Why MedPace (NASDAQ:MEDP) Stock Surged 18% This Month

Description

MedPace Holdings (NASDAQ:MEDP) is probably not a stock many Canadian investors are familiar with. However, it is definitely one that should be on your radar. Over the past month, MedPace stock is up over 18%. For the year, it is up over 60%. Over the past five years, it has delivered a whopping 600% return! If you weren't interested at my first sentence, perhaps you are now.

Canadian investors lack healthcare investment opportunities

While Canada has a well-developed public healthcare system, there are only limited investment opportunities in the healthcare space. Consequently, Canadians have to look to the United States for exposure to healthcare, pharmaceuticals, medical devices, and medical technologies. Frankly, this is an exciting place to invest. Technology is rapidly accelerating medical advancements like never before. This sector has massive growth potential ahead. That is why MedPace is an interesting stock today.

A leading contract research company

MedPace is essentially a contract research company. Small biotech companies often don't have the wherewithal or capacity to individually get their drug or product FDA approval. There is a rigorous multi-phase, multi-year process to ensure new drugs or treatments are effective, safe, and properly regulated. Consequently, many smaller biopharma companies use MedPace to navigate and manage their drug trial process.

While the COVID-19 pandemic has benefitted MedPace to some extent, it is not reliant on the pandemic to grow. It has a wide and diverse group of large and small counterparties. Only 2% of its revenue mix was related to COVID-19. This simply demonstrates that the company has an incredibly solid organic growth pipeline that should continue long after the pandemic.

Medpace's strong third-quarter results propelled its stock up

Last week, MedPace presented very good third-quarter results. MedPace stock skyrocketed afterwards. Net revenues increased over last year by 28% to $295.6 million. EBITDA increased 15.7% to $60.1 million. For the first nine months, EBITDA improved 26.8% over last year! Diluted net income per share increased year over year by 18% to $1.29 per share.

I think what really stole the show was the guidance that MedPace gave for 2022. It is targeting revenues in the range of $1.4 billion to $1.46 billion. EBITDA is projected between $262 million and $278 million. On the high end, that would target 2022 revenue and EBITDA growth of 28% and 28%, respectively. 2021 was already a banner year, but if it meets these targets, it would be an acceleration in growth.

So much to like about MedPace stock

Frankly, there is a lot to like about MedPace stock. Firstly, its management team has a lot of skin in the game. Its chairman, Dr. August Troendle, founded the business. He still owns about 20% of the stock. Secondly, its business is a cash-yielding machine. This quarter, it had a free cash flow conversion rate of 109%! Its free cash flow margin was 22%. Despite an uptick on staff spending, it still very efficiently converted earnings into cash.

On top of this, the company has an amazing balance sheet. It has a net cash position of almost $400 million. While the backdrop for biotech spending is incredibly strong right now, the industry is cyclical. The great cash balance affords the company incredible flexibility now and a fortress if overall healthcare spending declines.

While the going is good, the company keeps investing in its operational capacity. Likewise, it is buying back tons of stock. Certainly, MedPace stock isn’t cheap today. Yet this stock is an exceptional risk-adjusted way for Canadians to win big from healthcare tailwinds, both now and for many years ahead.

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