

## R1 RCM

RCM announces 4Q prelim results w/  
revenue below and EBITDA above St.

Maintain Rating: BUY | PO: 17.00 USD | Price: 10.14 USD

## The News: RCM announces preliminary 4Q'23 results

This morning, R1 RCM announced preliminary 4Q'23 results and plans to provide details on its FY24 outlook in conjunction with reporting FY23 results in February 2024. RCM expects 4Q revenue of \$563-\$567MM, representing increase of 6.0-6.5% y/y, below BofA estimates of \$585MM and Visible Alpha consensus estimates of \$586.1MM. The company noted revenue in the quarter reflects double-digit growth in modular revenue partially offset by delays in timing of new client transitions/implementations and lower sequential incentive fees. Adj. EBITDA is expected to be \$163-\$166MM, slightly below BofA estimates of \$166.1MM and slightly above consensus of \$162.6MM. RCM also paid the remaining outstanding \$60MM on its revolver. Additionally, the company expects to provide details on its FY24 outlook in conjunction with reporting its FY23 results on February 27, 2024.

## Why It Matters: Prelim 4Q results reflect cost discipline

We see today's announcement as demonstrating RCM's consistent margin performance and cost discipline despite ongoing questions around the timing of onboarding clients. While the preliminary 4Q results were mixed, we see the slight adj. EBITDA beat vs. consensus as highlighting continued steady EBITDA performance despite timing delays from customer implementations. Post the quarter, a formal FY24 guide will likely be key to providing greater clarity on the trajectory of growth given the recent announcement of the acquisition of Acclara (expected to be completed in early 2024), 10-year agreement with Providence Health System, and uncertain timing and size of new contract wins. This will be important given recent concerns around M&A related integration risk, managing customer losses, and questions on operational execution which have all weighed on investor sentiment. Despite these concerns, we remain optimistic on the pipeline, cross-sell opportunities, and broader end-market strength in the industry to contribute to RCM's growth over the next few years. We maintain our Buy rating on RCM shares given on confidence in the long-term model and limited competitors in the outsourcing market.

08 January 2024

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## Stock Data

Price	10.14 USD
Price Objective	17.00 USD
Date Established	2-Jan-2024
Investment Opinion	C-1-9
52-Week Range	9.55 USD - 18.71 USD
Mrkt Val (mn) / Shares Out (mn)	4252 USD / 419.3
Free Float	36.8%
Average Daily Value (mn)	43.30 USD
BofA Ticker / Exchange	RCM / NAS
Bloomberg / Reuters	RCM US / RCM.OQ
ROE (2023E)	6.5%
Net Dbt to Eqty (Dec-2022A)	62.5%
ESGMeter™	Medium

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Timestamp: 08 January 2024 08:21AM EST

## Price objective basis & risk

### R1 RCM (RCM)

Our \$17 price objective is based on about 13x our CY24 EBITDA estimate. We used a blended multiple to arrive at our PO, evaluating both health IT companies as well as a wide range of other business services-oriented companies that have a combination of technology/consulting solutions. Our target multiple is well below the peer group mean of 18-19x to account for the current operational and macro headwinds RCM is facing. We think EV/EBITDA is the most appropriate metric and use a fully adjusted diluted share count to reflect the warrants outstanding.

Downside risks to our price objective are the inability to convince hospitals to outsource the entire revenue cycle, increased cost associated with cash collections leading to margin pressure, excess costs needed to help support ongoing implementations and recent billing headwinds, a slowdown in utilization that weighs on overall net patient revenue, and M&A risk. Upside risks to our price objective are incremental revenue uplift for outperformance (given the % of collections model), further gross margin contribution from automation activities, and incremental M&A that bolsters the customers served.

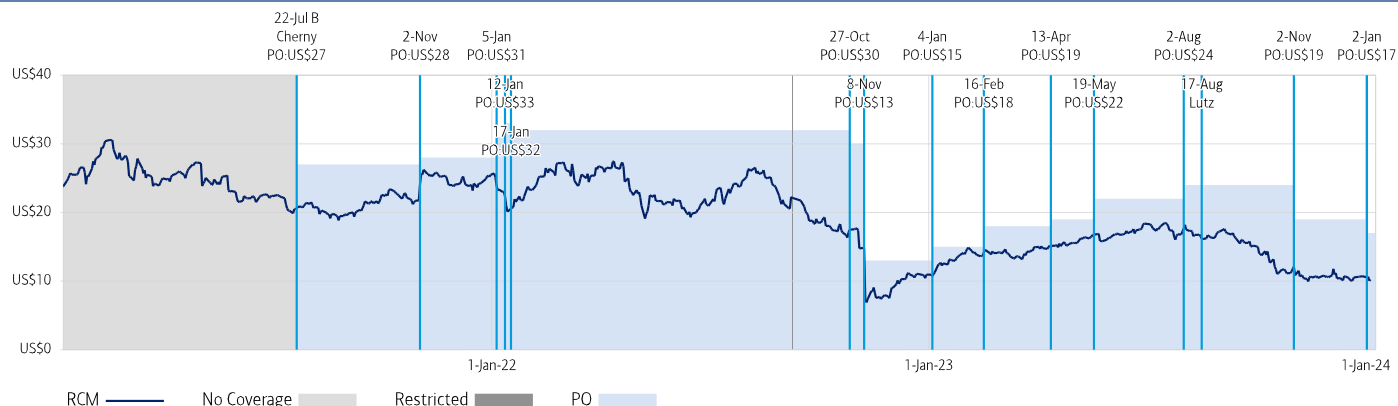
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### R1 RCM (RCM) Price Chart



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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
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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