

Privia Health

Contract loss signals competitive dynamics, but validates LT strategy

Reiterate Rating: BUY | PO: 27.00 USD | Price: 20.25 USD

Adjusting PO on contract loss, future upside potential

Yesterday, it was announced PRVA lost a key value based care (VBC) contract for one of its anchor clients (BASS Medical Group, ~10% of implemented providers) in California to another vendor – Apollo Medical Group (AMEH). PRVA will continue to serve BASS in a fee-for-service (FFS) capacity (10 year contract), which is where all the earnings exposure is today, and as such has no meaningful impact on EBITDA contribution. We are lowering our PO (28x 2025E EV/EBITDA vs 31x previously) as loss signals difficulty in capitalizing on the VBC opportunity in higher penetration markets, but maintain Buy as PRVA has established a foothold in 10 other markets where it should be easier to ramp.

Signals of difficulties in expanding VBC in new states

The reason PRVA did not have much EBITDA or VBC exposure in the contract in the first place, was because it did not yet have the scale and density needed to support the programs in the state of California. Therefore, by losing a large anchor customer on the VBC side, it sets the company back on its plan for future earnings expansion within the state. Additionally, while it just a single datapoint, the fact an anchor partner would choose another vendor over PRVA, highlights some level of dissatisfaction in PRVA's VBC offerings, or the speed in ramping in a new market. Meanwhile, AMEH already has scale and density in California, which may have helped convince BASS to switch vendors for faster results. In context with PRVA's VBC growth not matching initial investor expectations, the contract loss lowers visibility on future VBC earnings growth at PRVA.

In some ways validates the longer term thesis

It's worth remembering that California is one of the most deeply penetrated VBC markets in the country, and assuming incumbents have any defendable economic advantage, it was always going to be difficult for a newer entrant to disrupt. With BASS taking the effort to now find a second VBC vendor, it shows that even specialty groups are focused on making VBC work. Additionally, it validates having local scale and density as a defendable competitive advantage. This public contract loss may put into question PRVA's ability to scale VBC in deeply penetrated states such as CA, TX and FL. However, the remaining 10 states PRVA operates in are largely FFS today, which is where PRVA makes most of its EBITDA currently, and is well positioned to aggregate physicians in a profitable way such that it can be first to have the scale to make VBC work in these newer markets.

Estimates(Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(1.83)	(0.08)	0.24	0.43	0.45
EPS Change (YoY)	NM	95.6%	NM	79.2%	4.7%
Consensus EPS (Bloomberg)	(1.84)	0.22	0.64	0.66	0.86
Valuation (Dec)					
P/E	NM	NM	84.4x	47.1x	45.0x
EV / EBITDA*	57.1x	38.9x	32.2x	25.8x	20.6x
Free Cash Flow Yield*	2.1%	1.8%	1.7%	3.4%	3.5%

* For full definitions of *IQmethod*SM measures, see page 4.

30 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	30.00	27.00

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Stock Data

Price	20.25 USD
Price Objective	27.00 USD
Date Established	30-Jan-2024
Investment Opinion	C-1-9
52-Week Range	19.57 USD - 30.15 USD
Mkt Val (mn) / Shares Out (mn)	2,639 USD / 130.3
Free Float	86.0%
Average Daily Value (mn)	16.84 USD
BofA Ticker / Exchange	PRVA / NAS
Bloomberg / Reuters	PRVA US / PRVA.OQ
ROE (2023E)	5.3%
Net Dbt to Eqty (Dec-2022A)	-67.0%
ESGMeter™	Medium

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Timestamp: 30 January 2024 02:25PM EST

iQprofileSM Privia Health

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-55.5%	-2.4%	3.6%	5.6%	6.2%
Return on Equity	-65.6%	-1.9%	5.3%	8.7%	8.3%
Operating Margin	-9.0%	-0.6%	0.6%	0.9%	1.2%
Free Cash Flow	55	47	45	89	92

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	1.6x	1.8x	1.7x
Asset Replacement Ratio	0.2x	0x	0.1x	0.1x	0.1x
Tax Rate	12.7%	35.1%	17.6%	NM	26.0%
Net Debt-to-Equity Ratio	-71.0%	-67.0%	-59.7%	-68.5%	-76.1%
Interest Cover	NA	-35.3x	3.1x	5.2x	8.0x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,416	3,392	4,098	4,806	5,783
% Change	18.3%	40.4%	20.8%	17.3%	20.3%
Gross Profit	2,241	3,221	3,900	4,576	5,508
% Change	15.6%	43.7%	21.1%	17.3%	20.4%
EBITDA	41	61	73	92	115
% Change	40.9%	47.1%	20.7%	24.8%	25.4%
Net Interest & Other Income	1	(1)	(8)	(8)	(8)
Net Income (Adjusted)	(188)	(9)	28	50	53
% Change	NM	95.4%	NM	80.1%	5.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(188)	(9)	30	54	57
Depreciation & Amortization	2	5	6	7	7
Change in Working Capital	18	(6)	(30)	(3)	(4)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	223	58	39	32	32
Capital Expenditure	(1)	0	0	0	0
Free Cash Flow	55	47	45	89	92
% Change	41.5%	-13.6%	-4.5%	97.7%	3.3%
Share / Issue Repurchase	228	14	4	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(14)	(33)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	321	348	359	448	539
Trade Receivables	117	190	353	400	475
Other Current Assets	9	14	17	20	24
Property, Plant & Equipment	5	3	3	2	2
Other Non-Current Assets	235	237	292	292	292
Total Assets	686	793	1,023	1,162	1,333
Short-Term Debt	1	0	0	0	0
Other Current Liabilities	190	264	355	405	485
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	46	9	68	104	139
Total Liabilities	236	274	423	509	624
Total Equity	450	519	601	653	709
Total Equity & Liabilities	686	793	1,023	1,162	1,333

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Physician Practice Management

Company Description

Privia is a physician enablement company that aims to streamline administrative functions, and maximize practice economics across all types of providers (including specialists and health systems) on both Fee-for-service (FFS) and Value Based Care (VBC) across all payers. By partnering with existing physician practices, which are already profitable, and partnering with technology providers instead of building it from the bottom up, PRVA is able to grow profitably with minimal capex.

Investment Rationale

We see PRVA as a lower risk way to own the theme of shifting to value based care as it is now more than halfway towards reaching its consolidated profitability target, proving out the economics of the model. Additionally, we see upside to guidance as it excludes new market growth and conservatively assumes breakeven economics on its new capitated MA book despite a long history of treating the patient base. Together, we see a high confidence 20% revenue and FCF CAGR over the next 10 years.

Stock Data

Average Daily Volume 831,532

Quarterly Earnings Estimates

	2022	2023
Q1	-0.16A	0.06A
Q2	-0.10A	0.06A
Q3	0.01A	0.05A
Q4	0.16A	0.08E

Price objective basis & risk

Privia Health (PRVA)

Our \$27 PO is based on 28x EV/EBITDA on our 2025 estimate which is a premium to where matured healthcare services peers are trading due to 2x higher EBITDA growth trajectory from higher organic growth and ramping margins, offset by higher execution risks.

This PO is also supported by a DCF on our 2023-2031 unlevered FCF estimates less stock compensation (to account for future investor dilution), applying an 'Exit Multiple' EBITDA multiple of 17x on 2032 EBITDA and a discount rate of 10%.

Downside risks: COVID-related volatility which can skew visibility into the margin trajectory, unforeseen regulatory changes, and potential pressure on revenue growth or pricing due to an increase in competition.

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
	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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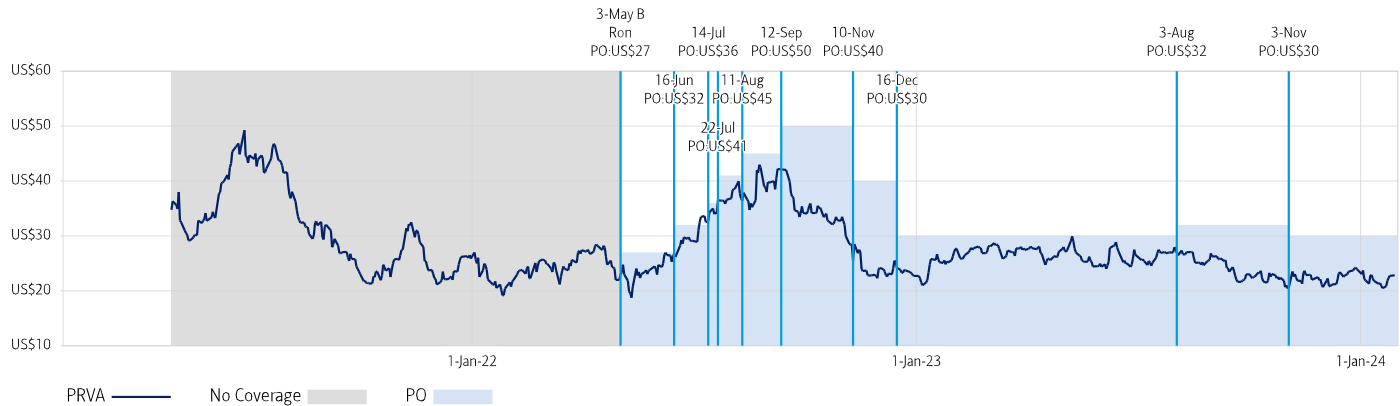
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Important Disclosures

Privia Health (PRVA) 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: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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}
Buy	≥ 10%	≤ 70%
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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