

Cross Country Healthcare

Q1 guide worse, similar to peer

Reiterate Rating: UNDERPERFORM | PO: 16.00 USD | Price: 17.02 USD

Q1 guide worse; cutting ests

Cross Country Healthcare (CCRN) reported adj EBITDA 1% below consensus on 20bps worse margins as revs were 2% better. Meanwhile, Q1 guidance came in well below consensus (again), with revs 6% below consensus and adj EBITDA 29% below. With AMN Healthcare also guiding down Q1, it is still unclear when demand will bottom. We are lowering our ests and our PO to \$16 from \$20, which represents 7.1x 2024E EBITDA vs 6.6x prior on our rebased ests. We also roll out 2026E ests. We reiterate our Underperform rating.

Q4 revs beat but margins worse

Q4 revs were 2% better than consensus, with Nurse & Allied revs 2% ahead and Physician revs 3% better. Adj EBITDA was 1% below consensus and 4% below the guidance midpoint as margins were 20bps worse vs consensus/30bps worse vs the guide midpoint. However, mgmt. noted a bad debt charge. Excluding the charge, adj EBITDA would have been around \$23m or 10% above consensus.

Q1 adj EBITDA guide -29% below consensus

CCRN is guiding to Q1 revs of \$370-380m, a 9% sequential decline and 6% below consensus at the midpoint. Q1 Adj EBITDA is expected to be \$13-18m, with the midpoint 29% below consensus. Q1 margin outlook of 4.1% at the midpoint is -130bps below consensus. SG&A expense is expected to be down mid single digits which would imply SG&A at 17% of revs. CCRN is targeting ending the year around 15% on cost cutting. Mgmt still believes it can achieve HSD/LDD EBITDA margins over time.

Bill rates expected to fall LSD in Q1

Travel bill rates were down 4% sequentially in Q4 and billable hours were down 8% sequentially. In Q1, the company expects travel revs to be down LDD sequentially driven by lower demand and a low single digit (LSD) decline in rates.

Second half should be better as MSP wins ramp

Recent client wins total \$200m in spend under management (65-70% capture rate for MSPs, around 30% for vendor neutral) which should be a tailwind to 2H. On capital deployment, the company ended the year with no debt and expects to continue to invest in technology, do share repo, and is targeting closing several deals (mgmt. noted multiples have been coming down).

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.26	2.21	0.98	1.12	1.24
GAAP EPS	5.02	2.05	0.85	0.99	1.11
EPS Change (YoY)	71.9%	-58.0%	-55.7%	14.3%	10.7%
Consensus EPS (Bloomberg)	5.07	2.20	1.43	1.72	1.78
Valuation (Dec)					
P/E	3.2x	7.7x	17.4x	15.2x	13.7x
GAAP P/E	3.4x	8.3x	20.0x	17.2x	15.3x

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Timestamp: 22 February 2024 12:05AM EST

22 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	20.00	16.00
2024E Rev (m)	1,630.2	1,469.3
2025E Rev (m)	1,695.9	1,528.6
2026E Rev (m)	NA	1,605.6
2024E EPS	1.33	0.98
2025E EPS	1.41	1.12
2026E EPS	NA	1.24
2024E EBITDA (m)	103.9	76.2
2025E EBITDA (m)	110.9	85.1
2026E EBITDA (m)	NA	92.4

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Stock Data

Price	17.02 USD
Price Objective	16.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-3-9
52-Week Range	15.65 USD - 28.75 USD
Mkt Val (mn) / Shares Out (mn)	598 USD / 35.2
Free Float	94.3%
Average Daily Value (mn)	10.30 USD
BofA Ticker / Exchange	CCRN / NAS
Bloomberg / Reuters	CCRN US / CCRN.OQ
ROE (2024E)	6.7%
Net Dbt to Eqty (Dec-2023A)	-2.5%
ESGMeter™	Medium

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HSD = High single digit

LDD = Double digit

MSP = Managed service provider

iQprofileSM Cross Country Healthcare

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	NA	NA	NA	NA	NA
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	2,807	2,020	1,469	1,529	1,606
Total Cost of Benefits and Claims	(2,179)	(1,569)	(1,154)	(1,200)	(1,259)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(2,526)	(1,903)	(1,425)	(1,477)	(1,547)
Pre-Tax Operating Earnings	281	117	44	52	58
Income Tax Expense	(68)	(30)	(14)	(16)	(18)
Operating Earnings After Tax	197	78	33	38	43
Net Income (Reported)	188	73	29	34	38
Diluted Shares	38	35	34	34	35
Operating Earnings Per Share	5.26	2.21	0.98	1.12	1.24
Net Income (Reported) Per Share	5.02	2.05	0.85	0.99	1.11

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	NA	NA	NA	NA	NA
Total Assets	948	679	988	1,086	1,188
Reserves	NA	NA	NA	NA	NA
LT Debt	154	3	0	0	0
Total Liabilities	491	206	474	525	577
Total Equity	457	473	514	560	611
Total Equity (Ex FAS 115)	NA	NA	NA	NA	NA
Book Value per Share (Reported)	12.35	13.46	15.21	16.46	17.75
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NA	NA	NA	NA	NA
Loss Ratio	NA	NA	NA	NA	NA
Combined Ratio	NA	NA	NA	NA	NA
Avg Assets / Avg Eq (Ex FAS 115) Ratio	NA	NA	NA	NA	NA

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	NA	NA	NA	NA	NA
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	NA	NA	NA	NA	NA
Operating Earnings per Share	71.9%	-58.0%	-55.7%	14.3%	10.7%
Asset	NA	NA	NA	NA	NA
Reported Book Value per Share	NA	NA	NA	NA	NA

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	52.3%	16.9%	6.7%	7.1%	7.3%
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	NA	NA	NA	NA	NA
Operating Margin	10.0%	5.8%	3.0%	3.4%	3.6%
Long Term Debt to Cap Ratio (Ex FAS 115)	NA	NA	NA	NA	NA
Net Income % Operating Income	NA	NA	NA	NA	NA
Amtz of DAC % Pretax Profit bef Amtz of DAC	NA	NA	NA	NA	NA

Company Sector

Outsourcing Services

Company Description

Cross County Healthcare is a healthcare staffing company, which sources and recruits nurses, physicians, and other allied health care professionals to work on temporary assignments in health care facilities in the U.S. The company also provides talent management software as well as recruitment, processing, and consulting services.

Investment Rationale

CCRN's turnaround story was starting to show signs of success pre-COVID, but the margin turnaround remains unclear.

Stock Data

Average Daily Volume 605,360

Quarterly Earnings Estimates

	2023	2024
Q1	0.84A	0.17E
Q2	0.69A	0.20E
Q3	0.39A	0.23E
Q4	0.29A	0.37E

Price objective basis & risk

Cross Country Healthcare (CCRN)

Our \$16.00 PO is based on a 7.1x 2024E EBITDA est, well below the midpoint of the 8-13x range where it has traded historically. We believe this multiple is warranted given the low visibility into operations post 2023 and the LT margin sustainability.

Upside risks to our PO are if the company is able to cut costs more aggressively than we forecast and if demand for staffing assignments rebounds sooner or to a higher magnitude than we forecast.

Risks to the downside are that CCRN's clients do not regain the same demand levels as pre-COVID or if cost cutting does not come in as expected.

Analyst Certification

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US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	BrightSpring Health Services	BTSG	BTSG US	Joanna Gajuk
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Privia Health	PRVA	PRVA US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
NEUTRAL				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA



US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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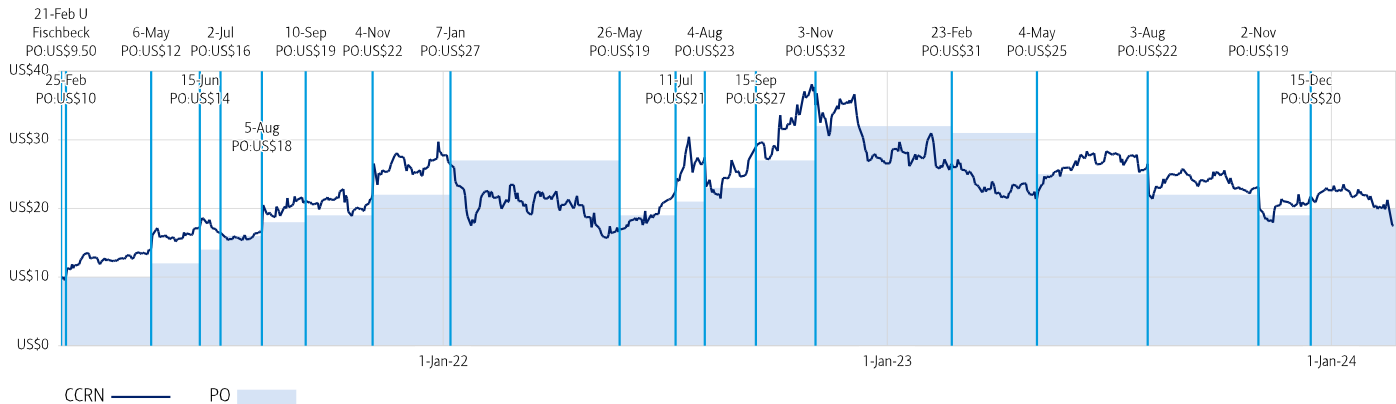
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Cross Country (CCRN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	5	41.67%	Buy	3	60.00%
Hold	2	16.67%	Hold	1	50.00%
Sell	5	41.67%	Sell	2	40.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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