

## Health Care Facilities

# Q4 AMN job postings up sequentially, implies upside to our Q1 ests

Price Objective Change

## Next catalyst for AMN is Q1 guide

The next catalyst for AMN is 1Q24 guidance as one of the biggest questions is when demand will bottom. The company historically provides Q1 guide with Q4 results in February. However, it is possible AMN will update the outlook when it presents at an investor conference tomorrow. Based on the strong correlation between job postings on AMN websites and the company's revenues in the subsequent quarter, we believe the Q4 postings are a good indication for Q1 revs. AMN job postings increased +14% in 4Q23, the first time we've seen a sequential increase since 3Q22. This is somewhat unexpected as the company had said Nurse & Allied revs could still be flat to down slightly in Q1. The labor market continues to slowly improve (see our [November Health Care Labor Tracker](#)), so we see less near-term opportunity for the nurse staffing industry. That said, we may be nearing a bottom for demand over the next few quarters, and based on the job postings data, there may be upside to our/consensus Q1 estimates. We are raising our AMN PO to \$82 from \$76 (10.0x 2024E EBITDA vs 9.4x previously) given better visibility into stabilizing trends. Reiterate Neutral.

## AMN postings up in Q4, implies upside to our estimates

On average, 4Q23 AMN job postings increased +14% q/q. This is the first q/q increase we've seen since 3Q22. The +14% increase is better than our estimates for AMN's 1Q24 revenue (roughly flat q/q), while consensus is modeling a +4% increase q/q. Of note, AMN had said Q1 Nurse & Allied revs could be flat to down slightly. Meanwhile, the +14% increase in postings also implies upside to the -1% q/q decrease we forecast for CCRN's Q1 revenues. We note that revenue is also impacted by the pace of normalizing bill rates, so the comparison is not 1:1.

## October saw low single digit labor cost growth

In October, the monthly survey of hospitals administered by Kaufman Hall (n=1,300), saw labor costs increase +3% y/y, accelerating from +2% on average in Q3, but much better than the high single digit/low double digit growth from 2022. Our bullishness on hospitals ([see our Year Ahead 2024 report](#)) is based on pricing improvement, not labor improvement, so if labor moderates faster than expected there could be additional upside.

## 5% of hospitals expect labor shortages, only 2% seeing

According to HHS, 2.3% of hospitals (stable m/m) reported staffing shortages as of 12/23. Meanwhile, 5.3% still expect to see shortages next week (-20bps m/m). Interestingly, although the number of hospitals seeing shortages has been falling since January 2022, the number of hospitals expecting shortages has remained elevated. The large number of hospitals expecting a staffing shortage is likely the reason that bill rates aren't coming down faster. Meanwhile, we note that key hospital states have lower exposure than average to shortages – GA (2.1%), CA (2.0%), TN (1.8%), FL (1.4%), and TX (0%) are below average. This bodes well for the public hospital companies to outperform the industry broadly (although still seeing pressure). Maintain ratings on covered companies.

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**Refer to important disclosures on page 8 to 13. Analyst Certification on page 7. Price Objective Basis/Risk on page 6.**

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### Abbreviations

AMN: AMN Healthcare

CCRN: Cross Country Healthcare

HHS: Department of Health and Human Services

UHS: Universal Health Services

THC: Tenet healthcare

HCA: HCA Healthcare

## AMN Q4 postings increased sequentially

In order to assess our current revenue estimates for the nurse staffing companies, AMN and CCRN, we looked at the total number of job postings advertised by companies on their websites. The BofA Data Analytics team utilized Thinknum to pull historical data on total job listings advertised on AMN's websites going back to June 2020.

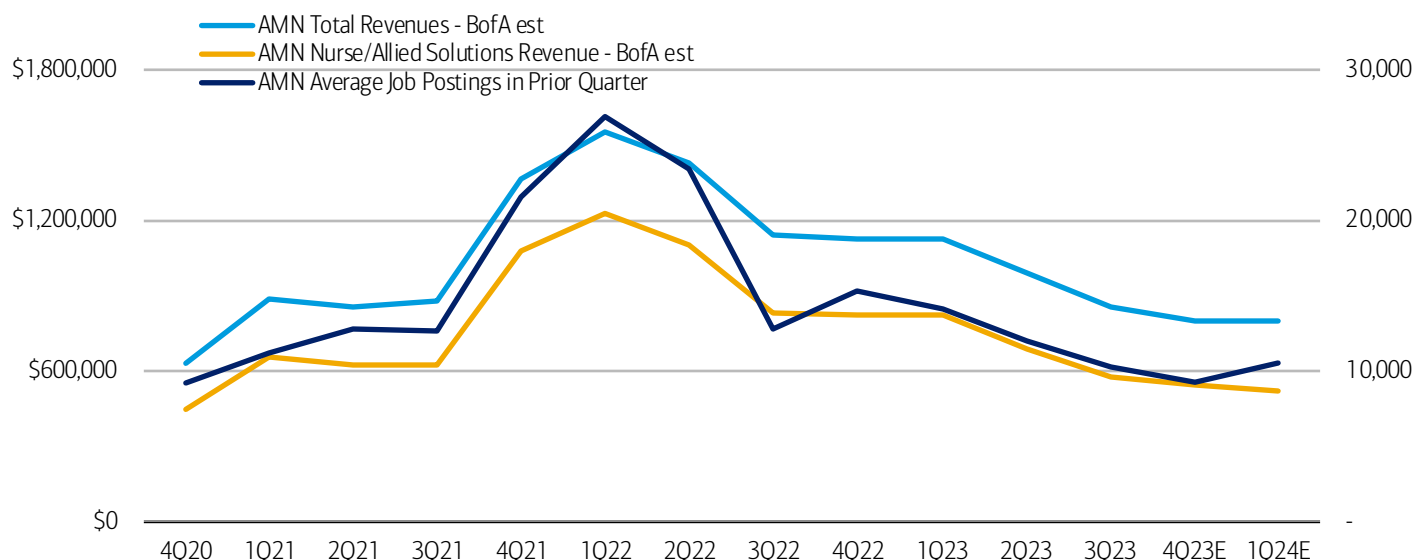
A typical temporary health care job placement is about 13 weeks (one quarter). We found a strong correlation (94%) between the average quarterly job postings on AMN websites in 3Q20-3Q23 and AMN revenues in the following quarter (the period from 4Q20A to 4Q23E). This implies that the average job postings in 4Q23 should be a good indicator for AMN 1Q24 revenues.

The average number of AMN job postings in 4Q23 through December 7<sup>th</sup> was up +14% from 3Q23. This is the first q/q increase we have seen since 3Q22. The increase is somewhat surprising as AMN had said Nurse & Allied revs could be flat to down slightly in Q1 vs Q4 depending on if larger clients continue to reduce contract labor utilization. Meanwhile, our 1Q24 total revenue estimate calls for AMN total revs to be roughly flat q/q. Consensus estimates imply 1Q24 revenue to increase +4% q/q.

The one dynamic not expressly captured in the job postings data set is the bill rate, which likely declined throughout 4Q23 (AMN expects bill rates to decline 4% in Q4 and could continue to decline low-single digits in 2024) and negatively impact revenues. This is an item to watch; however, we note that during a period of rising inflation and wages broadly, bill rates may not fall the way they historically would and could mitigate the lower job postings. Our baseline assumption is that wage growth remains in the 4%+ range for the next couple of years which should provide some rate cushion to staffing companies in the near term.

### Exhibit 1: AMN Job postings in prior quarter vs AMN revs

Average job postings on AMN websites in 4Q23 imply some upside to our 1Q24 revs estimate



Source: Historical job posting data obtained from AMN websites via Thinknum, company filings, BofA Global Research estimates

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### CCRN revs also correlated with AMN postings data

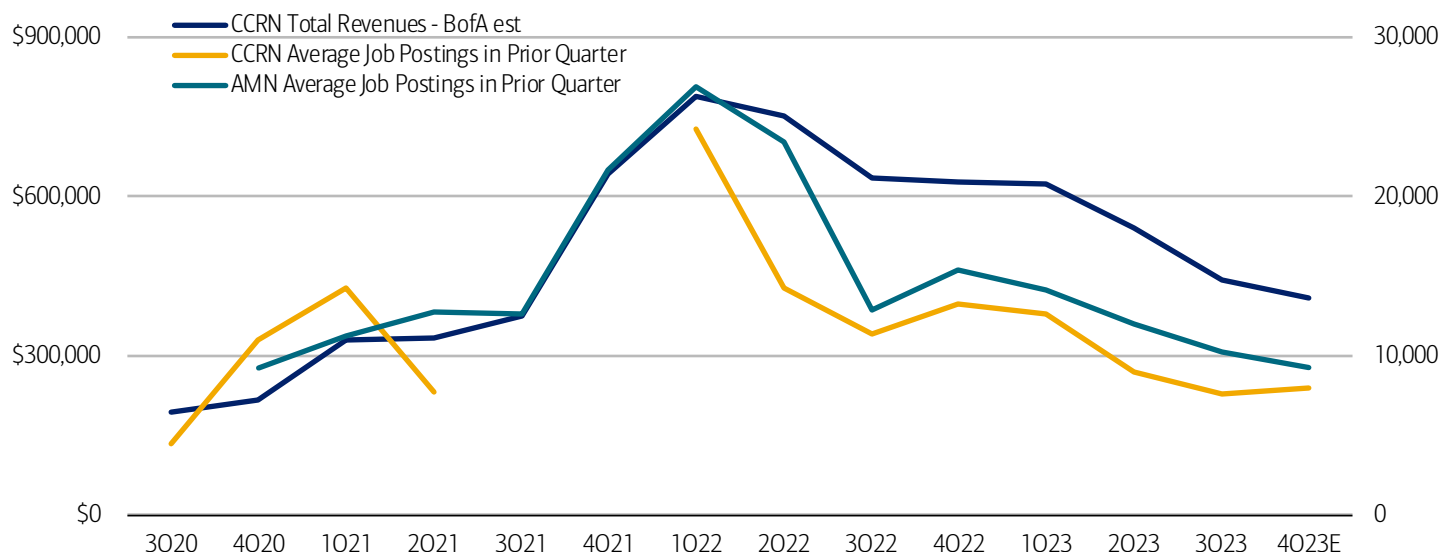
We also pulled job postings on crosscountry.com. While we do not have a comprehensive historical postings count from the CCRN website, we found that CCRN revs are highly correlated with AMN job postings data (81%).

The 4Q23 job postings on AMN's websites increased +14% q/q, while our estimate for CCRN 1Q24 revenue calls for revs to decrease -1% q/q. We note that the number of job

postings we collected from the CCRN website in 4Q23 imply a q/q decline, -6% q/q vs +14% for AMN postings. Similar to the AMN analysis above, this doesn't capture the impact of bill rates, which are likely declining, but still stubbornly high.

#### Exhibit 2: CCRN job postings and AMN job postings in prior quarter vs CCRN revs

CCRN revs are correlated with AMN job postings. The AMN postings in Q4 imply some upside to our est for CCRN 1Q24 revs



Source: Historical job posting data obtained from AMN websites via Thinknum, company filings, BofA Global Research estimates

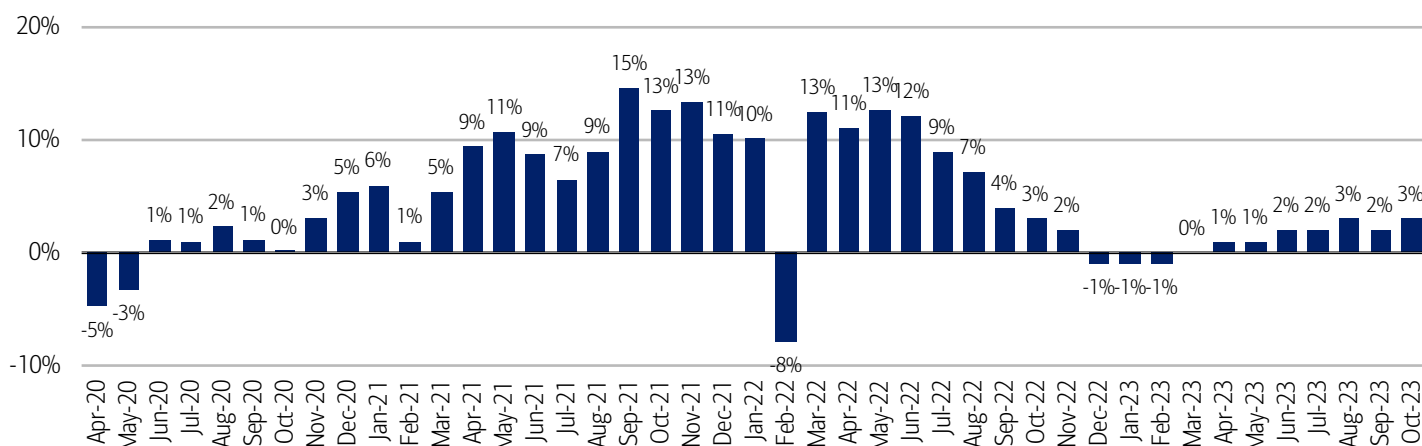
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## Labor costs +3% y/y in October

Hospitals in the Kaufman Hall monthly survey dataset (n=1,300) initially saw labor spending in 1H22 remain elevated, but then started to moderate as the year went on, with 4Q22 labor costs up ~1% y/y. 1Q23 saw further improvement (-1% decline y/y). In 2Q23, hospitals saw labor expense up +1% y/y. Since then, labor costs have slowly accelerated: +2% in 3Q23 on average and +3% in October.

#### Exhibit 3: Y/Y Increase in Total Labor Expense, as per Kaufman Hall National Hospital Flash Reports

Hospitals have seen labor costs increase +3% y/y in October vs +2% in 3Q23



Source: Kaufman Hall National Hospital Flash Reports, April 2020 to October 2023

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We find the Kaufman Hall data to be especially useful because it takes into account a hospital's total labor expense, whereas some of the public hospital companies include costs related to contract labor and agency staff within their "other operating expenses" cost line item, which gives us less visibility into what their total labor spend is each

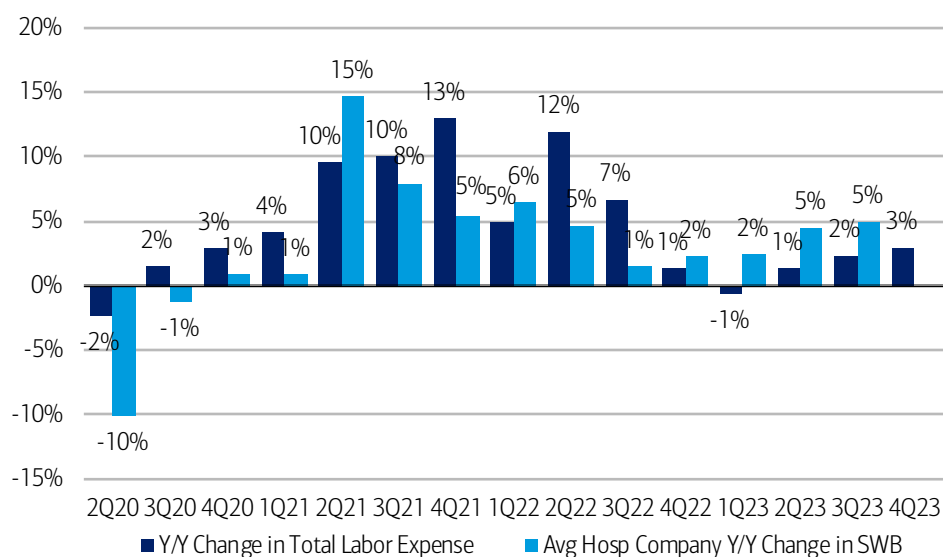


quarter. Compared to the Kaufman Hall survey, the public hospitals saw a more significant y/y reduction in SWB (Salary, wages, & benefits) expenses in 2Q20 as they furloughed staff aggressively and this led to a more significant y/y growth in 2Q21. Meanwhile, some of the outsized growth in labor expenses that began in 2Q21, and remained prominent into 3Q22, was due to the sharp increase in market rate for contract labor that providers have been seeing. From 4Q22 to 1Q23, the Kaufman Hall survey saw labor cost growth y/y decelerate. Meanwhile, the public hospitals saw a slight acceleration in those quarters on average as they invested in core labor to reduce reliance on contract labor. From 2Q23 to 3Q23, both the Kaufman Hall survey and the public hospitals saw accelerating labor cost growth.

The Kaufman Hall survey data suggests hospitals saw +3% y/y growth in labor costs in October. This compares to the average +5% y/y growth in salary, wages and benefits expense public hospital companies reported in Q3.

#### Exhibit 4: Y/Y Increase in Total Labor Expense as per Kaufman Hall compared to Y/Y Increase in Public Hospital Company Salary, Wages, & Benefits Expenses

Kaufman Hall October data suggests publics will see low single digit labor cost inflation in 4Q23



Source: Kaufman Hall National Hospital Flash Reports, April 2020 to October 2023; HCA, CYH, THC Acute, UHS Acute disclosures

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### Only 2% of hospitals seeing labor shortages as of 12/23

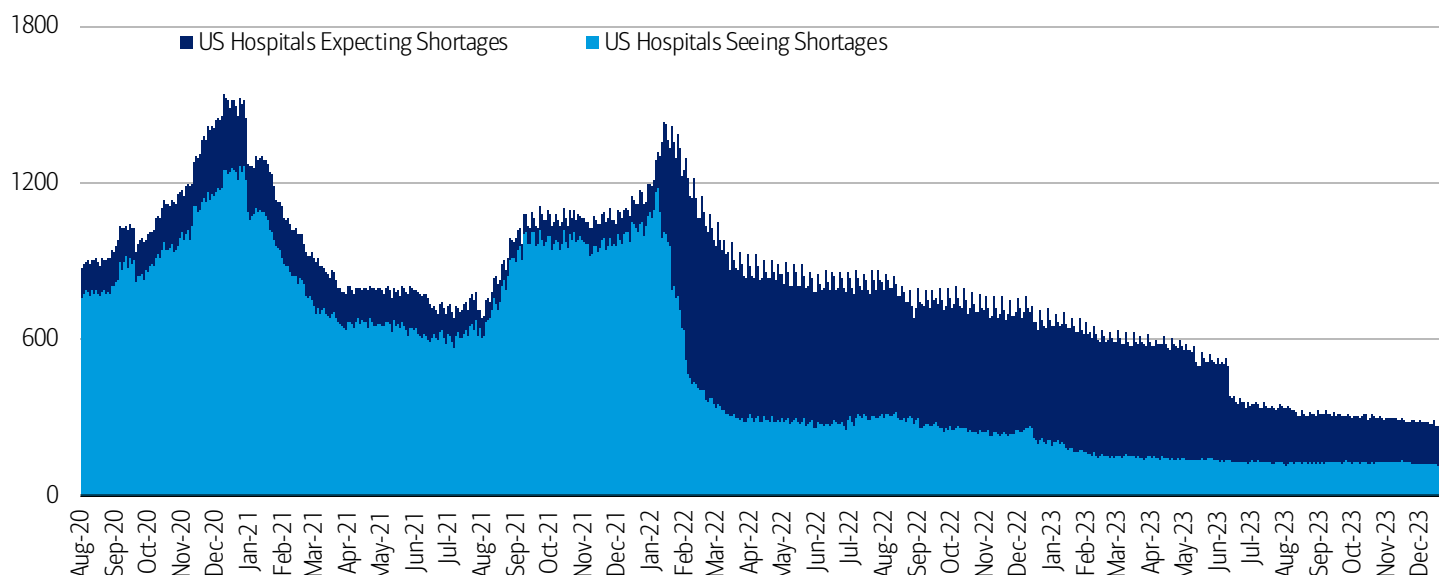
According to the most recent data from the Dept. of Health and Human Services (HHS), 117 hospitals or 2.3% of all community hospitals in the US (stable m/m and 10bps below Q3 average) were reporting staffing shortages as of 12/23/2023. In December to date overall, 2.3% of hospitals reported staffing shortages on average, 10bps below November and 20bps below October.

Meanwhile, 271 hospitals or 5.3% of all hospitals reported that they expect to see shortages within the week (down 20bps m/m). Interestingly, although the number of hospitals seeing shortages has been falling since January 2022, the number of hospitals expecting shortages has fallen more slowly. On average, 5.6% of hospitals expected a shortage in 4Q23 to date, below the 6.2% in 3Q23. In December to date, 5.4% of hospitals expected staffing shortages, 20bps below November and 50bps below October.

The decline in actual shortages is a positive and bodes well for continued moderation from here. However, the elevated number of hospitals that expect a staffing shortage in the next week may help explain what appears to be a more gradual decline in labor rates (both full time base wage inflation and temp staffing bill rates) than we had been forecasting.

**Exhibit 5: Number of US Hospitals Reporting Staffing Shortages or Expecting them, August 2020 to present**

The number of hospitals seeing staffing shortages has generally been decreasing since August 2022



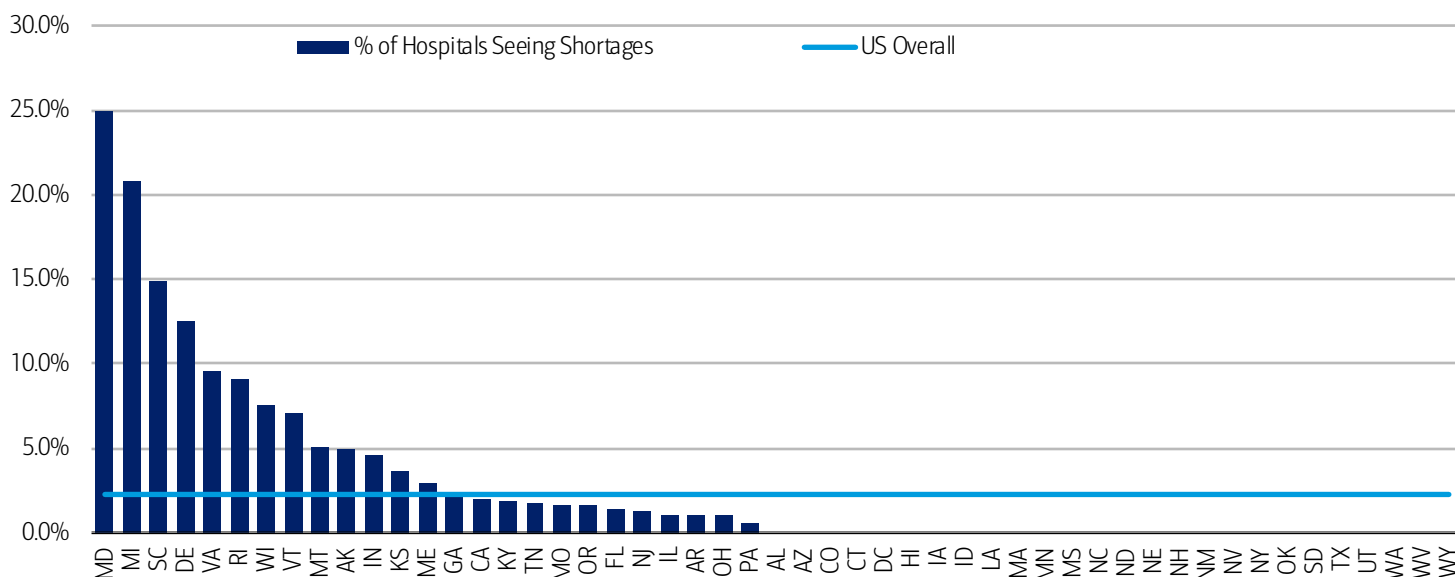
Source: HHS, BofA Global Research

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Maryland and Michigan hospitals are currently seeing the most significant labor constraints, with 25% and 21% of the hospitals in each state, respectively, reporting critical staffing shortages. This is more than 9x the US average of 2.3%. Overall, 13 states are seeing shortages worse than the US overall, with 7 of those states seeing shortages more than 500bps worse than the US. Of the key hospital states, none are seeing staffing shortages above the US overall, boding well for the public hospital companies to outperform the industry broadly (although still seeing pressure).

**Exhibit 6: Percentage of Hospitals Reporting Staffing Shortage by State, as of 12/23/2023**

25% of states are reporting staffing shortages worse than the US overall, while 51% are not seeing any shortages at all as of 12/23/2023



Source: HHS, American Hospital Association, BofA Global Research

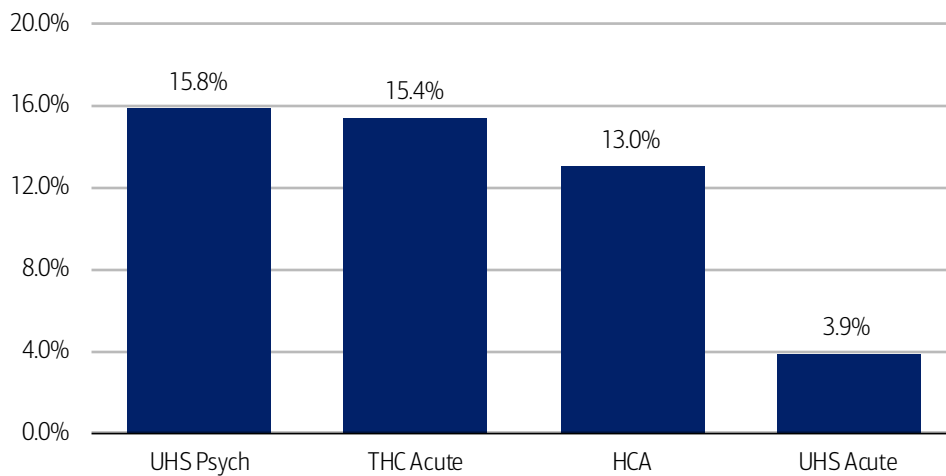
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For the most part, the publicly traded companies have below average exposure to the states with severe labor shortages, which bodes well for labor costs. THC has the most acute care exposure at 15% of beds, followed by HCA at 13% and UHS at only 4%.

#### Exhibit 7: 15% of THC's hospital beds are in states with above average shortages

% of beds in states with staffing shortages above the US overall



Source: Company filings, HHS, BofA Global Research

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#### Exhibit 8: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AMN	AMN US	AMN Healthcare	US\$ 75.35	B-2-9
CCRN	CCRN US	Cross Country	US\$ 22.48	C-3-9
HCA	HCA US	HCA Healthcare	US\$ 281.17	B-1-7
THC	THC US	Tenet Healthcare	US\$ 79.31	C-1-9
UHS	UHS US	Universal Health	US\$ 154.26	B-1-7

Source: BofA Global Research

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## Price objective basis & risk

### AMN Healthcare (AMN)

Our \$82 PO is based on 10.0x our 2024E EBITDA, above the midpoint of its historical 8-11x multiple range, which we think is justified given AMN's diversification into higher growth services, the company's ability to cross-sell with the Managed Service Provider (MSP) focus, and the opportunity for growth off a more normalized base.

Risks to the downside are that demand slows as providers focus on reducing contract labor further, bill rates decline faster than expected, and a recession could put more pressure on demand for temp staffing than expected (it took seven years for temp staffing revenues to reach pre-recession levels following 08/09).

### Cross Country Healthcare (CCRN)

Our \$20.00 PO is based on a 6.6x 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 underlying growth factored into our 2023 estimate and the structural changes that the industry is currently seeing, driven by tailwinds in both pricing and volumes due to COVID and high labor demand. This is offset by the low visibility into operations post 2022, and the LT margin sustainability.

Upside risks to our PO are if the company is able to cut costs more aggressively than we forecast, if demand for staffing assignments rebounds sooner or to a higher magnitude than we forecast, if the company sees an uptick in COVID related orders similar to 1Q21, and if the company's WSG asset contributes more to growth than expected.

Risks to the downside are that CCRN's clients do not regain the same demand levels as pre-COVID, cost cutting does not come in as expected, or if there is disruption to the company's growth from shrinking its physical footprint.

### **HCA (HCA)**

Our \$330 price objective is based on 10.1x our 2024E EBITDA, above the high end of its historical 6-9x multiple range, given what we see as a favorable backdrop for hospitals broadly and a strong balance sheet.

Risks to the downside are that labor costs continue to rise, volumes recover slower than expected, or margins are pressured if payor mix deteriorates as volumes normalize.

### **Tenet Healthcare (THC)**

Our \$95 PO is based on 8.4x our 2024 EBITDA less non-controlling interests estimate, above the high end of the company's historical 5.5x-8.5x range. While growth in the Acute care business will likely continue to be impacted by labor headwinds, the company's strong cost control should drive earnings and position the company well heading into the expected ramp in volumes as COVID normalizes. Meanwhile, continued repositioning into Ambulatory Surgery Centers (ASCs) will help both the organic growth and FCF profile.

Downside risks to our PO are: 1) Volume trends rebound slower than expected following COVID-19, 2) Government reimbursement reductions, 3) Margin pressure/integration issues at recently acquired assets, 4) Above average leverage, 5) labor costs pressures.

Upside risks to our PO are: 1) Volumes are better than expected, 2) Continued acuity strength and pricing growth, 3) Better than expected cost controls.

### **Universal Health Services (UHS)**

Our \$190 price objective (PO) is based on 9.2x our 2024E EBITDA estimate. This represents a multiple near the high end of the company's historical range of 6-10x EBITDA. We see this as justified given the favorable backdrop broadly for hospitals.

Upside risks to our PO are a quicker-than-expected recovery in labor, Acute vols returning faster, larger-than-expected demand tailwinds in the behavioral business.

Downside risks to our PO are a slower-than-expected labor recovery, worse-than-expected Psych business performance, a slower volume recovery, slowing economies in UHS' other markets, and government reimbursement cuts.

## **Analyst Certification**

I, Kevin Fischbeck, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

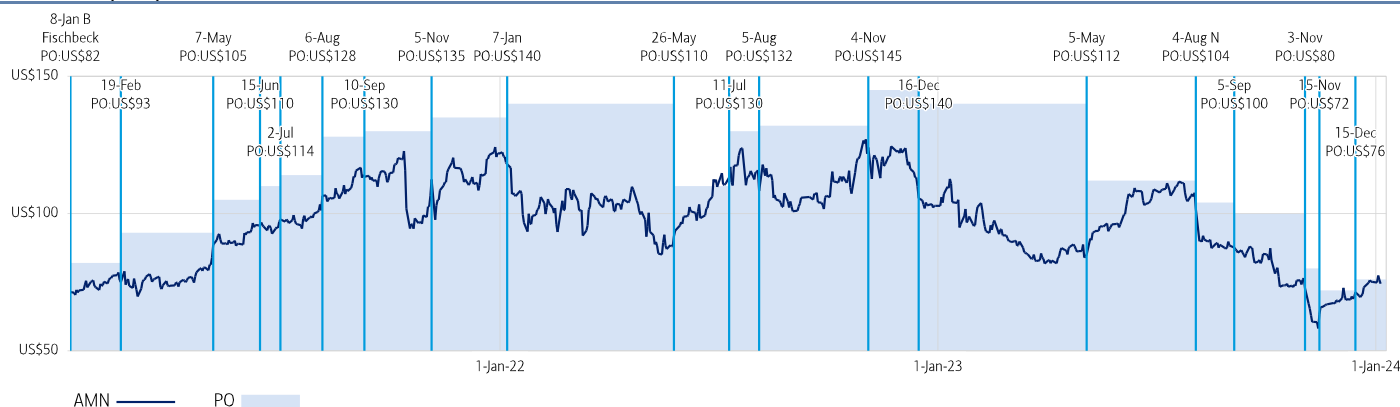
## US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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
	Pediatric Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

## Disclosures

## Important Disclosures

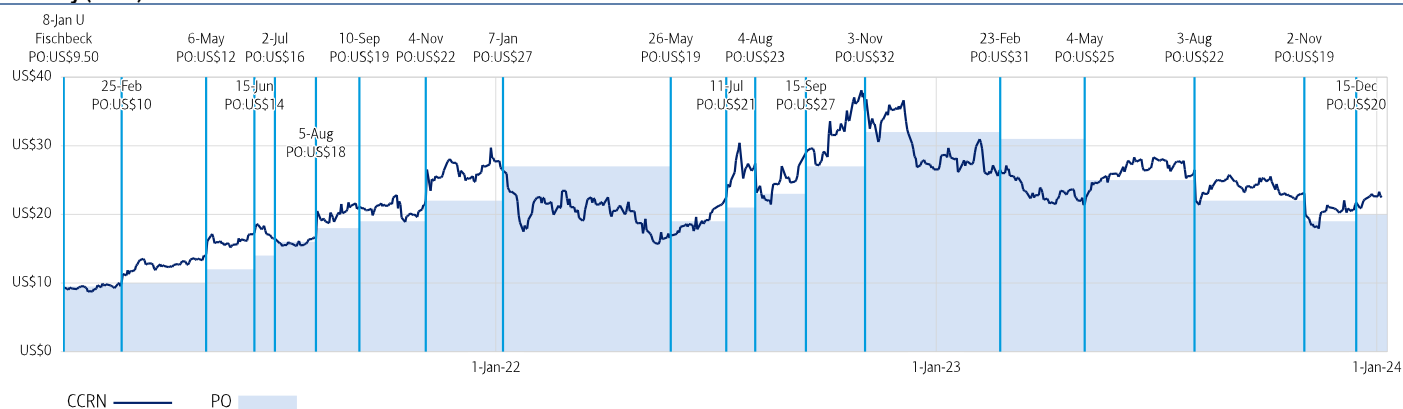
## AMN Healthcare (AMN) Price Chart



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

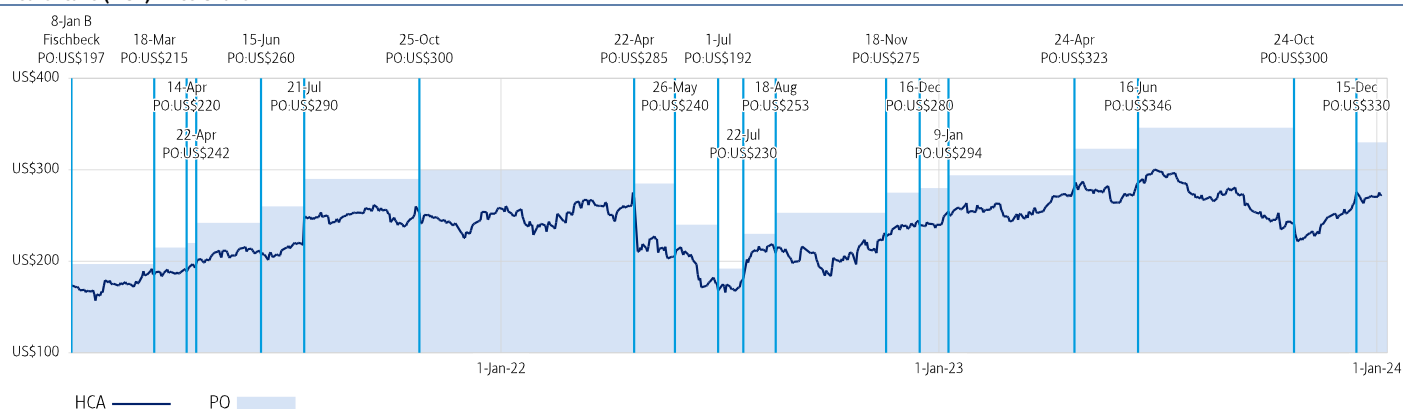
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey 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.



**Cross Country (CCRN) Price Chart**

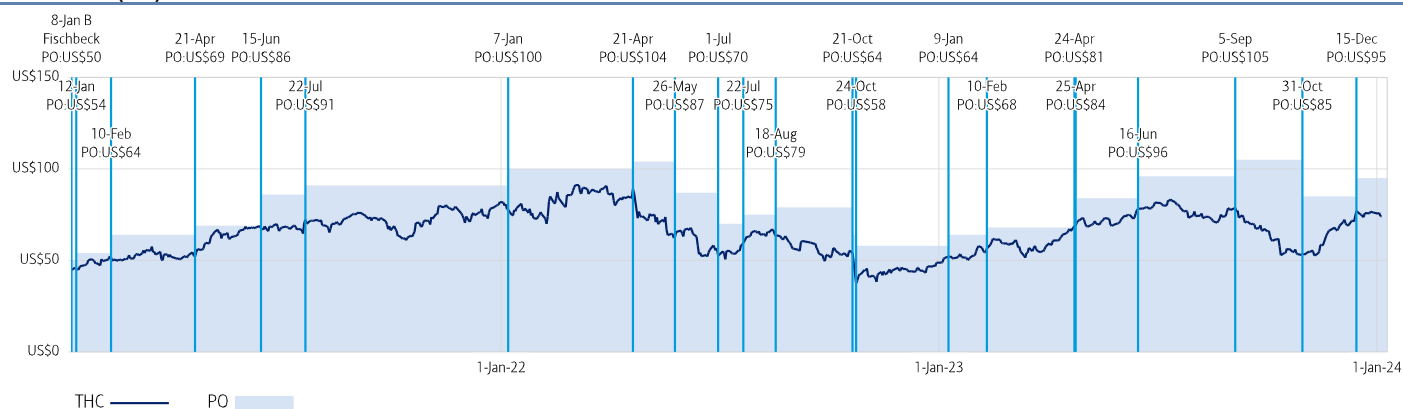
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**HCA Healthcare (HCA) Price Chart**

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

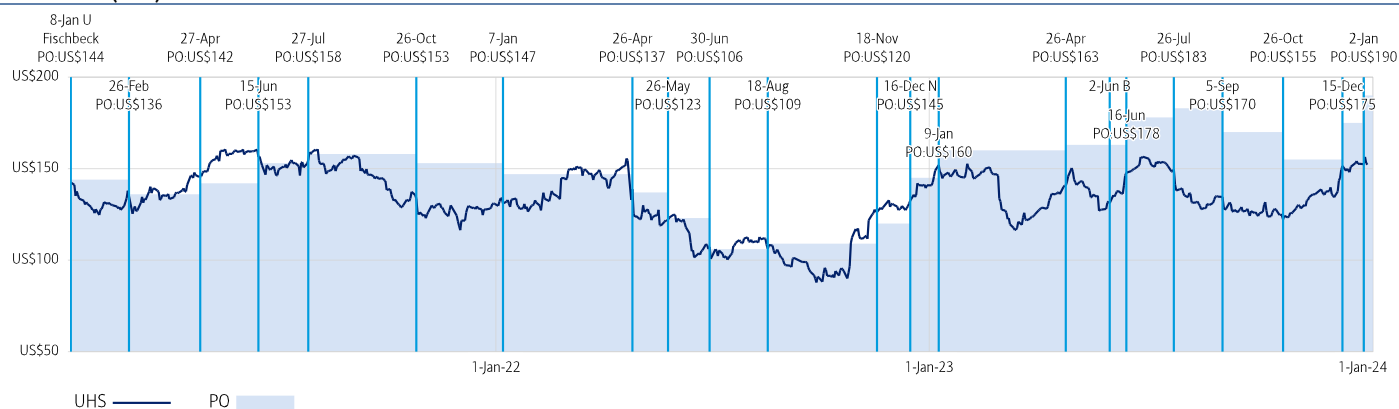
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**Tenet Healthcare (THC) Price Chart**

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

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## Universal Health (UHS) Price Chart



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

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## Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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: Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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The issuer is or was, within the last 12 months, an investment banking client of BofA and/or one or more of its affiliates: AMN Healthcare, HCA Healthcare, Tenet Healthcare, Universal HLTH-B. BofA or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: AMN Healthcare, Cross Country, HCA Healthcare, Tenet Healthcare, Universal HLTH-B.

The issuer is or was, within the last 12 months, a non-securities business client of BofA and/or one or more of its affiliates: AMN Healthcare, Cross Country, HCA Healthcare, Tenet Healthcare, Universal HLTH-B.

BofA or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: AMN Healthcare, HCA Healthcare, Tenet Healthcare, Universal HLTH-B.



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