

Cross Country Healthcare

Q2 beat but 2023 cut again

Reiterate Rating: UNDERPERFORM | PO: 22.00 USD | Price: 26.50 USD

Q2 beat but Q3 and 2023 guide worse, cutting ests

Cross Country Healthcare (CCRN) reported a Q2 beat on stronger revs and Adj EBITDA. Revs came in 1% above our ests/consensus and the guidance range midpoint. Adj EBITDA came in 5% above our est/guidance midpoint, on a 8.2% margin (40bps above consensus). However, Q3 guidance came in well below consensus and the company cut its 2023 adj EBITDA guidance by 4%, implying a lower run rate into 2024. This is a negative read-through for peer AMN. We are lowering our ests and our PO to \$22 from \$25, based on 5.6x 2024E EBITDA vs 6.0x 2023E prior as we roll forward our valuation. Given the reduced guidance and low visibility in CCRN's normalized margins, we reiterate our relative Underperform.

Q3 EBITDA guide -17% below consensus

CCRN is guiding to Q3 revs of \$440-450m, an 18% sequential decline and 4% below consensus. Q3 Adj EBITDA is expected to be \$27-32m, 17% below consensus. Q3 margin outlook of 6.6% at the midpoint is -100bps below consensus and down -160bps sequentially. The Q3 guide down is based on softer volumes than expected due to a gap between bill rates and nurse compensation expectations. Travel bill rates were down -7% sequentially in Q2. CCRN expects rates to decline MSD to HSD in Q3 and Q4 (vs LSD to MSD prior) but still end the year 30-35% above pre-COVID levels. Billable hours to be down in the low double digits.

2023 guide cut again

The company now expects at least \$2.05b in revs, -2% below the prior outlook and -3% below consensus. CCRN cut its 2023 adj EBITDA guide from at least \$170m to an implied \$164m based on an 8% margin. This is down -4% vs prior and -3% below consensus on 10bps lower margins and lower revenue. CCRN continues to believe that Q3 will be the trough as it expects sequential volume growth in Q4. The implied Q4 revs guidance also sets a lower run rate for 2024.

Estimates(Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.06	5.26	2.42	1.96	2.05
GAAP EPS	3.53	5.02	2.31	1.96	2.05
EPS Change (YoY)	565.2%	71.9%	-54.0%	-19.0%	4.6%
Consensus EPS (Bloomberg)	3.03	5.07	2.55	2.50	3.03
Valuation (Dec)					
P/E	8.7x	5.0x	11.0x	13.5x	12.9x
GAAP P/E	7.5x	5.3x	11.5x	13.5x	12.9x
Dividend Yield	0%	0%	0%	0%	0%

03 August 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	25.00	22.00
2023E Rev (m)	2,100.0	2,040.0
2024E Rev (m)	2,150.0	1,800.1
2025E Rev (m)	2,225.0	1,875.1
2023E EPS	2.61	2.42
2024E EPS	2.50	1.96
2025E EPS	2.63	2.05
2023E EBITDA (m)	175.7	161.2
2024E EBITDA (m)	182.5	144.0
2025E EBITDA (m)	193.2	151.9

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Stock Data

Price	26.50 USD
Price Objective	22.00 USD
Date Established	3-Aug-2023
Investment Opinion	C-3-9
52-Week Range	20.35 USD - 40.12 USD
Mkt Val (mn) / Shares Out (mn)	952 USD / 359
Average Daily Value (mn)	12.70 USD
BofA Ticker / Exchange	CCRN / NAS
Bloomberg / Reuters	CCRN US / CCRN.OQ
ROE (2023E)	18.0%
Net Dbt to Eqty (Dec-2022A)	33.7%
ESGMeter™	Medium

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AMN = AMN Healthcare

HSD = High-single digits

LSD = Low-single digits

MSD = Mid-single digits

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iQprofileSM Cross Country Healthcare

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	NA	NA	NA	NA	NA
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	1,677	2,807	2,040	1,800	1,875
Total Cost of Benefits and Claims	(1,302)	(2,179)	(1,578)	(1,392)	(1,450)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(1,532)	(2,526)	(1,910)	(1,686)	(1,755)
Pre-Tax Operating Earnings	145	281	130	114	120
Income Tax Expense	(1)	(68)	(33)	(38)	(40)
Operating Earnings After Tax	114	197	87	70	74
Net Income (Reported)	132	188	82	70	74
Diluted Shares	37	38	36	36	36
Operating Earnings Per Share	3.06	5.26	2.42	1.96	2.05
Net Income (Reported) Per Share	3.53	5.02	2.31	1.96	2.05

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	NA	NA	NA	NA	NA
Total Assets	733	948	857	1,015	1,155
Reserves	NA	NA	NA	NA	NA
LT Debt	187	154	5	5	5
Total Liabilities	435	491	350	431	489
Total Equity	298	457	507	584	666
Total Equity (Ex FAS 115)	NA	NA	NA	NA	NA
Book Value per Share (Reported)	8.11	12.35	14.26	16.31	18.39
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	NA	NA	NA	NA	NA
Loss Ratio	NA	NA	NA	NA	NA
Combined Ratio	NA	NA	NA	NA	NA
Avg Assets / Avg Eq (Ex FAS 115) Ratio	NA	NA	NA	NA	NA

Growth Rates (YoY) (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	NA	NA	NA	NA	NA
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	NA	NA	NA	NA	NA
Operating Earnings per Share	565.2%	71.9%	-54.0%	-19.0%	4.6%
Asset	NA	NA	NA	NA	NA
Reported Book Value per Share	NA	NA	NA	NA	NA

Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	50.6%	52.3%	18.0%	12.8%	11.9%
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	NA	NA	NA	NA	NA
Operating Margin	8.7%	10.0%	6.4%	6.3%	6.4%
Long Term Debt to Cap Ratio (Ex FAS 115)	NA	NA	NA	NA	NA
Net Income % Operating Income	NA	NA	NA	NA	NA
Amtz of DAC % Pretax Profit bef Amtz of DAC	NA	NA	NA	NA	NA

Company Sector

Outsourcing Services

Company Description

Cross County Healthcare is a healthcare staffing company, which sources and recruits nurses, physicians, and other allied health care professionals to work on temporary assignments in health care facilities in the U.S. The company also provides talent management software as well as recruitment, processing, and consulting services.

Investment Rationale

CCRN's turn-around story was starting to show signs of success pre-COVID, but the margin turnaround remains unclear (despite current industry tailwinds).

Stock Data

Average Daily Volume

479,298

Quarterly Earnings Estimates

	2022	2023
Q1	1.70A	0.84A
Q2	1.40A	0.69A
Q3	1.06A	0.39E
Q4	1.09A	0.50E

Price objective basis & risk

Cross Country Healthcare (CCRN)

Our \$22 PO is based on a 5.6x 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.

Analyst Certification

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US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Alignment Healthcare	ALHC	ALHC US	Kevin Fischbeck, CFA
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	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
	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
NEUTRAL				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Community Health Systems	CYH	CYH US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Oscar Health	OSCR	OSCR US	Kevin Fischbeck, CFA



US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	Aveanna Healthcare	AVAH	AVAH US	Joanna Gajuk
	Bright Health Group	BHG	BHG US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Cano Health	CANO	CANO US	Adam Ron
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Clover Health	CLOV	CLOV 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

iQmethodSM 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 & 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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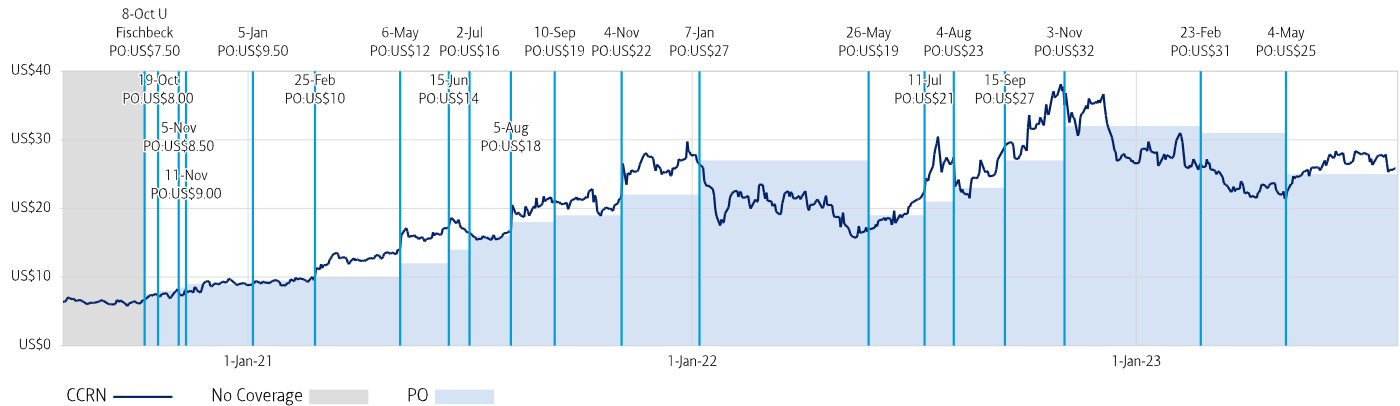
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Cross Country (CCRN) Price Chart



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: Services Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	6	54.55%	Buy	5	83.33%
Hold	1	9.09%	Hold	0	0.00%
Sell	4	36.36%	Sell	1	25.00%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{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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