neonatal/pediatric cases and **Medicare** in the anesthesiology area. With the number of recent anesthesiology acquisitions, the percentage of revenues from Medicare is expected to increase in the future; likewise a poor economy is expected to drive more maternal care patients into government programs such as Medicaid in the near future. In recent years, Mednax has stepped up its **acquisition activity**, particularly in the anesthesiology area after evaluating this market for several years, and there can be no assurance that both the quantity and quality of desirable practices will be available in the future to fuel growth.

MEDNAX, Inc.
Consolidated Statement of Earnings
 (in \$000s, except EPS)

| Calendar Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 2009E | 1Q10 | 2Q10E | 3Q10E | 4Q10E | 2010E |
|----------------------------|---------|---------|---------|---------|---------|-----------|---------|---------|---------|---------|-----------|---------|---------|---------|---------|-----------|
| Revenues | 551,197 | 619,629 | 693,700 | 818,554 | 928,498 | 1,068,277 | 303,885 | 319,815 | 331,276 | 333,288 | 1,288,264 | 332,927 | 358,200 | 364,400 | 366,600 | 1,422,127 |
| Less Charges | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Revenues | 551,197 | 619,629 | 693,700 | 818,554 | 928,498 | 1,068,277 | 303,885 | 319,815 | 331,276 | 333,288 | 1,288,264 | 332,927 | 358,200 | 364,400 | 366,600 | 1,422,127 |
| Operating expenses: | | | | | | | | | | | | | | | | |
| Salaries and benefits | 310,778 | 350,354 | 393,137 | 468,498 | 535,097 | 643,445 | 194,008 | 191,756 | 198,229 | 199,500 | 783,493 | 213,402 | 218,500 | 221,560 | 222,160 | 875,622 |
| Supplies and other | 18,588 | 24,254 | 27,678 | 33,055 | 37,360 | 44,767 | 12,641 | 12,798 | 13,100 | 13,693 | 52,232 | 13,095 | 14,330 | 14,580 | 14,660 | 56,665 |
| General & admin | 76,537 | 79,445 | 115,304 | 109,057 | 121,410 | 124,965 | 36,650 | 36,295 | 37,648 | 36,569 | 147,162 | 38,099 | 41,190 | 41,910 | 42,160 | 163,359 |
| Depreciation & amort | 8,405 | 9,353 | 9,915 | 9,470 | 10,347 | 13,071 | 3,963 | 4,187 | 3,956 | 4,342 | 16,448 | 4,780 | 4,880 | 4,980 | 5,080 | 19,720 |
| Total operating costs | 414,308 | 463,406 | 546,034 | 620,080 | 704,214 | 826,248 | 247,262 | 245,036 | 252,933 | 254,104 | 999,335 | 269,376 | 278,900 | 283,030 | 284,060 | 1,115,366 |
| Income from operations | 136,889 | 156,223 | 147,666 | 198,474 | 224,284 | 242,029 | 56,623 | 74,779 | 78,343 | 79,184 | 288,929 | 63,551 | 79,300 | 81,370 | 82,540 | 306,761 |
| Investment income | 482 | 893 | 1,177 | 3,836 | 6,855 | 2,982 | 441 | 429 | 430 | 382 | 1,682 | 404 | 600 | 800 | 1,000 | 2,804 |
| Discontinued & other | | | | | 743 | | | | | | | | | | | |
| Interest expense | (1,372) | (1,295) | (2,262) | (1,032) | (749) | (3,593) | (1,011) | (824) | (570) | (506) | (2,911) | (710) | (650) | (600) | (550) | (2,510) |
| Income before taxes | 135,999 | 155,821 | 146,581 | 201,278 | 230,390 | 241,418 | 56,053 | 74,384 | 78,203 | 79,060 | 287,700 | 63,245 | 79,250 | 81,570 | 82,990 | 307,055 |
| Income tax provision | 51,671 | 57,542 | 57,544 | 76,813 | 88,411 | 94,736 | 22,001 | 31,167 | 30,069 | 28,659 | 111,896 | 24,982 | 30,910 | 31,810 | 32,370 | 120,072 |
| Net income (loss) | 84,328 | 98,279 | 89,037 | 124,465 | 141,979 | 146,682 | 34,052 | 43,217 | 48,134 | 50,401 | 175,804 | 38,263 | 48,340 | 49,760 | 50,620 | 186,983 |
| Basic income per share | \$1.72 | \$1.99 | \$1.86 | \$2.59 | \$2.92 | \$3.12 | \$0.74 | \$0.93 | \$1.05 | \$1.07 | \$3.80 | \$0.81 | \$1.02 | \$1.05 | \$1.06 | \$3.94 |
| Diluted income per share | \$1.72 | \$1.99 | \$1.86 | \$2.52 | \$2.86 | \$3.12 | \$0.74 | \$0.93 | \$1.03 | \$1.07 | \$3.78 | \$0.81 | \$1.02 | \$1.05 | \$1.06 | \$3.94 |
| Diluted income -non-GAAP | \$1.72 | \$1.99 | \$2.33 | \$2.83 | \$2.96 | \$3.09 | \$0.74 | \$0.93 | \$1.03 | \$1.07 | \$3.78 | \$0.82 | \$1.02 | \$1.05 | \$1.06 | \$3.95 |
| Basic shares outstanding | 49,154 | 49,494 | 47,875 | 47,924 | 48,782 | 47,166 | 45,931 | 46,253 | 45,663 | 47,054 | 46,225 | 47,267 | 47,450 | 47,550 | 47,650 | 47,479 |
| Diluted shares outstanding | 49,154 | 49,494 | 47,875 | 49,387 | 49,903 | 47,166 | 45,931 | 46,253 | 46,664 | 47,054 | 46,476 | 47,267 | 47,450 | 47,550 | 47,650 | 47,479 |
| Key ratios: | | | | | | | | | | | | | | | | |
| Revenue growth | 18.4% | 12.4% | 12.0% | 18.0% | 13.4% | 15.1% | 23.7% | 24.1% | 24.0% | 11.9% | 20.6% | 9.6% | 12.0% | 10.0% | 10.0% | 10.4% |
| Salaries/Revenues | 56.4% | 56.5% | 56.7% | 57.2% | 57.6% | 60.2% | 63.8% | 60.0% | 59.8% | 59.9% | 60.8% | 64.1% | 61.0% | 60.8% | 60.6% | 61.6% |
| Supplies/Revenues | 3.4% | 3.9% | 4.0% | 4.0% | 4.0% | 4.2% | 4.0% | 4.0% | 4.0% | 4.1% | 4.0% | 3.9% | 4.0% | 4.0% | 4.0% | 4.0% |
| G&A/Revenues | 13.9% | 12.8% | 16.6% | 13.3% | 13.1% | 11.7% | 12.1% | 11.3% | 11.4% | 11.0% | 11.4% | 11.4% | 11.5% | 11.5% | 11.5% | 11.5% |
| Operating Margin | 24.8% | 25.2% | 21.3% | 24.2% | 24.2% | 22.7% | 18.6% | 23.4% | 23.6% | 23.8% | 22.4% | 19.1% | 22.1% | 22.3% | 22.5% | 21.6% |
| Tax Rate | 38.0% | 36.9% | 39.3% | 38.2% | 38.4% | 39.2% | 39.3% | 41.9% | 38.4% | 36.2% | 38.9% | 39.5% | 39.0% | 39.0% | 39.0% | 39.1% |
| EBITDA/share | \$2.97 | \$3.36 | \$3.32 | \$4.29 | \$4.84 | \$5.47 | \$1.33 | \$1.72 | \$1.77 | \$1.78 | \$6.61 | \$1.45 | \$1.79 | \$1.83 | \$1.86 | \$6.94 |
| Cash Flow/share | \$1.89 | \$2.18 | \$2.45 | \$3.12 | \$3.42 | \$3.78 | \$0.93 | \$1.12 | \$1.21 | \$1.26 | \$4.52 | \$1.01 | \$1.22 | \$1.25 | \$1.26 | \$4.73 |

Balance Sheets

| | 12/31/08 | 12/31/09 |
|-----------------------------|-----------|-----------|
| Assets: | | |
| Cash and equivalents | 14,346 | 26,503 |
| Short-term investments | 20,764 | 5,380 |
| Accounts receivable, net | 162,395 | 164,444 |
| Prepaid expenses | 5,813 | 5,102 |
| Deferred income taxes | 70,384 | 72,434 |
| Other assets | 11,199 | 18,802 |
| Total current | 284,901 | 292,665 |
| Investments | 16,241 | 28,491 |
| Property & equipment, net | 38,807 | 43,272 |
| Goodwill | 1,127,959 | 1,270,137 |
| Other assets, net | 28,966 | 54,785 |
| TOTAL ASSETS | 1,496,874 | 1,689,350 |
| Liabilities: | | |
| Accounts payable/acrued exp | 302,584 | 346,470 |
| Long-term debt, current | 258 | 234 |
| Deferred taxes and other | 14,283 | 0 |
| Total liabilities | 317,125 | 346,704 |
| Line of credit | 139,500 | 50,000 |
| Deferred taxes & other LT | 75,111 | 102,548 |
| Stockholders' equity | 965,138 | 1,190,098 |
| TOTAL LIAB & EQ | 1,496,874 | 1,689,350 |

Quarterly Earnings Comparisons

| | March | June | Sept | Decem | Total |
|--------------------------------------|--------|--------|--------|--------|---------|
| Revenues (in \$000s) | | | | | |
| 2000 | \$59.4 | \$61.7 | \$64.3 | \$64.2 | \$249.6 |
| 2001 | 63.9 | 83.1 | 102.8 | 104.8 | 354.6 |
| 2002 | 107.3 | 116.2 | 122.5 | 119.5 | 465.5 |
| 2003 | 126.2 | 133.7 | 145.5 | 145.8 | 551.2 |
| 2004 | 148.1 | 152.2 | 158.3 | 161.0 | 619.6 |
| 2005 | 164.2 | 173.8 | 178.1 | 177.7 | 693.7 |
| 2006 | 187.7 | 203.8 | 215.8 | 211.3 | 818.6 |
| 2007 | 214.5 | 226.8 | 236.9 | 250.4 | 928.5 |
| 2008 | 245.6 | 257.7 | 267.2 | 297.8 | 1,068.3 |
| 2009E | 303.9 | 319.8 | 331.3 | 333.3 | 1,288.3 |
| 2010E | 332.9 | 358.2 | 364.4 | 366.6 | 1,422.1 |
| Earnings per Share (non-GAAP) | | | | | |
| 2000 | \$0.22 | \$0.22 | \$0.12 | \$0.13 | \$0.69 |
| 2001 | 0.11 | 0.15 | 0.20 | 0.20 | 0.65 |
| 2002 | 0.25 | 0.31 | 0.37 | 0.36 | 1.29 |
| 2003 | 0.34 | 0.41 | 0.49 | 0.49 | 1.72 |
| 2004 | 0.42 | 0.50 | 0.52 | 0.55 | 1.99 |
| 2005 | 0.46 | 0.57 | 0.64 | 0.65 | 2.33 |
| 2006 | 0.55 | 0.72 | 0.80 | 0.76 | 2.83 |
| 2007 | 0.58 | 0.75 | 0.81 | 0.82 | 2.96 |
| 2008 | 0.67 | 0.80 | 0.81 | 0.81 | 3.09 |
| 2009E | 0.74 | 0.93 | 1.03 | 1.07 | 3.78 |
| 2010E | 0.82 | 1.02 | 1.05 | 1.06 | 3.95 |

Operating Statistics

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010E |
|----------------------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Number of births | 381,600 | 450,205 | 501,832 | 522,612 | 567,794 | 629,948 | 674,336 | 707,274 | 730,049 | 744,202 | 755,000 |
| NICU admissions | 39,200 | 48,186 | 55,121 | 57,239 | 63,115 | 72,876 | 80,151 | 85,059 | 86,865 | 90,567 | 95,000 |
| NICU patient days | 636,900 | 804,293 | 983,733 | 1,087,753 | 1,195,936 | 1,347,064 | 1,472,428 | 1,556,093 | 1,566,485 | 1,658,845 | 1,700,000 |
| Physicians: | | | | | | | | | | | |
| Neonatologists | 400 | 475 | 500 | 550 | 603 | 650 | 680 | 757 | 844 | 890 | 950 |
| Anesthesiologists | | | | | | | | 53 | 141 | 165 | 190 |
| Other subspecialists | 70 | 100 | 120 | 140 | 173 | 200 | 220 | 240 | 289 | 296 | 310 |
| Total | 470 | 575 | 620 | 690 | 776 | 850 | 900 | 1,050 | 1,274 | 1,351 | 1,450 |

Source: Dawson James Securities, Inc. estimates; Company documents

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated – January 2, 2010 – BUY – Price Target \$80

Analyst Certification: The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Dawson James has not received investment banking compensation from the company mentioned in this report and is not actively seeking compensation for investment banking services in the future. Dawson James does not make a market in this security. Neither the research analyst whose name appears on this report nor any member of his household is an officer, director or advisory board member of the company. Dawson James did not receive any other compensation from the company in the previous 12 months. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future.

Ratings definitions: **1) Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; **2) Neutral:** the stock is fairly valued for the next 12-18 months; and **3) Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold.

| Ratings Distribution | Company Coverage | | Investment Banking | |
|----------------------|------------------|------------|--------------------|-------------|
| | # of Companies | % of Total | # of Companies | % of Totals |
| Buy | 12 | 86% | 6 | 50% |
| Neutral | 2 | 14% | 2 | 100% |
| Sell | 0 | 0% | 0 | 0% |
| Total | 14 | 100% | 8 | 57% |

Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISKS” sections of this report.

DAWSON JAMES SECURITIES, INC., Member SIPC, FINRA, (the "Firm") does not make a market in these securities. The Firm may perform or seek to perform investment banking services for these companies in the future. Analysts receive no direct compensation in connection with the firm's investment banking business. All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report. The Firm, its officers, directors, analysts or employees may effect transactions in and have long or short positions in the securities (or options or warrants with respect thereto) mentioned herein. Although the statements of fact in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice. The Firm may effect transactions as principal or agent in the securities mentioned herein. The securities discussed or recommended in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.