

Cross Country Healthcare

Q1 beat but guide cut 15% on travel softness

Reiterate Rating: UNDERPERFORM | PO: 25.00 USD | Price: 21.44 USD

Q1 beat but Q2 and 2023 guide worse, cutting ests

Cross Country Healthcare (CCRN) reported a Q1 beat on stronger revs and Adj EBITDA. Revs came in 5% above our ests/consensus and the guidance range midpoint. Adj EBITDA came in 12% above our est/guidance midpoint, on a 8.4% margin (50bps above consensus). Travel bill rates were flat sequentially, better than the low-single digit decline initially expected. Despite the beat, Q2 guidance came in well below consensus and the company cut its 2023 adj EBITDA guidance by 15%. This is a negative read-through for peer AMN. In a positive, CCRN noted that in recent weeks travel orders are up 7% and Allied orders up 16% (vs normal seasonal declines). We are lowering our EBITDA ests and our PO to \$25 from \$30.50, 6.0x 2023E EBITDA vs 6.2x prior. Given the reduced guidance and low visibility in CCRN's normalized margins, we reiterate our relative Underperform.

Q2 EBITDA guide -12% below consensus

CCRN is guiding to Q2 revs of \$530-540m, a 14% sequential decline and 4% below consensus. Q2 Adj EBITDA is expected to be \$40-45m, 12% below consensus. Q2 margin outlook of 7.9% at the midpoint is -70bps below consensus and down -40bps sequentially. CCRN expects Q2 bill rates to decline in the high-single digits (same absolute outlook as prior but on a higher base) and modestly lower volumes in Nurse & Allied.

2023 guide cut, Q3 to be the trough

CCRN cut its 2023 adj EBITDA guide from at least \$200m to at least \$170m (down -15% and -12% below consensus) on lower margins and lower revenue due to softness in travel demand. The company now expects at least \$2.1b in revs, -5% below the prior outlook and consensus. CCRN believes that Q3 will be the trough and exit the year around \$500m revs and high-single digit margins. Q3 and Q4 bill rates expected to decline low to mid-single digits but end the year at 30-35% above pre-COVID levels (7-8% CAGR).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.06	5.26	2.61	2.50	2.63
GAAP EPS	3.64	5.20	2.55	2.47	2.64
EPS Change (YoY)	565.2%	71.9%	-50.4%	-4.2%	5.2%
Consensus EPS (Bloomberg)			3.09	3.19	3.59
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	7.0x	4.1x	8.2x	8.6x	8.2x
GAAP P/E	5.9x	4.1x	8.4x	8.7x	8.1x
Dividend Yield	0%	0%	0%	0%	0%

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04 May 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	30.50	25.00
2023E Rev (m)	2,220.0	2,100.0
2024E Rev (m)	2,321.8	2,150.0
2025E Rev (m)	2,414.6	2,225.0
2023E EPS	3.33	2.61
2024E EPS	3.20	2.50
2025E EPS	3.29	2.63
2023E EBITDA (m)	205.7	175.7
2024E EBITDA (m)	217.5	182.5
2025E EBITDA (m)	226.2	193.2

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Stock Data

Price	21.44 USD
Price Objective	25.00 USD
Date Established	4-May-2023
Investment Opinion	C-3-9
52-Week Range	15.26 USD - 40.12 USD
Mrkt Val (mn) / Shares Out (mn)	773 USD / 36.0
Average Daily Value (mn)	11.14 USD
BofA Ticker / Exchange	CCRN / NAS
Bloomberg / Reuters	CCRN US / CCRN.OQ
ROE (2023E)	19.3%
Net Dbt to Eqty (Dec-2022A)	33.7%
ESGMeter™	Medium

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AMN = AMN Healthcare

HSD = High-single digits

MSD = Mid-single digits

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	2,100	2,150	2,225
Total Cost of Benefits and Claims	(1,302)	(2,179)	(1,625)	(1,662)	(1,717)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(1,532)	(2,526)	(1,953)	(1,997)	(2,063)
Pre-Tax Operating Earnings	145	281	147	153	162
Income Tax Expense	(1)	(68)	(38)	(48)	(51)
Operating Earnings After Tax	111	191	95	91	95
Net Income (Reported)	132	188	92	90	96
Diluted Shares	36	36	36	36	36
Operating Earnings Per Share	3.06	5.26	2.61	2.50	2.63
Net Income (Reported) Per Share	3.64	5.20	2.55	2.47	2.64

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	999	1,091	1,257
Reserves	NA	NA	NA	NA	NA
LT Debt	187	154	83	14	14
Total Liabilities	435	491	478	473	536
Total Equity	298	457	521	618	721
Total Equity (Ex FAS 115)	NA	NA	NA	NA	NA
Book Value per Share (Reported)	8.11	12.35	14.53	17.05	19.69
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%	-50.4%	-4.2%	5.2%
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	49.1%	50.5%	19.3%	15.9%	14.2%
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%	7.0%	7.1%	7.3%
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 519,748

Quarterly Earnings Estimates

	2022	2023
Q1	1.70A	0.84A
Q2	1.40A	0.60E
Q3	1.06A	0.52E
Q4	1.09A	0.65E



Price objective basis & risk

Cross Country Healthcare (CCRN)

Our \$25 PO is based on a 6.0x 2023E 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
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Kevin Fischbeck, CFA
	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
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
NEUTRAL				
	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
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
UNDERPERFORM				
	Amedisys, Inc.	AMED	AMED US	Joanna Gajuk
	Aveanna Healthcare	AVAH	AVAH US	Joanna Gajuk
	Bright Health Group	BHG	BHG US	Kevin Fischbeck, CFA
	Brookdale	BKD	BKD US	Joanna Gajuk
	Cano Health	CANO	CANO US	Adam Ron

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	Oscar Health	OSCR	OSCR US	Kevin Fischbeck, CFA
	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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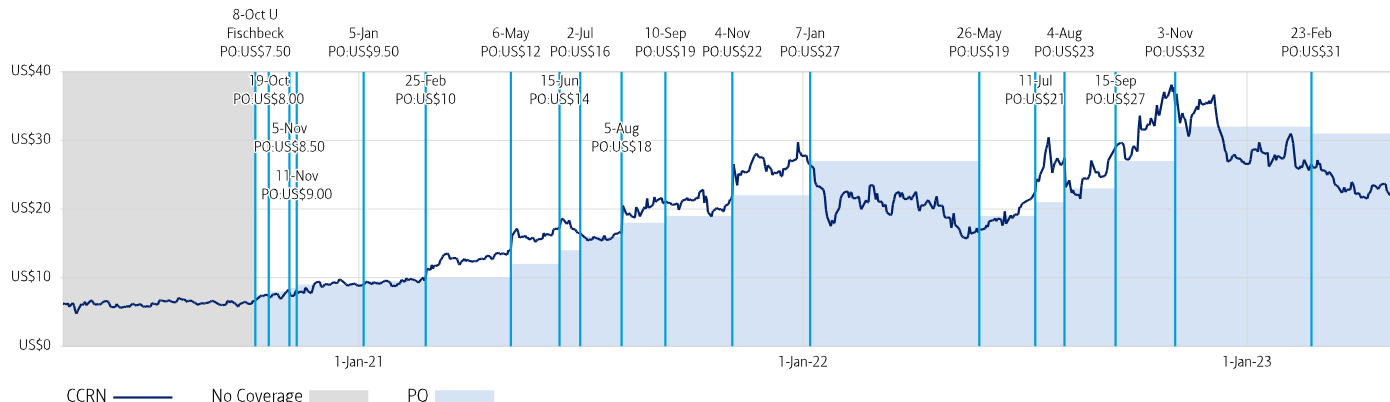
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Cross Country (CCRN) Price Chart



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 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	9	56.25%	Buy	5	55.56%
Hold	2	12.50%	Hold	1	50.00%
Sell	5	31.25%	Sell	1	20.00%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{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%

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