

## Privia Health

# Rebased outlook appears de-risked but no clear near term catalysts for upside

Reiterate Rating: NEUTRAL | PO: 21.00 USD | Price: 21.00 USD

## Company's medium term outlook below consensus

Overall, the quarter delivered a mixed bag of results and forward commentary. For the most part the company met its 2023 guidance, with outperformance on implemented providers, ending the year with impressive growth of 19%. However most key metrics expected for 2024 came in modestly below consensus, and the company communicated a significant slowdown in the pace of core value based care earnings which may continue to remain pressured in 2025. Additionally, it updated its multi-year EBITDA growth algorithm guidance from 30-40% at the time of the IPO to 20%+ for the foreseeable future (implying downside to consensus, [which we laid out in our downgrade note into the quarter](#)) barring large contract wins, accretive acquisitions or a shift back into capitated MA. With 2024/2025 estimates appearing to be rebased and contingent on high visibility FFS revenue, we do not see much downside in the new trajectory, but do not see further upside potential to estimates or multiples without a re-acceleration in value based care, leaving with a Neutral rating.

## Limiting exposure to VBC helps today at cost of tomorrow

Heading into 2024, PRVA expects to move to lower risk sharing arrangements for most of its full-risk MA members (was previously signaled), and does not expect to re-embrace those types of contracts until at least 2026. Meanwhile, the company exited an MSSP ACO it entered in Delaware in 2023 as it no longer sees a path to profitability in that market. In aggregate, PRVA expects shares savings revenue will only grow modestly due to a higher utilization environment. At a high level, the company is acting prudently by proactively trimming and repositioning its exposure to underperforming contracts. However, the company acknowledges that the slower adoption of VBC is lowering its medium term growth expectations. This lowers our visibility in the timing of a potential VBC earnings inflection, particularly as major insurers are talking about MA rate pressures continuing into 2025, which could impact MSSP benchmarks as well.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.08)	0.19	0.29	0.39	0.50
EPS Change (YoY)	95.6%	NM	52.6%	34.5%	28.2%
Consensus EPS (Bloomberg)	0.22	0.64	0.66	0.85	1.09
Valuation (Dec)					
P/E	NM	110.5x	72.4x	53.8x	42.0x
EV / EBITDA*	40.5x	34.1x	27.9x	23.3x	19.6x
Free Cash Flow Yield*	1.7%	2.9%	2.6%	2.7%	3.1%

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

27 February 2024

### Equity

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### Stock Data

Price	21.00 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)	2,737 USD / 130.3
Free Float	86.0%
Average Daily Value (mn)	21.42 USD
BoFA Ticker / Exchange	PRVA / NAS
Bloomberg / Reuters	PRVA US / PRVA.OQ
ROE (2024E)	5.9%
Net Dbt to Eqty (Dec-2023A)	-64.1%
ESGMeter™	Medium

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MA = Medicare Advantage; FFS = Fee for Service; VBC = Value Based Care; PRVA = Privia; MSSP = Medicare Shared Savings Program; ACO = Accountable Care Organization

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Timestamp: 27 February 2024 11:46AM EST

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

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-2.4%	2.6%	3.8%	4.9%	6.1%
Return on Equity	-1.9%	4.2%	5.9%	7.4%	8.8%
Operating Margin	-1.4%	1.2%	2.3%	3.0%	3.5%
Free Cash Flow	47	81	70	74	86

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	3.6x	2.1x	1.6x	1.5x
Asset Replacement Ratio	0x	0x	0.1x	0.1x	0.1x
Tax Rate	35.1%	27.5%	27.5%	27.5%	27.5%
Net Debt-to-Equity Ratio	-67.0%	-64.1%	-71.6%	-77.5%	-82.6%
Interest Cover	-35.3x	2.5x	3.2x	4.7x	6.4x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,357	1,658	1,602	1,812	2,110
% Change	40.4%	22.2%	-3.4%	13.1%	16.4%
Gross Profit	1,186	1,460	1,376	1,562	1,829
% Change	49.8%	23.1%	-5.7%	13.5%	17.1%
EBITDA	61	72	88	106	126
% Change	47.1%	18.7%	22.2%	19.8%	18.7%
Net Interest & Other Income	(1)	(8)	(11)	(11)	(11)
<b>Net Income (Adjusted)</b>	<b>(9)</b>	<b>22</b>	<b>34</b>	<b>46</b>	<b>60</b>
<b>% Change</b>	<b>95.3%</b>	<b>NM</b>	<b>54.5%</b>	<b>35.2%</b>	<b>28.8%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(9)	23	37	49	63
Depreciation & Amortization	5	7	7	7	7
Change in Working Capital	(6)	9	(17)	(16)	(19)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	58	43	44	35	35
Capital Expenditure	0	0	(1)	(1)	(1)
<b>Free Cash Flow</b>	<b>47</b>	<b>81</b>	<b>70</b>	<b>74</b>	<b>86</b>
<b>% Change</b>	<b>-13.6%</b>	<b>71.3%</b>	<b>-13.4%</b>	<b>6.2%</b>	<b>15.8%</b>
Share / Issue Repurchase	14	9	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(33)	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	348	390	459	534	620
Trade Receivables	190	291	317	317	366
Other Current Assets	14	21	21	21	24
Property, Plant & Equipment	3	2	2	2	2
Other Non-Current Assets	237	297	297	297	297
<b>Total Assets</b>	<b>793</b>	<b>1,000</b>	<b>1,096</b>	<b>1,170</b>	<b>1,308</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	264	387	336	336	392
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	9	6	119	146	166
<b>Total Liabilities</b>	<b>274</b>	<b>393</b>	<b>454</b>	<b>481</b>	<b>558</b>
<b>Total Equity</b>	<b>519</b>	<b>607</b>	<b>642</b>	<b>689</b>	<b>750</b>
<b>Total Equity &amp; Liabilities</b>	<b>793</b>	<b>1,000</b>	<b>1,096</b>	<b>1,170</b>	<b>1,308</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 1,020,236

## Quarterly Earnings Estimates

	2023	2024
Q1	0.06A	0.07E
Q2	0.06A	0.08E
Q3	0.05A	0.08E
Q4	0.02A	0.06E



## Price objective basis & risk

### Privia Health (PRVA)

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 17x 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
	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
	Privia Health	PRVA	PRVA US	Adam Ron
<b>UNDERPERFORM</b>				
	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
	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

### 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

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### 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

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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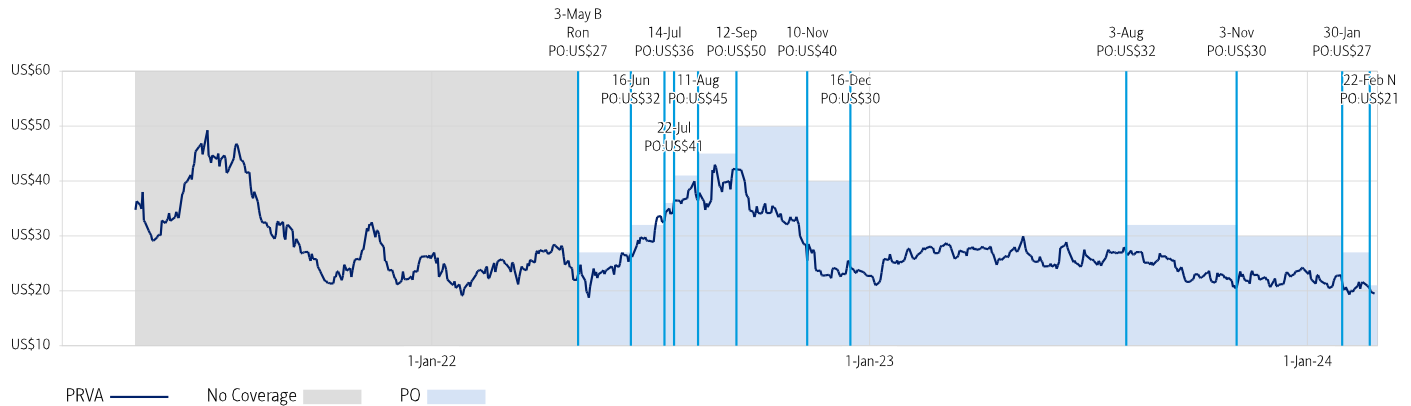
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### Privia Health (PRVA) Price Chart



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.

### 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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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