R1 RCM

Updating estimates following 4Q results

Reiterate Rating: NO RATING | PO: NA | Price: 14.58 USD

27 February 2024

Equity

4Q results 2% ahead of prelim with FY24 guide introduced

RCM's 4Q revenue and adj. EBITDA both came in 2% ahead of the midpoint of the preliminary ranges management provided on January 8th. FY24 guidance was introduced with revenues 1% below Visible Alpha consensus estimates and adj. EBITDA 4% below. Our updated model now reflects FY24 guidance including contributions from the recently announced 10-year partnership agreement with Providence and Acclara acquisition (transaction closed January 17th). We estimate that on a combined basis the partnership and acquisition will have a negative impact to adj. EBITDA in year one (a ~$20MM headwind), minimal contribution in year two, and begin contributing more materially starting in year three (Exhibit 1). As a reminder, RCM expects the acquisition of Acclara and partnership with Providence to contribute more than $625MM in revenue and $185MM to adj. EBITDA by year five of the partnership, excluding potential revenue synergies. We retain our No Rating as the company continues to not trade on fundamentals due to a proposed takeout offer from an investor group (link to note here).

Updating estimates to reflect Providence and Acclara

Following 4Q results and introduction of FY24 guidance (including contributions from Providence and Acclara), we are adjusting our model estimates. For FY24 we are increasing our total revenue from $2,568MM to $2,661MM and reducing our adj. EBITDA from $691.6MM to $661.4MM. For FY25 we slightly decrease our revenue estimate from $2,928MM to $2,912MM and adj. EBITDA from $818.3MM to $751.4MM. Our revenue estimates primarily reflect the contributions from Providence and Acclara and greater conservatism around timing and size of new contract wins.

Key themes for FY24: execution and onboarding

Going forward, the main catalyst to shares should be the company's continued improvement in operations and execution - in particular commentary on customer accounts receivable days and overall revenue collection. We also look for updates on revenue and cost synergies from the recent Acclara acquisition as well as from CloudMed. Longer term, customer wins, onboarding, and end-market strength remain important to share performance. Finally, shares may move on potential capital deployment, including share repurchases.

Estimates (Dec) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	0.53	0.40	0.26	0.49	0.58
GAAP EPS	(0.14)	0.04	0.07	0.42	0.53
EPS Change (YoY)	-18.5%	-24.5%	-35.0%	88.5%	18.4%
Consensus EPS (Bloomberg)			0.29	0.50	0.56
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	26.2x	34.7x	53.4x	28.3x	23.9x
GAAP P/E	NM	347.3x	198.4x	33.1x	26.2x
EV / EBITDA*	17.8x	12.3x	11.4x	10.1x	9.2x
Free Cash Flow Yield*	-1.8%	4.1%	2.1%	7.3%	8.0%

* For full definitions of *iQmethod*SM measures, see page 13.

Key Changes

(US$)	Previous	Current
2024E EPS	0.49	0.26
2025E EPS	0.68	0.49
2026E EPS	0.83	0.58
2024E EBITDA (m)	691.6	661.4
2025E EBITDA (m)	818.3	751.4
2026E EBITDA (m)	934.0	822.4

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Stock Data

Price	14.58 USD
Price Objective	NA
Date Established	NA
Investment Opinion	-6-
52-Week Range	8.87 USD - 18.71 USD
Mrkt Val (mn) / Shares Out (mn)	6,114 USD / 419.3
Free Float	36.8%
Average Daily Value (mn)	51.05 USD
BofA Ticker / Exchange	RCM / NAS
Bloomberg / Reuters	RCM US / RCM.OQ
ROE (2024E)	4.4%
Net Dbt to Eqty (Dec-2023A)	50.8%
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".

iQprofile[SM] R1 RCM

iQ**method*[SM] **– Bus Performance

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.5%	6.2%	5.3%	6.5%	7.2%
Return on Equity	12.5%	6.7%	4.4%	7.8%	8.5%
Operating Margin	14.0%	14.9%	12.1%	13.3%	13.8%
Free Cash Flow	(103)	238	123	424	466

iQ**method*[SM] **– Quality of Earnings

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	-0.1x	1.9x	2.1x	2.5x	2.2x
Asset Replacement Ratio	0.5x	0.4x	0.4x	0.3x	0.3x
Tax Rate	NM	12.3%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	62.5%	50.8%	49.0%	39.4%	29.3%
Interest Cover	4.0x	2.6x	2.0x	4.1x	4.8x

Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,806	2,253	2,660	2,912	3,169
% Change	22.5%	24.8%	18.1%	9.5%	8.8%
Gross Profit	390	527	657	734	805
% Change	9.5%	35.1%	24.8%	11.7%	9.7%
EBITDA	425	613	661	751	822
% Change	23.7%	44.2%	7.9%	13.6%	9.5%
Net Interest & Other Income	(64)	(127)	(163)	(95)	(90)
Net Income (Adjusted)	**192**	**182**	**120**	**219**	**259**
% Change	**-7.2%**	**-5.2%**	**-34.4%**	**83.4%**	**18.3%**

Free Cash Flow Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	113	66	5	179	229
Depreciation & Amortization	172	278	339	364	387
Change in Working Capital	(242)	(22)	(68)	(62)	(69)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(53)	18	(20)	59	36
Capital Expenditure	(94)	(103)	(133)	(116)	(117)
Free Cash Flow	**-103**	**238**	**123**	**424**	**466**
% Change	**NM**	**NM**	**-48.1%**	**243.9%**	**9.9%**
Share / Issue Repurchase	(37)	1	(50)	(50)	(50)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	1,010	(154)	(200)	(200)	(200)

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	110	174	47	21	36
Trade Receivables	260	269	340	396	457
Other Current Assets	194	190	230	258	287
Property, Plant & Equipment	165	174	137	111	75
Other Non-Current Assets	4,411	4,153	4,049	4,082	4,110
Total Assets	**5,140**	**4,960**	**4,803**	**4,868**	**4,965**
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	296	279	321	343	364
Long-Term Debt	1,810	1,571	1,371	1,171	971
Other Non-Current Liabilities	313	359	411	435	445
Total Liabilities	**2,419**	**2,209**	**2,103**	**1,949**	**1,780**
Total Equity	**2,721**	**2,751**	**2,700**	**2,919**	**3,186**
Total Equity & Liabilities	**5,140**	**4,960**	**4,803**	**4,868**	**4,965**

* For full definitions of *iQmethod*[SM] measures, see page 13.

Company Sector

Healthcare Technology & Distribution

Company Description

R1 operates a tech-enabled service that allows middle-market hospitals, physician groups, and health systems to improve their revenue cycle management (RCM). It delivers its primary product through contracts that include technology and human capital to help integrate the system into the organization. Improving revenue cycle with R1 can help healthcare providers capture mid-single-digit revenue lift, reduce A/R days by 20%, and reduce cost to collect by 30%. R1 is based in Chicago.

Investment Rationale

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Stock Data

Average Daily Volume	3,501,688

Quarterly Earnings Estimates

	2023	2024
Q1	0.09A	0.06E
Q2	0.09A	0.07E
Q3	0.11A	0.07E
Q4	0.10A	0.07E

Acclara/Providence contribution estimates

The Providence partnership represents the first major end-to-end cross-sale into the legacy CloudMed customer base, allowing RCM to leverage its existing relationship with a top 10 integrated delivery network (IDN). Based on management's guidance, we estimate that the combined partnership and acquisition will have a negative impact to adj. EBITDA in year one, minimal contribution in year two, and begin contributing more materially in year three (Exhibit 1). For the Providence partnership, in FY24 we estimate a $47.5MM revenue contribution offset by $(45.0)MM in adj. EBITDA due to increased costs related to onboarding new customers. In FY25, we estimate a $200.0MM revenue contribution with breakeven adj. EBITDA and in FY26 we estimate $285.6MM in revenue with a mid-teens adj. EBITDA margin contribution representing $42.8MM. In FY27, we estimate $331.8MM revenue and $59.7MM in adj. EBITDA based on a high mid-teens adj. EBITDA margin. For Acclara, we base our estimate on management's guidance (pro-rated to reflect the transaction close date of January 17th) and disclosure that over the last twelve months Acclara generated $300.0MM of revenue and $25.0MM adj. EBITDA (implying an 8.3% adj. EBITDA margin) growing low single-digits. This reflects our estimates of $292.7MM in FY24 growing low single-digits at an 8.5% adj. EBITDA margin representing adj. EBITDA of $25.0MM in FY24, $25.5MM in FY25, $26.0MM in FY26, and $26.5MM in FY27. Taken together, we estimate the combined adj. EBITDA impact from Providence and Acclara to be $(20.0)MM in FY24, $25.5MM in FY25, $68.9MM in FY26, and $86.2MM in FY27. For FY24, this represents total revenue growth of 18.1% y/y compared to our baseline core RCM revenue growth of 3% y/y and 451bps of adj. EBITDA margin contraction (Exhibit 2).

We note that while the partnership and acquisition provides potential opportunities for revenue and cost synergies, the acquisition could introduce M&A related integration risks. This will be an important dynamic to monitor moving through 2024 given ongoing investor concerns around managing customer losses and improving operating execution.

Exhibit 1: Estimated contributions from the Acclara acquisition and Providence 10-year contract

We estimate that on a combined basis, the recent Providence partnership and Acclara acquisition will contribute positive EBITDA beginning in FY25

($ in millions)

Providence Health	FY24	FY25	FY26	FY27	Comments
Net Patient Revenue (NPR)	$14,000.0	$14,140.0	$14,281.4	$14,424.2	$14Bn NPR assuming 1% y/y growth
NPR Capture Rate	0.3%	1.4%	2.0%	2.3%	
Net Operating Fee Revenue	47.5	200.0	285.6	331.8	Assuming $47.5MM in 2H'24, ~$200MM in year two
Adj. EBITDA contribution	(45.0)	0.0	42.8	59.7	$(45)MM in year-one, assuming EBITDA breakeven in year-two
Adj. EBITDA margin	(94.7%)	0.0%	15.0%	18.0%	
Acclara	**FY24**	**FY25**	**FY26**	**FY27**	**Comments**
Revenue	$292.7	$298.5	$304.5	$310.6	
Adj. EBITDA contribution	25.0	25.5	26.0	26.5	
Adj. EBITDA margin	8.5%	8.5%	8.5%	8.5%	Assuming $25MM in FY24
Revenue growth		2.0%	2.0%	2.0%	Assumes low single-digit growth
EBITDA contribution	**FY24**	**FY25**	**FY26**	**FY27**	**Comments**
Providence contribution	(45.0)	0.0	42.8	59.7	
Acclara contribution	25.0	25.5	26.0	26.5	
Total adj. EBITDA impact	**($20.0)**	**$25.5**	**$68.9**	**$86.2**	

Source: BofA Global Research Estimates

BofA GLOBAL RESEARCH

Exhibit 2: Estimated revenue and adj. EBITDA impact of Providence/Acclara to base RCM business
In FY24, we estimate the combined Providence partnership and Acclara acquisition could expand revenue growth from 3.0% to 18.1%

($ in millions)

	2023A	2024E	2025E	2026E	2027E
Core RCM					
Revenue	$2,252.9	$2,320.3	$2,413.7	$2,579.0	$2,747.1
y/y growth	*24.8%*	*3.0%*	*4.0%*	*6.8%*	*6.5%*
Adj. EBITDA	613.0	681.4	725.9	753.5	791.6
Adj. EBITDA Margin	27.2%	29.4%	30.1%	29.2%	28.8%
Revenue					
Core RCM Revenue	$2,252.9	$2,320.3	$2,413.7	$2,579.0	$2,747.1
Providence Revenue Contribution	-	47.5	200.0	285.6	331.8
Acclara Revenue Contribution	-	292.7	298.5	304.5	310.6
Total Revenue	**$2,252.9**	**$2,660.5**	**$2,912.3**	**$3,169.1**	**$3,389.4**
Adj. EBITDA					
Core RCM adj. EBITDA	$613.0	$681.4	$725.9	$753.5	$791.6
Providence adj. EBITDA Contribution	-	(45.0)	-	42.8	59.7
Acclara adj. EBITDA Contribution	-	25.0	25.5	26.0	26.5
Total adj. EBITDA	**$613.0**	**$661.4**	**$751.4**	**$822.4**	**$877.9**
Adj. EBITDA margin	27.2%	24.9%	25.8%	26.0%	25.9%
Adj. EBITDA Margin Expansion/Contraction	*0 bp*	*-451 bp*	*-427 bp*	*-327 bp*	*-292 bp*
Revenue Growth					
Core RCM Revenue Growth	24.8%	3.0%	4.0%	6.8%	6.5%
+ Incremental Providence Revenue Growth	-	2.0%	8.3%	11.1%	12.1%
+ Incremental Acclara Revenue Growth	-	12.6%	12.4%	11.8%	11.3%
Total Revenue Growth	**24.8%**	**18.1%**	**9.5%**	**8.8%**	**7.0%**

Source: BofA Global Research Estimates

BofA GLOBAL RESEARCH

4Q'23 call takeaways

Prepared Remarks

- Modular solutions deployed with +500 customers (anchor for cross sell and expansion opportunities)
- Delivered double digit growth driven by full ramp of end-to-end customers and modular solutions
- FY24 includes contributions from Providence and Acclara
- Expect Acclara and Providence to provide incremental growth in 2024
- Business update on FY23 achievements and focus areas
    - Demand remains strong as industry faces labor challenges and regulatory complexities
    - Continued ability to drive growth and increase diversification in business
    - Acclara and Providence represent a significant growth opportunity and marks first cross-sell into the CloudMed base
    - Significant potential within current customer base
    - Traction in go-to-market with the flexible model
- Example: late in 4Q signed a smaller net patient revenue (NPR) customer
    - Includes full outsourcing of back-office and anticipate adding 4 modular solutions by end of year
- Expect to continue to invest in and deploy technology solutions
- +500 customers represent over 1 trillion of net patient revenue (NPR)
- Artificial intelligence (AI) and large language models to provide incremental business
- Synergies with Cloudmed progressing well
    - $30MM in FY23
    - Expect $20MM in FY24
- In FY23 stabilized customer metrics, realized synergies, and signed Providence contract
- In FY24 will continue to expand in focus areas
    - Deliver excellent results to customers
    - Execute against technology roadmap
    - Focus on operational excellence

Financials

- Continued revenue growth, operational execution (cost discipline), improved cash generation and debt paydown

- 4Q revenue of $575.1MM, up 7.8% y/y
    - Net operating fees increased 7% y/y driven by onboarding of new businesses that annualized in 4Q and continued low single digit growth in existing customer base
    - Incentive fees in line with RCM expectations
    - Modular grew double digits driven by cross selling solutions to existing customers
- Adj. cost of services down $6.8MM y/y and down $7MM from prior quarter
    - Driven by margin maturity of customers onboarded in 2022 and Cloudmed synergies
- Adj. SG&A up 15% y/y
    - Included provision for credit losses of $10.5MM (two customers reflect majority of the charge)
    - Excluding provision, SG&A was down 7% y/y
- 4Q GAAP net income of $1.4MM vs. net loss of $36.6MM in prior year
- 4Q adjusted EBITDA of $167.7MM, up 33.5% y/y
    - Revenue growth and cost discipline drove results
- $29MM in other expenses related to Cloudmed integration efforts and facility charges
    - Includes $5MM of transaction costs related to the Acclara acquisition
- Cash flow and balance sheet
    - Cash generation has been a focus over the past year
    - $173.6MM at the end of 4Q
    - Generated $340MM in cash from operations in FY23
    - Paid down outstanding balance on revolver
    - 2.25x net leverage ratio
- Completed acquisition of Acclara in January
- FY24 guidance
    - Revenue of $2,625-$2,675MM, up 16-19% y/y
    - GAAP operating income of $105-$135MM
    - Adjusted EBITDA of $650-$670MM, up 6-9% y/y
        - Expect Acclara to contribute 25MM to adj. EBITDA
        - Based on ramp of Providence, contract to have negative impact of 45MM in 2024

        - Ex-Acclara and Providence, adj. EBITDA to increase 200bps
        - Expect significant improvement in adj. EBITDA in 2025
    - Reflects 2024 impact of Providence and Acclara
    - Assumes low single digit y/y growth for base net operating fees
    - Base customers generally at go forward run-rate of $369MM
    - Customer attrition related to American Physician Partners (APP) and Pediatrix and facility divestitures of two customers
    - Providence to contribute net operating fees of $45-50MM in 2H'24
    - Have excluded any contribution from Sutter phase 2 in FY24 outlook
    - Modular ex-Acclara to grow low double digits
        - Mid teens growth for legacy CloudMed
        - Low teens growth for legacy R1 modular business
    - Acclara to contribute $290-295MM in revenue
        - In the process of determining classification of Acclara revenues and will provide more details in 1Q results
    - CapEx of 5% of revenue
    - Other expenses of $105-125MM (including Acclara transaction and integration related expenses)
    - Interest expense of $160-$165MM
        - Includes impact of incremental $575MM in term B loans and $80MM draw on revolver related to Acclara acquisition
    - Depreciation and amortization of $330-350MM (will update once Acclara purchase price acquisition has been completed)

Q&A

- Any additional color on next phase of synergies for Cloudmed and visibility in growth expectations?
    - Business that helps leaders identify sources of revenue leakage
    - Cuts across many use cases with +500 customer, 95 of top 100 customers
    - Business had strong bookings information which gives confidence in growth rate this year
    - Growth comes from all solutions with particular focus with denials in Accounts Receivable solutions
    - Customers have been receptive to land and expand cross sell solution strategy into the base

- Expect another strong year of bookings
- Over the long run, expect continued strong growth
- On the synergy side, achieved synergy targets in first two years – opportunity in continued automation and hiring in global areas
- In 2024 most of the synergies will come from operations (related to global transition)

* Strategy evolution for leadership (balanced approach to growth and margins/cash flow)
    - Feel good about fundamental growth prospects for the entire business
    - Today have a much more diversified business (CloudMed + legacy)
    - Flexible (meet providers wherever they are, coding resources, technology, global scale, accelerate adoption of CloudMed)
    - Continuation of strategy of deploying automation and artificial intelligence
* Customer health and portion of net patient revenues the two customers represent
    - Made progress in 2023
    - More payer pressure post Covid, increase in denials
    - Broadly in 2023 RCM stabilized core metrics
    - Aged accounts receivable have stabilized, but remain elevated post-Covid
    - Feel good about Phase 1 of Sutter
    - On customer engagement, RCM is deploying Cloudmed and is thinking about being more customer centric as the company scales
    - Allowance – one is small and the other is mid-sized (one end-to-end and one modular customer)
    - Guidance assumes RCM will continue to do business with them in 2024, but both businesses are doing restructuring so that is factored into guidance
* General views on executing on R1's strategy and creating shareholder value
    - Very confident as a team of the prospects of the business
    - High level of end-market demand, macro growth across the industry
    - Feel confident on running the business in any context
    - Board received the letter, is evaluating the request, working with advisors to determine course of action most beneficial for shareholders/customers/employees
* Artificial intelligence and cost structure impact

  - Denials, automating appeals, running first pass, reducing need for additional follow-up, summarizing charts, coding, accelerating cash collections, accounts receivable follow-up (follow-up on claims), summarizing claims from large language models
  - These all lead to speed to revenue
  - Feel good about the Microsoft partnership
  - Continued net new product innovation
  - This area gives RCM confidence on rapid deployment of products
  - Investments in two areas: data (to consolidate/have clean data) and large language models (back-end accounts receivable follow ups)
- Sutter Health timeline
  - First phase is a fulsome phase (entirety of the middle and back), very comprehensive engagement
  - Moving forward with Providence (did not phase it)
  - Always room to improve, but phase 1 from an operation standpoint has gone very well (centralized revenue cycle, strong executive leadership, already have experience with Epic)
  - For Phase 2, continue to dialogue with senior executives at Sutter. Have not assumed anything in 2024 numbers
  - No new news, but overall this is an opportunity within customer base
- FY24 guidance and how to think about underlying EBITDA growth
  - Maturity in the end-to-end business, CloudMed, continued adoption of technology, synergies, Acclara and Providence
  - If you look at FY24 guide, core margins for R1 are improving (indicative of margin maturity, growth on modular side
  - Doing investments in the providence new business (significant investment in year)
  - Acclara is operating at a lower margin than core business and expect significant synergy realization over the next few years
  - Making investments in artificial investments (AI) (to pay back in 2025); not significant contributions from AI in 2024 and most of it will come in 2025
- Growth in 2025
  - Growth coming from maturity of Providence contract and incremental benefits from automation
- Providence and cadence of Pediatrix
  - Providence is a flagship win for the acute and physician business ($14Bn of net patient revenue excluding the Swedish business)

  - On track with onboarding, applying lessons learned with Sutter, meeting daily with operational checkpoints and guidance assumes 2H
  - Revenue to ramp in 2H in FY24
  - Starting to make investments out of the gate, ramping resources to anticipate transitions (will start in 1Q)
  - For Acclara revenue will begin to be recognized in mid-January (adjusted for timing of close in guidance for the year, not a ton of seasonality for the year)
  - Guidance assumes a mid-year transition (some things will begin to transition in 2Q and go into the second half of the year)
- Employees in the Philippines
  - Very valuable global center that helps diversify outside of India
  - +2K people (focused on customer service, patient registration, front-end, etc.)
  - Diversifying in other areas
- Free cash flow (FCF) trajectory
  - Expect cash flow from core R1 business (ex-Providence and Acclara) to be in the mid 30% (cash flow (CF) conversion as a percentage of EBITDA)
  - Some investments on the Providence new business that will bring down the CF conversion in 2024
  - Acclara to be a drag on FCF on 2024
  - CF in 2024 in the 20%+, in 2025 and beyond continue to improve on core FCF in mid 30%
  - CF conversion target in the 50% range
- Assumptions for credit allowances in FY24
  - Will be improved off of 2023 and still be elevated from a historical number
  - New normal in the range of $10MM per year (assumed in 2024 guidance)
- Customer approach change
  - From a go-to-market standpoint be more flexible
  - Continue to leverage CloudMed market position to expand into end-to-end
  - Flexible contracting and leaving expansion opportunities for later
  - More customer centric in approach and customer engagement
  - Deploying more data and analytic approach

- Any detail on pipeline for incremental new deals in 2024 and potential timing on that
    - Very good across all fronts (end-to-end, modular)
    - Next phase of deal in couple billion, up to $5Bn range
- Guidance assumption for 2024 and payer reimbursement timelines
    - Last quarter had some one-time items that increased incentive fees
    - Incentive fees landed in-line with expectations
    - One time fees were related to acceleration of incentive fees for contracts that ended in 4Q, had extra incentive fees in 3Q and a reclass based on contractual change (reclass)
    - Expect payer reimbursement timelines stabilized in 2023, saw very modest improvements q/q; don't expect significant improvement in 2024 (will remain stable to 2023)
    - Given run-rate in 4Q for existing customer base, expect incentive fees relatively stable and consistent with 2023
- Utilization environment and how to think about low single digit growth of core customers
    - Expect volumes/utilization to be similar to 2023
    - Have a different base of businesses at a macro level vs. public providers
    - Projected low single growth which blends volume, acuity, mix
- Strategy changes
    - Changes on prospective customers
    - Being thoughtful on which customers RCM takes on
    - Will be thoughtful in how to RCM takes it on (make lean towards managed services and more aggressive on deployment of CloudMed)

Price objective basis & risk

R1 RCM (RCM)

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Analyst Certification

I, Allen Lutz, 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 - Healthcare Technology & Distribution Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accolade	ACCD	ACCD US	Allen Lutz, CFA
	American Well Corp	AMWL	AMWL US	Allen Lutz, CFA
	Cencora Inc	COR	COR US	Allen Lutz, CFA
	CVS Health	CVS	CVS US	Allen Lutz, CFA
	Definitive Healthcare Corp	DH	DH US	Allen Lutz, CFA
	dentalcorp	YDNTL	DNTL CN	Allen Lutz, CFA
	Envista	NVST	NVST US	Allen Lutz, CFA
	HealthEquity Inc	HQY	HQY US	Allen Lutz, CFA
	Hims & Hers	HIMS	HIMS US	Allen Lutz, CFA
	McKesson	MCK	MCK US	Allen Lutz, CFA
	Omnicell Inc.	OMCL	OMCL US	Allen Lutz, CFA
	Patterson Companies	PDCO	PDCO US	Allen Lutz, CFA
	Progyny	PGNY	PGNY US	Allen Lutz, CFA
NEUTRAL				
	Cardinal Health	CAH	CAH US	Allen Lutz, CFA
	Dentsply Sirona, Inc.	XRAY	XRAY US	Allen Lutz, CFA
	Doximity Inc	DOCS	DOCS US	Allen Lutz, CFA
	Teladoc Health	TDOC	TDOC US	Allen Lutz, CFA
UNDERPERFORM				
	GoodRx	GDRX	GDRX US	Allen Lutz, CFA
	Henry Schein	HSIC	HSIC US	Allen Lutz, CFA
	Owens & Minor	OMI	OMI US	Allen Lutz, CFA
	Premier, Inc.	PINC	PINC US	Allen Lutz, CFA
	Walgreens Boots Alliance	WBA	WBA US	Allen Lutz, CFA

iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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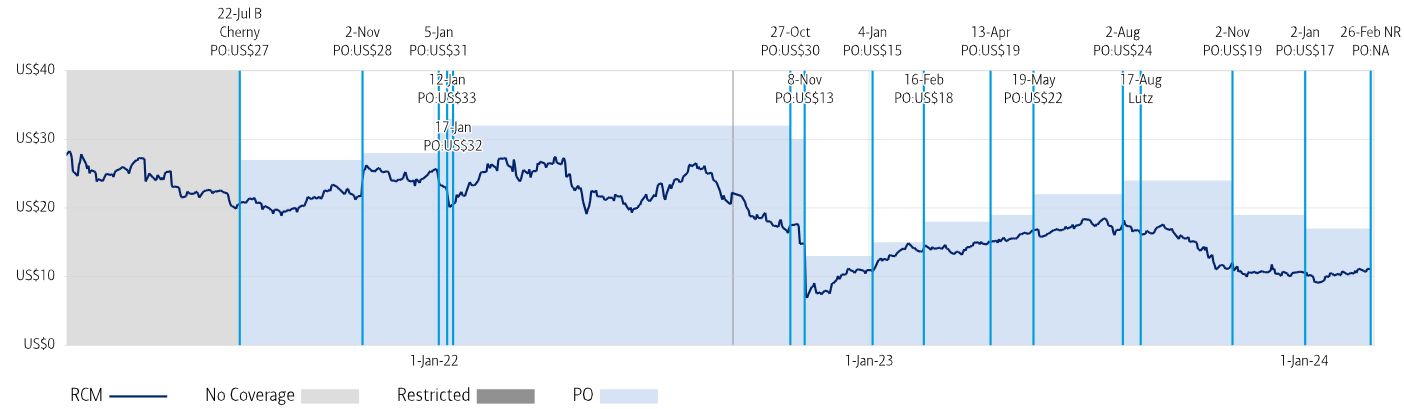
R1 RCM (RCM) Price Chart



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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