AMN Healthcare Services, Inc. (AMN)  
Solid Q1 and Margins but Covid Impacts/Uncertainty Likely to Drag into Q3

Further reducing estimates and price target to reflect Covid-related factors. In our opinion, AMN posted solid Q1 financial results while taking extraordinary steps to work for clients and greater good (which should generate good will during the next recovery). AMN is being proactive in managing expenses to protect margins. That said, Covid-19 related factors will likely impact AMN’s yoy revenue and earnings trends longer than most as premium bill rate Covid-related placements end and new orders (at normal prices) are depressed by a lower census.

- **Overall Q1 results exceeded expectations**
  - Revenue +3% org. yoy to $602.5mn vs. Baird/consensus estimates of $601.5mn/$601.3mn.
  - Adj. EBITDA +12.1% yoy to $74.0mn vs. Baird/consensus estimates of $74.8mn/$73.8mn.
  - Adj. EPS +5.2% yoy to $0.79 vs. Baird/consensus estimates of $0.79/$0.78. On a GAAP basis, EPS declined by 62% yoy to $0.27.

- **Performance and outlook was mixed by segment and month as Covid-19 demand impact surged and then receded**
  - Business segments were revised to reflect new reporting structure
  - Nurse and Allied grew 3% organically during Q1 with travel nurse and respiratory therapist demand surging in the second half of March and into most of April, but recent demand has fallen significantly as elective procedures were suspended.
  - In Q1, Physician and Leadership Solutions revenue increased 1% while Technology and Workforce Solutions revenue increased 13% organically. But with elective procedures suspended and work from home still in place, it is expected that these segments on a combined basis will decline by 10-30% in Q2.

- **FQ2-20 guidance...** Revenue of $550mn-$570mn with operating margin above 6% and Adj. EBITDA margin above 12%. SG&A will decrease by ~15% or $80mn on an annualized basis from pre-Covid-19 run rate.

- **Revising estimates to reflect expectation that revenue doesn’t bottom until 2H as elective procedures likely to remain depressed while premium priced Covid-related assignments end. Management proactively reducing expenses.**
  - F’20 revenue/EP from $2,414mn/$3.18 to $2,183mn/$2.48 (consensus: $2,459mn/$3.35)
  - F’20 adj. EBITDA from $301.4mn to $261.0mn (consensus: $312.2mn)
  - F’21 revenue/EP from $2,523mn/$3.52 to $2,252mn/$2.61 (consensus: $2,572mn/$3.71)
  - F’21 adj. EBITDA from $320.0mn to $264.2mn (consensus: $336.5mn)

- **Balance sheet reflects debt from February Stratus acquisition.** Ended quarter with $98 mn in cash and $1,100mn in net debt. Since then, reduced debt to $1,050mn and has $200mn available to draw. FCF totaled $37 in the quarter, but should increase as receivables are harvested.

- **AMN far better positioned competitively and structurally** (with MSP providing volume buffer) going into this downturn, but will require patience for turnaround given current macro and healthcare dynamics.

- **Our $47 twelve-month price target reflects an EV/22EBITDA of 10x a year out, in-line equal to the average EV/NTM EBITDA multiple over the last seven years. AMN is the largest provider of healthcare staffing services and workforce solutions in the United States.**
Details

- **Notable Elements from the Call:**
  - Obviously experiencing demand softness in multiple segments due to cancellations of elective procedures which was partially offset by increased Covid related demand around ICU, ER, and respiratory therapy positions. Management is starting to see many clients slowly resume normal operations to some degree as lockdown requirements are being eased and Covid related assignments are winding down. Around 70% of the pipeline has reengaged and is talking about a return to normal. Management expects the improvement in demand to continue.
  - Nursing and Allied Solutions saw bill rates increase as a result from "crisis rates" (premiums from 20% to 100% depending on the position). Management expects bill rates to start declining in Q2 and return to pre-Covid rates in Q3. The premium rates helped partially offset demand softness due to cancellations around elective procedures for the second quarter, but the positive impact will recede in Q3.
  - Stratus was outperforming expectations in January and February but impacts were felt in March. Overall, Stratus provided $14mn of revenue in Q1 which were slightly less than expected as volumes were disrupted by client's reduced patient census in late March.
  - Proactively managing costs by cutting nonessential spend (particularly T&E), reducing staffing levels through attrition and minimal layoffs of new employees, and suspending retirement matching programs. Fortunately, a majority of AMN's cost structure is highly flexible, and SG&A will experience natural reductions with lower volumes. SG&A is expected to decline $80mn annually with about 2/3 realized in Q2 and full impact experienced in Q3. AMN emphasized their capability to reduce costs more if necessary but focusing more on maintaining talent and making vital investments to better position themselves for the future.
  - DSOs improved 5 days yoy to 57 days but still worse 2 days sequentially due to the Stratus acquisition. Few clients have delayed payments and asked for extended terms, but overall haven't seen a material impact on collections due to Covid-19. April cash collections exceeded internal goal.
  - CFO was $51mn and FCF was $37mn in Q1. Ended Q1 with cash and cash equivalents of $98mn, total debt outstanding of $1,100mn, and a leverage ratio of 3.1 to 1. After Q1, AMN paid down $50mn of the outstanding. AMN has availability under the revolving credit facility of $200mn.

- **Q1 Results:**
  - Revenue +3% org. yoy to $602.5mn vs. Baird/consensus estimates of $601.5mn/$601.3mn.
  - Adj. EBITDA +12.1% yoy to $74.0mn vs. Baird/consensus estimates of $74.8mn/$73.8mn.
  - Adj. EPS +5.2% yoy to $0.79 vs. Baird/consensus estimates of $0.79/$0.78.
  - Travel Nurse and Allied Solutions +13.6% yoy (3% organic) to $424.3mn. Travel Nurse +13% yoy (6% organic) and Allied +41% yoy (5% organic).
  - Physician and Leadership Solutions +0.6% yoy to $137.8mn...
  - Technology and Workforce Solutions +84% yoy (13% organic) to $40.3mn driven by the acquisitions of b4health and Stratus Video.
  - Gross Margin +30bps to 33.5% vs. our estimate of 33.4% driven by a favorable segment mix shift.
  - Adj. EBITDA margin +10bps to 12.3% vs. our estimate of 12.4%.

- **Twelve-month price target of $47** is equal to an EV/NTM EBITDA of 10x using '22 EBITDA a year out, equal to the EV/NTM EBITDA multiple average over the last 7 years.
## Investment Thesis

**Leading provider in healthcare staffing with well-established position as leading MSP offering drives share gains.** Given its leadership position, AMN can leverage its brand names and relationships with healthcare professionals by retaining professionals for multiple assignments (entails high incremental margin) and with healthcare providers by cross-selling services. The company can also leverage back-office expenses, efficiently purchase insurance and control risks, better manage travel and housing costs and cost-effectively perform centralized recruiting. Its leading position is further bolstered by its position as a leading provider of MSP services for the procurement of flexible healthcare staffing. Utilization of a MSP for flex staffing procurement continues to see increased adoption in the healthcare market.

**Positioned in more attractive areas of the healthcare staffing industry.** As a leading provider of travel nurse staffing, allied staffing, locum tenens, and physician perm placement, AMN is well positioned in sub-sectors that are expected to experience the fastest growth over the course of a cycle and also have higher potential returns on invested capital.

**Ability to cross-sell new business lines and services.** AMN has significantly broadened its service offerings by adding physician perm placement, interim leadership, quick-start travel nursing, recruitment process outsourcing (RPO), vendor management systems, labor optimization, mid-revenue cycle, and school therapy. We believe that AMN has the opportunity to cross-sell additional services to its existing base, which would make its client relationships more strategic and stickier.

**Demographic drivers of demand for healthcare services.** We believe the long-term outlook for the healthcare staffing industry is favorable and is driven by a growing and aging U.S. population. Further, demographic trends may also disrupt the leadership hierarchy for many hospital system, increasing the appeal for AMN's market leading interim leadership offering.

### AMN Healthcare (AMN - NYSE) Q1-20 Results & Variance

<table>
<thead>
<tr>
<th>Income Statement (000s)</th>
<th>Q1-20</th>
<th>Q1-19</th>
<th>Y/Y Chg</th>
<th>Q4-19</th>
<th>Seq Chg</th>
<th>Baird Est.</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>602,461</td>
<td>532,441</td>
<td>13.2%</td>
<td>586,892</td>
<td>2.7%</td>
<td>601,516</td>
<td>0.2%</td>
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<tr>
<td>Gross Profit</td>
<td>202,066</td>
<td>176,759</td>
<td>14.3%</td>
<td>197,133</td>
<td>2.5%</td>
<td>200,946</td>
<td>0.6%</td>
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<tr>
<td>Gross Margin</td>
<td>33.5%</td>
<td>33.2%</td>
<td>34 bps</td>
<td>33.6%</td>
<td>-5 bps</td>
<td>33.4%</td>
<td>13 bps</td>
</tr>
<tr>
<td>SG&amp;A Expenses</td>
<td>133,012</td>
<td>115,968</td>
<td>14.7%</td>
<td>126,222</td>
<td>5.4%</td>
<td>129,606</td>
<td>2.6%</td>
</tr>
<tr>
<td>% of Revenue</td>
<td>22.1%</td>
<td>21.8%</td>
<td>30 bps</td>
<td>21.5%</td>
<td>57 bps</td>
<td>21.5%</td>
<td>53 bps</td>
</tr>
<tr>
<td>EBITDA</td>
<td>69,054</td>
<td>60,791</td>
<td>13.6%</td>
<td>70,911</td>
<td>-2.6%</td>
<td>71,341</td>
<td>-3.2%</td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>11.5%</td>
<td>11.4%</td>
<td>4 bps</td>
<td>12.1%</td>
<td>-62 bps</td>
<td>11.9%</td>
<td>-40 bps</td>
</tr>
<tr>
<td>Depreciation^1</td>
<td>11,054</td>
<td>5,022</td>
<td>32.6%</td>
<td>5,933</td>
<td>12.2%</td>
<td>7,500</td>
<td>-11.2%</td>
</tr>
<tr>
<td>Adj. EBIT (ex. Amort Of Intang.)</td>
<td>62,396</td>
<td>55,769</td>
<td>11.9%</td>
<td>64,978</td>
<td>-4.0%</td>
<td>63,841</td>
<td>-2.3%</td>
</tr>
<tr>
<td>EBIT Margin</td>
<td>10.4%</td>
<td>10.5%</td>
<td>-12 bps</td>
<td>11.1%</td>
<td>-71 bps</td>
<td>10.6%</td>
<td>-26 bps</td>
</tr>
<tr>
<td>Interest Expense (net)</td>
<td>(11,054)</td>
<td>(5,673)</td>
<td>94.9%</td>
<td>(8,859)</td>
<td>24.8%</td>
<td>(9,800)</td>
<td>12.8%</td>
</tr>
<tr>
<td>Pretax Income</td>
<td>51,342</td>
<td>50,096</td>
<td>2.5%</td>
<td>56,119</td>
<td>-8.5%</td>
<td>54,041</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Pretax Margin</td>
<td>8.5%</td>
<td>9.4%</td>
<td>-80 bps</td>
<td>9.6%</td>
<td>-104 bps</td>
<td>9.0%</td>
<td>-48 bps</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>13,767</td>
<td>14,267</td>
<td>-3.5%</td>
<td>15,670</td>
<td>-12.1%</td>
<td>16,212</td>
<td>-15.1%</td>
</tr>
<tr>
<td>Rate</td>
<td>26.8%</td>
<td>28.5%</td>
<td>-166 bps</td>
<td>27.9%</td>
<td>-111 bps</td>
<td>30.0%</td>
<td>-319 bps</td>
</tr>
<tr>
<td>Net Income</td>
<td>37,575</td>
<td>35,829</td>
<td>4.9%</td>
<td>40,449</td>
<td>-7.1%</td>
<td>37,828</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Net Margin</td>
<td>6.2%</td>
<td>6.7%</td>
<td>-49 bps</td>
<td>6.9%</td>
<td>-66 bps</td>
<td>6.3%</td>
<td>-5 bps</td>
</tr>
<tr>
<td>EPS - diluted $0.79</td>
<td>0.79</td>
<td>0.75</td>
<td>5.2%</td>
<td>0.85</td>
<td>-7.2%</td>
<td>0.79</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Avg Diluted Shares o/s</td>
<td>47,641</td>
<td>47,772</td>
<td>-0.3%</td>
<td>47,573</td>
<td>0.1%</td>
<td>47,800</td>
<td>0.1%</td>
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</tbody>
</table>

Source: Company reports, Baird estimates

^Excludes amortization of intangibles

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Baird

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Shortage of healthcare professionals. Healthcare professionals skew older than the general population and retire earlier (in the case of nurses), which should lead to an intensifying shortage of healthcare professionals in coming years as many approach retirement age. Also, there are some constraints in the educational system (e.g., lack of nursing instructors and clinical opportunities, limited growth in U.S. medical school capacity) that limit the number of healthcare professionals graduating and obtaining licensure.

Risks & Caveats

COVID-19 impacts on the global macroeconomic environment and healthcare staffing space. As COVID-19 has taken the world by surprise, healthcare has focused on the pandemic and put elective procedures on the back burner. This has resulted in a decreased demand for healthcare staffing partially offset by demand in travel nurses to help with COVID-19. The longevity and severity of the economic impact depends on the effectiveness of stimulus and the health care response paired with policy to open the economy back up.

Cyclical sensitivity. Recessions weaken demand for healthcare services while simultaneously increasing the supply of full-time healthcare providers (trained professionals return to clinical settings and/or work increased hours). It is evident that we are in the midst of a deep recession, but this recession is unprecedented due to the pandemic.

Inability to recruit healthcare professionals at a reasonable cost. AMN competes for talent with a wide range of staffing companies with operations on national, regional, and local levels, as well as directly with healthcare facilities. Furthermore, some healthcare professionals may be hesitant to take on temporary assignments in economically uncertain times, or if they are concerned about the potential for a renewal when coming off of assignment.

Higher productivity from permanent staff. Hospitals and other healthcare facilities prefer to utilize internal flexible labor pools to reduce demand for more expensive external staffing services. Additionally, part-time staff hired directly by the facilities may be more willing to work additional hours during economic downturns.

Reduced inpatient days per capita. Several healthcare trends are reducing the amount of time patients stay at hospitals. For example, technological advancements including less invasive surgical procedures and more effective use of prescription drugs have decreased the number of inpatient days required to effectively treat various medical conditions. Furthermore, many managed care providers promote recovery away from the hospital as a cost-cutting initiative and an increased focus on high-deductible health plans could also reduce demand for healthcare services.

Changes in healthcare regulations and benefit designs. The healthcare industry is highly regulated and medical coverage expanded with the Affordable Care Act (ACA). Changes to the ACA could impact admission trends in the future if coverage is reduced thereby reducing demand. Further, while not directly exposed to government reimbursement risk, changes in regulation can materially impact demand for healthcare services. Lastly, changes to plan designs, particularly the trend toward shifting more of the burden for healthcare plans to employees with high deductible, also has the effect of reducing demand.

Indirect reimbursement risk. AMN does not have direct exposure to Medicare reimbursement risk, but some clients do.

Integration risk from recent acquisitions. AMN made two acquisitions in 2018, three in 2019, and one ytd in 2020 to broaden its portfolio of solutions and add scale to its nurse and allied offerings. Integration risk remains elevated as the acquired business are transitioned onto AMN's platforms.
Bill/pay spread has the potential to narrow for certain contracts during periods of rapidly rising demand.

Company Description

AMN Healthcare Services, Inc. is the largest provider of healthcare staffing and workforce solutions in the United States. AMN recruits healthcare professionals nationally and internationally for temporary assignments in the U.S. of variable length (from a few days to two years; most commonly, three months for travel nursing), as well as permanent positions. It is a leading provider of travel nurses and allied health professionals (physical therapists, respiratory therapists, pharmacists, etc.), temporary physician staffing (locum tenens), interim leadership and physician permanent placement services. Additionally, AMN supports clients in optimizing their workforce to reduce complexity and increase efficiency with its portfolio of workforce solutions which includes: Managed Service Provider (MSP) agreements, Vendor Management Solution (VMS), Recruitment Process Outsourcing (RPO), workforce optimization, medical coding, case management, clinical documentation, and registry. AMN reports three business segments -- nurse and allied solutions, locum tenens solutions, and other workforce solutions.
AMN Healthcare Services, Inc.  
(AMN - NYSE)  
Earnings Model as of 5/12/2020  
Fiscal Year Ends Dec. 31  
( Figures in Thousands Except Per Share Data)  

Mark S. Marcon, CFA / Sr. Research Analyst / mmarcon@rwbaird.com / (414) 298-7556


Cost of Revenue 355,559 355,678 377,550 389,569 1,478,356 400,448 375,167 328,740 345,411 1,449,766 374,286 370,466 362,186 386,243 1,493,181

Gross Profit 176,882 179,499 190,047 197,323 743,751 202,013 185,367 169,735 176,139 733,254 189,830 184,540 187,414 196,790 758,574

Gross Margin 33.2% 33.5% 33.5% 33.6% 33.5% 33.5% 33.1% 34.1% 33.8% 33.6% 33.7% 33.3% 34.1% 33.8% 33.7%

Incremental Gross Margin 90.1% 6.6% 36.9% 42.4% 54.9% 35.9% 23.1% 29.4% 32.4% 26.9% 31.8% 15.0% 34.6% 33.6% 36.8%


EBITDA 60,791 63,030 66,426 70,911 261,158 69,054 61,556 54,069 57,909 242,587 60,220 56,705 60,203 66,540 243,670

EBITDA Margin 11.4% 11.8% 11.7% 12.1% 11.8% 11.5% 11.0% 10.8% 11.1% 11.1% 10.7% 10.2% 11.0% 11.4% 10.8%

Incremental EBITDA Margin on GP -31.9% 248.8% 5.4% 29.9% 3.4% 32.9% -25.1% 60.8% 61.4% 176.9% 72.5% 586.3% 34.7% 41.8% 4.3%

Depreciation 5,022 5,604 5,659 5,933 22,218 6,658 7,500 7,500 7,500 29,158 7,450 7,400 7,400 7,375 29,625

Adjusted EBIT (ex Amort of Intang.) 55,769 57,426 60,767 64,978 238,940 62,396 54,056 46,569 50,409 213,429 52,770 49,305 52,803 59,165 214,045

EBIT Margin 10.5% 10.7% 10.7% 11.1% 10.8% 10.4% 9.6% 9.3% 9.7% 9.8% 9.4% 8.9% 9.6% 10.1% 9.5%

Interest Expense, net 5,673 6,065 7,830 8,859 28,427 11,054 10,700 10,800 10,500 43,054 10,000 9,500 9,000 8,500 37,000


Pretax Margin 9.4% 9.6% 9.3% 9.6% 9.5% 9.8% 7.7% 7.2% 7.7% 7.8% 7.6% 7.2% 8.0% 8.7% 7.9%

Taxes 14,267 14,844 13,767 12,771 51,858 13,767 11,446 12,771 12,771 51,858 12,322 11,693 12,771 14,693 51,591

Effective Tax Rate 28.5% 28.7% 28.7% 28.7% 28.5% 28.5% 28.5% 28.5% 28.5% 28.5% 28.5% 28.5% 28.5% 28.5% 28.5%


Adj. Diluted EPS $0.75 $0.77 $0.81 $0.85 $3.18 $0.79 $0.62 $0.51 $0.57 $2.48 $0.63 $0.59 $0.65 $0.74 $2.61

Avg Diluted Shares 47,772 47,424 47,607 47,573 47,593 47,641 47,750 47,800 47,900 47,773 48,000 48,100 48,200 48,300 48,150

Year-Over-Year Change

Revenue 1.9% -4.1% 7.7% 11.0% 4.0% 13.2% 4.7% -12.2% -11.1% -1.8% -8.4% -1.5% 10.3% 11.8% 3.1%

Gross Profit 5.3% -0.8% 8.6% 14.3% 6.8% 14.2% 3.3% -10.7% -10.7% -1.4% -6.0% -0.4% 10.4% 11.7% 0.4%

EBITDA -4.5% -5.6% 1.2% 11.7% 0.6% 13.6% -2.3% -18.6% -18.3% -7.1% -12.8% -7.9% 11.3% 14.9% 3.4%

EBIT -7.3% -8.2% -0.6% 10.5% -1.5% 11.9% -5.9% -23.4% -22.4% -10.7% -15.4% -8.8% 13.4% 17.4% 0.3%

Net Income -9.9% -10.1% -5.4% 3.8% -5.5% 4.9% -19.3% -36.9% -32.9% -21.7% -19.5% -4.5% 27.9% 32.6% 5.9%

EPS -7.4% -7.2% -3.6% 5.0% -3.3% 5.2% -19.8% -37.2% -33.4% -22.0% -20.1% -5.2% 26.8% 31.5% 5.0%

Research disclosures can be accessed at http://www.rwbaird.com/research-insights/research/coverage/research-disclosure.aspx

Source: Company Reports and Baird estimates
Appendix - Important Disclosures and Analyst Certification

Robert W. Baird & Co. Incorporated makes a market in the securities of AMN.

Appendix – Important Disclosures and Analyst Certification

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