

## Alignment Healthcare

## 2024 MLR and growth guide in stark contrast to peers

Reiterate Rating: NEUTRAL | PO: 8.00 USD | Price: 6.92 USD

## 4Q MLR miss attributed ACO REACH, core “in line”

ALHC had a weak quarter across its key margin guidance metrics, as revenue and membership came in better but costs were above expectations. ALHC attributed the MLR miss to ACO REACH (MLR of 108.8% versus 88.0% in MA). ALHC is guiding to MLR improvement y/y in 2024 (down 70bps y/y and 40bps below consensus) but, excluding ACO REACH, MLR to be up 15bps at the midpoint. This, combined with commentary about well-controlled trends in Q4 and through January despite coding adjustments and 37% membership growth, is hard to reconcile with peer commentary citing an accelerating trend pressuring MLR in 2024 despite more modest growth. As a result, despite bullish commentary and reason for optimism, we have low visibility and reiterate our Neutral rating. We modestly adjust down our 2024 EBITDA estimate and lower our PO to \$8 from \$10 using a new methodology of 23x 2026E EBITDA versus a revenue multiple previously.

## 2024 guide: better top line, lower MLR, higher margin

ALHC reiterated 2024 membership of 162k-164k and guided to revenue of \$2.395bn the midpoint (5.6% above consensus). Meanwhile, adj gross profit guide is 8% above consensus and adj EBITDA guide of \$0 at the midpoint is slightly above consensus (-\$2m). The most surprising part of the guidance, in our view, is that MLR is expected to be 87.1-88.4% versus 88.5% reported. However, with the company adjusting ACO REACH contracts to no longer have downside risk, the 87.75% midpoint is 15bps above the core MA 87.6% in 2023. ALHC's trend comments were dramatically different from peers, noting that inpatient days were down 7% in Q4, and the decline continued into January (although trends inside and outside CA were well controlled). ALHC usually sees an 800bps improvement in MLR over 5 years on new members, and with churn down 24%, returning member MLR improvement is expected to offset the drag from new member MLR (assuming 89% MLR on new members). Finally, RAF scores on new members are within a couple bps of expectations (82% of sales came from plan switchers), giving ALHC confidence in its MLR guidance.

## Positioned for another year of above-average growth in 2025

ALHC improved benefits by 0.7% versus peers, which kept benefits flat/made modest cuts in 2024. For 2025, ALHC sees a widening stars advantage (competitor stars drop from 79% to 56%) and believes that its model insulates it more from V28 (versus peers that use more capitated doctors and code more aggressively). Only 1 other large CA HMO has stable stars, so as peers cut benefits in 2025, ALHC should be able to grow 20%+ while balancing margins. ALHC noted that maturation of 2024 membership growth in 2025 should help MLR, while the company continues to leverage its increasing scale. ALHC sees \$50m cash burn in 2024 versus breakeven adj EBITDA.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.82)	(0.80)	(0.58)	(0.44)	(0.26)
EPS Change (YoY)	28.1%	2.4%	27.5%	24.1%	40.9%
Consensus EPS (Bloomberg)	(0.70)	(0.77)	(0.62)	(0.53)	(0.41)
Valuation (Dec)					

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Timestamp: 28 February 2024 12:11PM EST

28 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	10.00	8.00
2024E Rev (m)	2,473.8	2,394.6
2025E Rev (m)	3,243.0	3,055.4
2026E Rev (m)	3,975.2	3,769.4
2024E EPS	-0.54	-0.58
2025E EPS	-0.43	-0.44
2026E EPS	-0.25	-0.26

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## Stock Data

Price	6.92 USD
Price Objective	8.00 USD
Date Established	28-Feb-2024
Investment Opinion	C-2-9
52-Week Range	4.88 USD - 10.15 USD
Mkt Val (mn) / Shares Out (mn)	1,304 USD / 188.5
Free Float	49.7%
Average Daily Value (mn)	4.59 USD
BofA Ticker / Exchange	ALHC / NAS
Bloomberg / Reuters	ALHC US / ALHC.OQ
ROE (2024E)	-106.9%
Net Dbt to Eqty (Dec-2023A)	-26.0%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

k: thousand

MA: Medicare Advantage

MLR: medical loss ratio

PO: price objective

RAF: risk adjustment factor

# iQprofile<sup>SM</sup> Alignment Healthcare

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	1,432	1,801	2,377	3,039	3,755
Net Investment Income	NA	NA	NA	NA	NA
<b>Total Revenue</b>	<b>1,434</b>	<b>1,824</b>	<b>2,395</b>	<b>3,055</b>	<b>3,769</b>
Total Cost of Benefits and Claims	(1,250)	(1,623)	(2,109)	(2,680)	(3,291)
S,G & A (Including Commissions)	(296)	(307)	(345)	(405)	(468)
<b>Total Operating Expenses</b>	<b>(1,563)</b>	<b>(1,951)</b>	<b>(2,481)</b>	<b>(3,116)</b>	<b>(3,795)</b>
<b>Pre-Tax Operating Earnings</b>	<b>(129)</b>	<b>(128)</b>	<b>(86)</b>	<b>(61)</b>	<b>(25)</b>
Income Tax Expense	0	0	0	0	0
<b>Operating Earnings After Tax</b>	<b>(149)</b>	<b>(148)</b>	<b>(110)</b>	<b>(85)</b>	<b>(49)</b>
<b>Net Income (Reported)</b>	<b>(149)</b>	<b>(148)</b>	<b>(110)</b>	<b>(85)</b>	<b>(49)</b>
Diluted Shares	181	186	189	190	192
Operating Earnings Per Share	(0.82)	(0.80)	(0.58)	(0.44)	(0.26)
Net Income (Reported) Per Share	(0.82)	(0.80)	(0.58)	(0.44)	(0.26)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	410	319	416	484	570
<b>Total Assets</b>	<b>634</b>	<b>592</b>	<b>670</b>	<b>802</b>	<b>964</b>
Reserves	NA	NA	NA	NA	NA
LT Debt	161	162	162	162	162
<b>Total Liabilities</b>	<b>395</b>	<b>434</b>	<b>622</b>	<b>839</b>	<b>1,050</b>
<b>Total Equity</b>	<b>239</b>	<b>158</b>	<b>48</b>	<b>(37)</b>	<b>(86)</b>
<b>Total Equity (Ex FAS 115)</b>	<b>239</b>	<b>158</b>	<b>48</b>	<b>(37)</b>	<b>(86)</b>
Book Value per Share (Reported)	NA	NA	NA	NA	NA
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

## Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	20.6%	16.9%	14.4%	13.3%	12.4%
Loss Ratio	87.3%	90.1%	88.8%	88.2%	87.6%
<b>Combined Ratio</b>	<b>107.9%</b>	<b>107.0%</b>	<b>103.2%</b>	<b>101.4%</b>	<b>100.1%</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	2.3x	3.1x	6.1x	129.5x	-14.4x

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	22.7%	25.8%	32.0%	27.9%	23.5%
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	22.8%	27.2%	31.3%	27.6%	23.4%
Operating Earnings per Share	28.1%	2.4%	27.5%	24.1%	40.9%
Asset	0.5%	-6.6%	13.1%	19.8%	20.2%
Reported Book Value per Share	NA	NA	NA	NA	NA

## Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	-54.8%	-74.6%	-106.9%	-1,491.9%	NM
Operating ROE (Ex FAS 115)	-54.8%	-74.6%	-106.9%	-1,491.9%	NM
Operating Return on Average Assets	-23.6%	-24.2%	-17.5%	-11.5%	-5.6%
Operating Margin	-10.4%	-8.1%	-4.6%	-2.8%	-1.3%
Long Term Debt to Cap Ratio (Ex FAS 115)	40.2%	50.6%	77.1%	129.3%	212.7%
Net Income % Operating Income	100.0%	100.0%	100.0%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

## Company Sector

Managed Health Care

## Company Description

Alignment Healthcare (ALHC) is a Medicare Advantage (MA) health plan that leverages its proprietary technology, internal care team, and deep physician engagement to improve outcomes, close gaps in care, and ultimately lower costs. As the cost model improves, ALHC is able to pass savings on to the members, creating a more compelling benefit offering in the market, and subsequently driving share gains.

## Investment Rationale

Neutral-rated ALHC is a fast growing, Medicare Advantage pure play. Given its unique positioning in the fastest growing industry within Managed Care, we expect ALHC to organically grow revenues 20%+ a year for the next several years. Growth is further supported by geographic expansion, strong stars, proprietary technology and ability to engage physicians in value based care. However, the slower pace of growth and margin expansion makes it less attractive than other growth stocks we cover.

## Stock Data

Average Daily Volume

663,458

## Quarterly Earnings Estimates

	2023	2024
Q1	-0.20A	-0.25E
Q2	-0.15A	-0.10E
Q3	-0.19A	-0.05E
Q4	-0.25A	-0.19E

## Price objective basis & risk

### Alignment Healthcare (ALHC)

Our price objective (PO) of \$8.00 is based on 23x our 2026E EBITDA estimate. This multiple is roughly twice as high as other managed care organizations (MCOs) but is supported by the potential to grow more than twice as fast as it ramps market share and profitability, offset by other execution risks.

Our PO is also supported by a discounted cash flow (DCF) on 2023E-2032E parent-company free cash flows minus stock compensation using a 10% discount rate and 13x exit P/E multiple.

Upside risks are faster growth through accelerated new market entry/share gains, and quicker ramp to profitability than expected.

Downside risks are MA rate pressure, difficulty replicating the model in new markets, discussions of single payer healthcare in California pressuring multiples, and a slower-than-expected ramp in profitability.

## Analyst Certification

I, Adam Ron, 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
	Astrana Health Inc	ASTH	ASTH 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
	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
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA



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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Privia Health	PRVA	PRVA US	Adam Ron
UNDERPERFORM	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	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

**iQmethod<sup>SM</sup> 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 &amp; 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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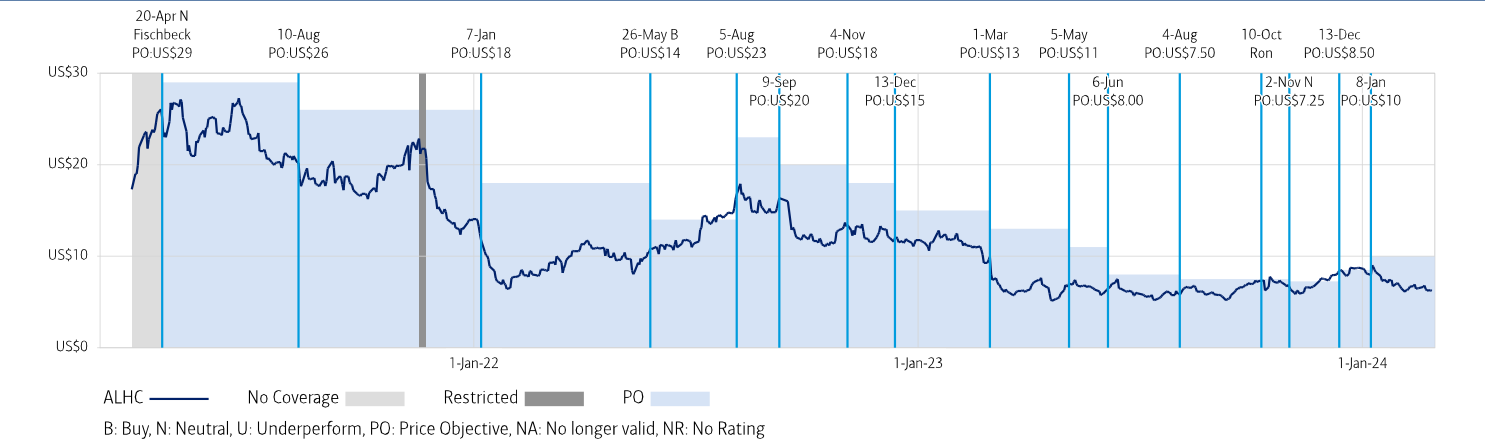
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Alignment Healthcare (ALHC) Price Chart



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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: 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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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