

## Privia Health

## Downgrading to Neutral as we wait for more proof points on value based care

Rating Change: NEUTRAL | PO: 21.00 USD | Price: 20.43 USD

## See 20% rather than 30%-40% as new run rate for growth

We are downgrading PRVA to Neutral to reflect a delay in the upside from VBC. While our new forecasts still support the company growing EBITDA around 20%, this falls short of the company's IPO expectations of 30%-40% and is below consensus, particularly in 2025 and beyond. We are lowering our PO to \$21 which is roughly where the stock is today, and represents a multiple of 23x our lower 2025 Adj. EBITDA number (vs 28x previously). We continue to see support to valuations (based on our DCF) around these levels from the core physician practice growth, somewhat limiting downside. However, without a steeper ramp in VBC earnings, it is difficult to see reacceleration in growth (leading to our downgrade to Neutral) relative to AMEH, which [we are upgrading to Buy](#) where there are more immediate catalysts for upside.

## VBC piece of flywheel has been slow to ramp

At the time of the IPO in 2021, PRVA gave LT Adj. EBITDA growth targets of 30%-40%. The simplistic way we think of this is through the flywheel of 1) adding ~15% new physicians per year, 2) collections per provider increasing to push adj. revenue growth above 20%, 3) moving patients into value based (VBC) care to expand gross margins and add another 5-15% to growth, and 4) 5% from G&A leverage. However, PRVA is only set to grow Adj. EBITDA 20% in 2023 (25% ex market entry costs), due to what we see as a slower than expected ramp in core value based care earnings (shared savings) which has only made modest progress (~19% of gross margins in 2023 vs 10-15% in 2018-2021).

## Medicare pressures could slow progress until 2025+

From here, we are cautious that core VBC earnings will show signs of progress until at least 2025 given industry-wide utilization and reimbursement pressures, which has delayed the company's plans to embrace full-risk Medicare Advantage. While not a contributor to earnings today, it was a key source of potential upside. Meanwhile, there are already signs of dampening results in the core MSSP driver after third quarter earnings showed a surprise 37% q/q decline in shared savings revenue. Finally, one of the company's largest provider groups (10% of doctors), recently chose a new vendor for VBC instead of exclusively using PRVA, which further lowers visibility.

Estimates(Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(1.83)	(0.08)	0.24	0.41	0.40
EPS Change (YoY)	NM	95.6%	NM	70.8%	-2.4%
Consensus EPS (Bloomberg)	(1.84)	0.22	0.64	0.66	0.85
Valuation (Dec)					
P/E	NM	NM	85.1x	49.8x	51.1x
EV / EBITDA*	57.7x	39.2x	32.5x	27.1x	22.6x
Free Cash Flow Yield*	2.0%	1.8%	1.7%	3.1%	3.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

22 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Inv. Opinion	C-1-9	C-2-9
Inv. Rating	BUY	NEUTRAL
Price Obj.	27.00	21.00

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## Stock Data

Price	20.43 USD
Price Objective	21.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-2-9
52-Week Range	19.18 USD - 30.15 USD
Mkt Val (mn) / Shares Out (mn)	2,663 USD / 130.3
Free Float	86.0%
Average Daily Value (mn)	20.19 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 <sup>TM</sup>	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"](#).

PRVA = Privia Health

VBC = Value Based Care

MSSP = Medicare Shared Savings Program

AMEH = Apollo Medical

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Timestamp: 22 February 2024 06:00AM EST

# iQprofile<sup>SM</sup> Privia Health

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-55.5%	-2.4%	3.6%	5.1%	5.3%
Return on Equity	-65.7%	-1.9%	5.3%	8.4%	7.5%
Operating Margin	-22.5%	-1.4%	1.6%	2.2%	2.7%
Free Cash Flow	55	47	45	83	87

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	1.6x	1.7x	1.8x
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%	-67.6%	-75.0%
Interest Cover	NA	-35.3x	3.1x	3.5x	5.0x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	966	1,357	1,639	1,850	2,119
% Change	18.3%	40.4%	20.8%	12.9%	14.6%
Gross Profit	791	1,186	1,442	1,626	1,868
% Change	11.2%	49.8%	21.6%	12.8%	14.9%
EBITDA	41	61	73	88	105
% Change	40.9%	47.1%	20.7%	20.1%	19.5%
Net Interest & Other Income	1	(1)	(8)	(12)	(12)
<b>Net Income (Adjusted)</b>	<b>(188)</b>	<b>(9)</b>	<b>28</b>	<b>48</b>	<b>48</b>
<b>% Change</b>	<b>NM</b>	<b>95.3%</b>	<b>NM</b>	<b>73.0%</b>	<b>-2.0%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(188)	(9)	30	51	50
Depreciation & Amortization	2	5	6	7	7
Change in Working Capital	18	(6)	(30)	(16)	(4)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	223	58	39	41	34
Capital Expenditure	(1)	0	0	(1)	(1)
<b>Free Cash Flow</b>	<b>55</b>	<b>47</b>	<b>45</b>	<b>83</b>	<b>87</b>
<b>% Change</b>	<b>41.5%</b>	<b>-13.6%</b>	<b>-4.5%</b>	<b>84.2%</b>	<b>4.6%</b>
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	442	528
Trade Receivables	117	190	353	451	451
Other Current Assets	9	14	17	22	22
Property, Plant & Equipment	5	3	3	2	2
Other Non-Current Assets	235	237	292	292	292
<b>Total Assets</b>	<b>686</b>	<b>793</b>	<b>1,023</b>	<b>1,210</b>	<b>1,296</b>
Short-Term Debt	1	0	0	0	0
Other Current Liabilities	190	264	355	444	444
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	46	9	68	113	148
<b>Total Liabilities</b>	<b>236</b>	<b>274</b>	<b>423</b>	<b>557</b>	<b>592</b>
<b>Total Equity</b>	<b>450</b>	<b>519</b>	<b>601</b>	<b>653</b>	<b>704</b>
<b>Total Equity &amp; Liabilities</b>	<b>686</b>	<b>793</b>	<b>1,023</b>	<b>1,210</b>	<b>1,296</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## 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 well positioned to take share in the high growth, high multiple physician enablement industry. As PRVA onboards physicians to its platform, its negotiating scale with insurers increases, increasing the value prop for new & existing clients. This flywheel gives us confidence its core business, can power 20% type EBITDA growth for the foreseeable future. However, we are cautious on its ability to realize the embedded value based care opportunity, limiting upside.

## Stock Data

Average Daily Volume 988,483

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.16A	0.06A
Q2	-0.10A	0.06A
Q3	0.01A	0.05A
Q4	0.14A	0.07E



## Price objective basis & risk

### Apollo Medical (AMEH, C-1-7, \$38.75)

We value AMEH using 15x EV/EBITDA on our 2025 estimate to arrive at \$55 (1.3x GAAP revenues), which we see as justified as it is in-line with its historical 5YR average multiple of 15.5x.

This PO is also supported by a 10YR DCF assuming a discount rate and exit multiple. For the DCF we use the free cash flow numbers from 2023-2031 outlined above, but back out interest expense and stock compensation, apply an 'Exit Multiple' EBITDA multiple of 14x on 2032 EBITDA and a discount rate of 10%.

Upside risks are better than expected ramp of new markets and ACO REACH while downside risks are Medicaid redeterminations and risk model revision changes.

### Privia Health (PRVA, C-2-9, \$20.43)

Our \$21 PO is based on 23x 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 16x on 2032 EBITDA and a discount rate of 10%.

Downside risks: Slowing adoption of core offerings among physicians, inability to replicate success in new geographies, inability to realize full value based care opportunity, elevated utilization environment could pressure margins.

## 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
	Apollo Medical	AMEH	AMEH 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

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<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
	Privia Health	PRVA	PRVA US	Adam Ron
<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
	Pediatrix 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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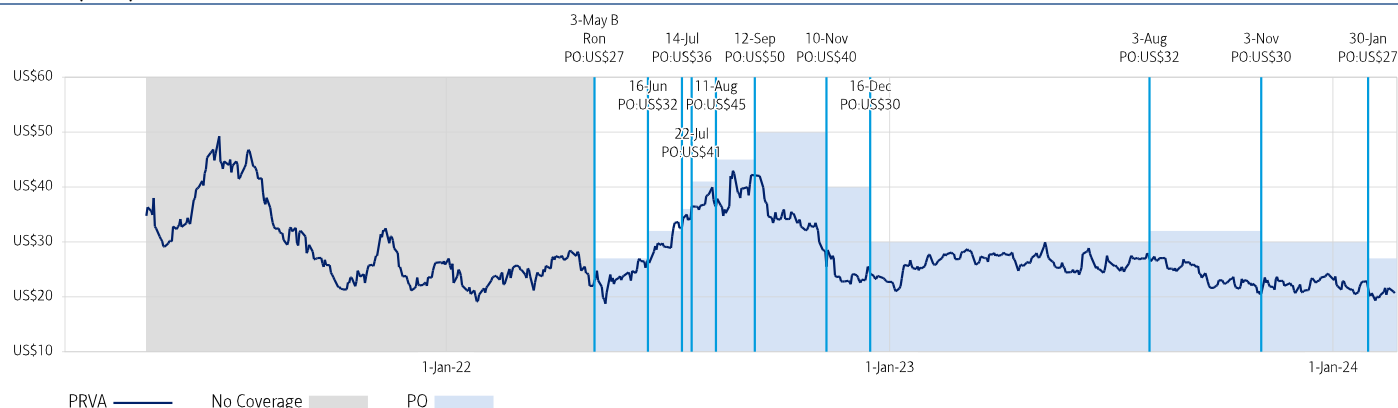
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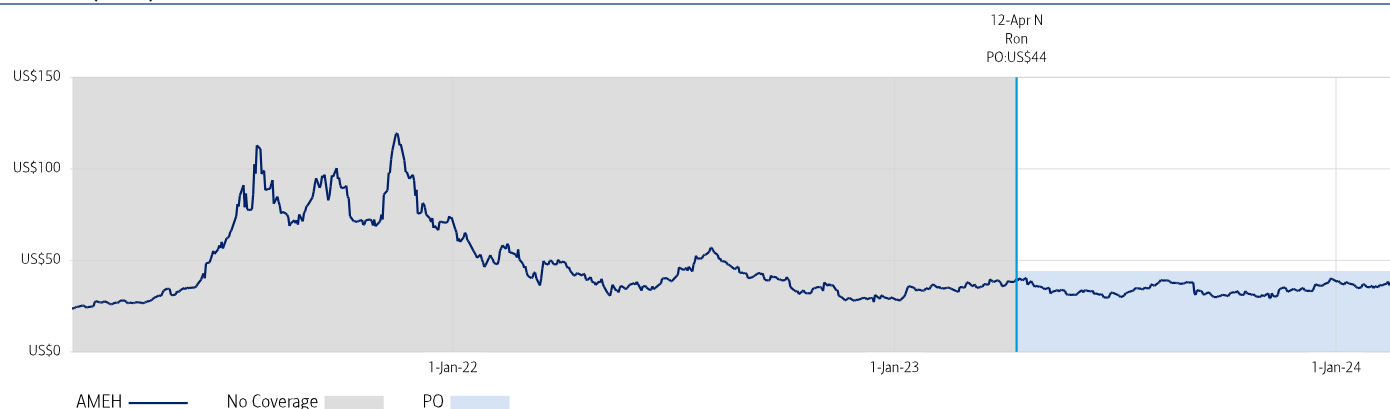
### Privia Health (PRVA) Price Chart



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.

### Apollo Medical (AMEH) 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 <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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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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